

The Political Environment of Economic Planning in Iran, 1971–1983

**From Monarchy to
Islamic Republic**



**Hossein Razavi
and Firouz Vakil**

Westview Special Studies on the Middle East

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Based on both research and first-hand experience, this book provides a politico-economic analysis of the operation of Iran's economy before and after the revolution of February 1979. The authors discuss the function and effectiveness of economic planning during the shah's tenure and relate the shortcomings of plan preparation and implementation to the explosive psycho-economic instability of the regime. They then discuss the institutional problems that the revolutionary regime has been facing in operating the economy and foresee the possible consequences of its failure to appropriately deal with these problems. Finally, analyzing the economic postures of important opposition groups, the authors outline future prospects for economic planning in Iran.

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Hossein Razavi
Firouz Vakil

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Recent Political Events: An Overview

From 1941 to 1979 Iran was ruled by Mohammad Reza Shah Pahlavi, whose regime was toppled in February 1979 by a coalition of religious, nationalist, and leftist groups. During the course of the upheaval, the leader of the religious opposition, Ayatollah Rouhollah Khomeini, moved to the center of the opposition movement and headed the revolution against the shah. After the fall of the shah, Khomeini took control and appointed a provisional government to run the country. A referendum in March 1979 provided Khomeini with a mandate to establish an Islamic republic to replace the monarchy. Since then, the Iranian political environment has been subject to severe power struggles among those factions that had previously united to overthrow the shah's regime.

The political history of Iran during the nineteenth and twentieth centuries has been extensively analyzed.¹ Therefore, this chapter will neither repeat nor summarize the literature; nor will it evaluate or trace the historical roots of political events. Rather, our purpose is to highlight and analyze those political developments that serve to frame our discussion of the economy's management in other chapters of this book.

The Early Years of the Shah

Mohammad Reza Pahlavi's reign began in 1941 when his father, Reza Shah, abdicated under pressure from foreign forces (Britain and the Soviet Union). "The fall of Reza Shah ended the politics of state control; it had begun the politics of social conflict."²

Unlike his father, the young shah adhered to the provisions of the constitution, which provided for government by a cabinet responsible to a freely elected parliament. Many political prisoners who had been arrested during Reza Shah's tenure were now released from jail, and a relatively free press was revived.

An opposition group to the government, the pro-Soviet Tudeh party, was formed; its main center of activity was the northern part of Iran,

and it advocated radical politico-economic changes. The British, on the other hand, encouraged Sayyed Zia Eddin, a former prime minister, to form the National Will party, a right-wing conservative party that often advocated a return to old Islamic traditions. Elections in 1943 resulted in a new political spectrum in the parliament: Both the right (National Will party) and the left (Toudeh party) were able to send representatives. Between these two groups was a nationalist group led by Mohammad Mossaddegh, who was known for his opposition to any foreign influence.

In 1945 a coalition of the Toudeh party and other leftist groups (with the support of the occupying Soviet army) formed provisional governments in Azarbaijan and Kurdistan, both of which declared their autonomy (not their independence). In 1946 the influence of the Toudeh party reached its peak, and the central government took three Toudeh ministers into its cabinet. After a few months, however, a tribal revolt backed by religious leaders and landlords forced the dismissal of the Toudeh ministers. Their dismissal signaled a change in the balance of power. Because the Soviet army had left the country and the Toudeh party had lost its force, the central government sent troops to put down the Azarbaijani and Kurdish autonomy movements. Thus, the Toudeh party had a limited role in the late 1940s and was finally outlawed in 1949, when it was alleged that a member of the party tried to assassinate the shah.³

In 1950 the issue of oil nationalization was raised when the new parliamentary election was held. A coalition of nationalist groups called the National Front, led by Mossaddegh, won the majority of seats, and in March 1951 the parliament approved the nationalization of the oil industry. In March 1951 Prime Minister Ali Razmara was assassinated, and the shah chose Hossein Ala to replace him. The parliament not only refused to approve Ala but also appointed Mossaddegh as the new prime minister.

During Mossaddegh's period as prime minister (1951-1953) there were serious economic hardships. U.S. and British oil companies had unofficially boycotted Iranian oil. Britain placed major restrictions on its trade with Iran and on the convertibility of Iranian sterling balances in Britain. In addition, the United States and Britain continuously attempted to overthrow Mossaddegh's government. Faced with all these difficulties, Mossaddegh's only source of support was his popularity with the people. In 1953, when Mossaddegh's popular base had somewhat weakened due to economic discontent and political division among his supporters, an Anglo-U.S. coup successfully overthrew Mossaddegh and brought back the shah, who had left the country when a previous coup against Mossaddegh in August 1953 had failed.

The Shah's New Rule

The shah began his new rule with a different approach than in his previous rule: His actions were more dictatorial. In addition, he had become interested in modernizing Iran's economy and in strengthening the military. Because of U.S. involvement in the fall of Mossaddegh and in the shah's new tenure, U.S. influence expanded in all political and economic dimensions, which changed the balance of foreign influence in Iran.

The shah's major concern was to prevent another Mossaddegh-type revolt. The shah thus began his evolving dictatorship by intervening in the 1954 parliamentary elections to ensure that the parliament was subservient to him. This intervention, of course, directly ignored the main thrust of the constitution, which provided for free elections.

When the election of 1960 approached, the shah and his U.S. advisers were convinced that a more democratic environment was required to make the elections more real. Consequently, the shah introduced a two-party system: The Mellion party was headed by Prime Minister Manouchehr Eghbal, and the Mardom party was led by Assadollah Alam, an old friend of the shah. Although there was no fundamental difference between the two parties, the official statements implying a free election encouraged opposition groups to take an active role in the campaign. The election results nevertheless disappointed many people, and open discontent over vote fraud grew rapidly. The shah disassociated himself from the election results, which had declared Eghbal the winner, by advising the elected deputies to resign and to hold new elections. The Eghbal cabinet was then forced to resign, and the shah appointed Jafar Sharif Emami as prime minister. Sharif Emami's government scheduled new elections, which were held in January 1961. These elections, though also viewed as dishonest by the opposition, resulted in the deputation of several independent candidates, including one from the National Front.

The new parliament became a scene of controversy regarding corruption in government and increasing politico-economic discontent in the society. Demonstrating before the parliament, Tehran's school teachers, led by Mohammad Darrakhshesh, announced a strike over pay. Two teachers were killed by the police and a new wave of demonstrations began.

At this stage, the shah was willing to relinquish some of his power by bringing National Front members into the government. No agreement could be reached between the shah and the National Front, however, and the shah invited Ali Amini to form a cabinet. Amini, who had previously held the positions of finance minister and ambassador to the

United States, was a critic of Prime Minister Eghbal and, implicitly, of the shah. Amini accepted the shah's offer on condition that the shah dissolve the parliament; it was dissolved, and he was appointed prime minister in April 1961.

Amini's appointment was to some extent supported by the United States, which was then pressuring the shah for more democratic political conditions. Amini launched an extensive economic program that included land reform, anticorruption, antiinflation, and budget-saving plans:

In its fifteen months in office, the Amini government moved toward improving Iran's foreign exchange position via drastic cuts in non-essential imports, restrictions on foreign travel and purchases of foreign currency by Iranians. But serious problems came in April 1962 when Amini and his new finance minister, Dr. Jamshid Amuzegar, tried to get all ministers to reduce their budgets. The Shah refused to reduce the army budget, and so in July, Amini resigned, giving as his reason the inadequacy of American aid.⁴

Following Amini's resignation, Assadollah Alam was appointed prime minister. The National Front leaders asked Alam for free elections, but he rejected the request. Thus, in late 1962 the National Front began to attack the shah openly; the shah had the leaders arrested and tried to soften the general opposition by adding new reforms to the land-reform program of 1962. In early 1963 the shah called for a national referendum on a reform program that included land reform, the sale of government-owned factories to finance land reform, profit-sharing by industrial workers, giving women the right to vote, the establishment of a national literacy corps, and the nationalization of forests. The program, called the White Revolution, passed the referendum.

Also in early 1963, Rouhollah Khomeini, viewed at the time as one of the religious leaders, began to preach against the shah in the religious city of Qom. That March Khomeini was arrested for a short period, which added to his stature among the masses. After his release he continued to attack the United States for its support of Israel and to criticize the Iranian government for its close ties to the United States, though he did not object to the monarchy. Khomeini was arrested again on June 4, which led to a series of demonstrations in various parts of the country. The riots lasted for several days before they were crushed by army troops. Khomeini was released in August 1963 with the expectation that he would not interfere in politics, but he immediately asked his followers to boycott the parliamentary elections of October 1963. He was arrested again and held until May 1964. The following October he criticized the parliamentary bill giving diplomatic immunity

to U.S. military personnel. This time he was exiled to Turkey. A year later he went from there to Iraq, where he stayed until 1978, when the Iraqis expelled him and he went to France.

A new party called Freedom Movement, emerging as a distinct wing of the National Front, had been formed in 1961. It was led by Mehdi Bazargan, who later served as the first prime minister of the Islamic regime (after the revolution of February 1979). The Freedom Movement party was a link between Islam and modern politics, its members mostly moderates with a genuine religious tendency. As will be described later in this chapter, the Freedom Movement played an important role in Iranian politics during and after the revolution.

From 1963 to 1977 there was only a little official change in political parties and leaders.⁵ In the early 1960s a new political party called Iran Novin had been formed. The leader of the party, Hassan Ali Mansur, was appointed prime minister in March 1964. He was assassinated in January 1965, and another Iran Novin leader, Amir Abbas Hoveyda, was appointed prime minister; he held this post for about thirteen years. In March 1975, while Hoveyda was still in power, the shah announced that all Iranians should become members of one party. The Rastakhiz party was then formed with the understanding that all government employees were members. The Rastakhiz party was generally viewed as an imposition on the people's political beliefs and activities. As such, it generated more resentment than sympathy for the regime.

Despite the prevalent repression, new underground groups were formed. Among these, two groups that became active in the late 1960s turned into important guerrilla organizations: the Marxist People's Fedayian Organization and the Islamic leftist People's Mojahedin Organization. Both groups, choosing armed struggle as the appropriate strategy to fight against the shah's regime, carried out a number of assassinations and engaged in urban guerrilla activities. Many members of these two groups were executed by the shah's regime.⁶

The Revolution

Open opposition to the shah arose in early 1977. Many observers have attributed its appearance to the human-rights policy of U.S. President Jimmy Carter, yet as Nikhi R. Keddie has observed: "The influence of the human rights policy was not due to any significant American pressures, however, but to the belief by both the Shah and the opposition that the United States might act for human rights."⁷

At the initial stage the opposition took the form of circulation of open letters from secular activists concerning problems with the Iranian economy and violations of human rights. In this series, the most

influential were the letter by Ali Asghar Haj Said Javady and the joint letter by National Front leaders Karim Sanjabi, Shapur Bakhtiar, and Daryoush Forouhar. Following these were letters by a group of well-known writers and by the newly formed Association of Jurists requesting freedom of the press and the observance of human rights. Also of major importance were the frequent meetings and gatherings of intellectual groups, in which the failures of the regime were discussed.

Facing a politico-economic crisis, the shah decided to remove Hoveyda from the prime ministry.⁸ In August 1977 the shah appointed Jamshid Amuzegar as the new prime minister. Amuzegar and his so-called technocrat cabinet viewed inflation as the major politico-economic problem of the country. They therefore launched a deflationary program that resulted in mass unemployment, which in turn increased the public's discontent.

Adding fuel to the political fire was an article published in the semiofficial newspaper *Ettelaat* in January 1978. This article, later attributed to Information Minister Daryoush Homayoon, denounced Khomeini as a British puppet who had been opposing the shah in exchange for large sums of money received from England. The next day a massive protest was held in Qom, and a number of people were killed when they were attacked by the police. This was the breaking point, after which political activities turned into massive religious demonstrations.

Forty days after the Qom incident, another demonstration was held in Tabriz in which banks, theaters, and other Western establishments were destroyed and a number of people killed.⁹ The forty-day-interval riots continued for several months, each leading to further violence and deaths. The opposition had begun to realize that the religious network and traditions provided a readily available establishment through which political activities could be carried out most effectively.

In May, June, and July 1978 several demonstrations were held in Babol, Qom, Esfahan, and Mashhad. However, the critical phase started on August 11, when demonstrations in Esfahan led to the imposition of martial law in the city. Adding to the problems of the troubled regime, a movie theater in Abadan was set on fire on August 19, and 377 people died in the blaze. Three days later, the funeral ceremony for these people turned into an antiregime demonstration that resulted in the positioning of army troops in Abadan.

On August 27 Jafar Sharif Emami was again appointed prime minister. The parliamentary debate over the approval of the new cabinet was televised nationally. Eighteen members of the parliament opposed Sharif Emami's cabinet, several of them expressing severe criticism of the shah's regime. Though Sharif Emami's cabinet was approved by the

parliament on September 16, this approval had taken three weeks, and political conditions had changed significantly in the meantime. For one thing, a mass rally had been held in Tehran on September 7 in which the demonstrators had demanded the ousting of the shah. For another, on September 8 the government had declared a six-month period of martial law in Tehran and eleven other cities; on the same day, army troops had fired into demonstrators in Tehran, killing a large (still controversial) number of people. This incident had eroded whatever hope there had been for the success of Sharif Emami's cabinet. It had failed before it had been officially formed.

On October 6 Ayatollah Khomeini flew to Paris. There he was provided with easy access to the international media, so that his messages were then communicated to the Iranian people more effectively. As a result, a new wave of demonstrations and strikes began in late October 1978. Riots in the town of Gorgan on October 24 and in Rasht the next day resulted in the destruction of many hotels, banks, and public buildings. At the same time a new strike paralyzed the oil industry, and other government organizations followed suit.

On November 6 a military government was named by the shah, with General Reza Azhari as prime minister. The first step that the military government took was to arrest twenty-two prominent officials, including former prime minister Amir Abbas Hoveyda, the former head of SAVAK (the secret police), and six former ministers. All were charged with corruption.

On November 17 the opposition started testing the strength of the military government by organizing antiregime demonstrations in eleven cities. These demonstrations were followed on November 20–22 by bazaar riots that resulted in a clash with army troops. Ayatollah Khomeini then called on the armed forces to desert if ordered to fire on the demonstrators. This created a new concern for the military government. Knowing that the opposition was planning to hold demonstrations, the military government lifted the ban on processions for a forty-eight-hour period. The subsequent demonstrations on December 10 and 11 provided a clear signal of the regime's position among the masses. Millions of people demonstrated against the shah.

On December 12, the military government announced the resumption of martial law, which the opposition did not take seriously. The continuing strikes and riots reached a new peak by the end of December. In the meantime the shah began negotiations with the opposition groups to form a coalition government. National Front leader Karim Sanjabi rejected the offer and asked for the shah's abdication; however, another National Front leader, Shapur Bakhtiar, accepted the offer and presented his cabinet on January 6.¹⁰ Ayatollah Khomeini called Bakhtiar's new

government a “plot against the revolution” and asked the Iranian people to resist it.

On January 13, 1979, the two sides of the political struggle each formed a council. The shah formed the Regency Council to take over his duties while he left Iran for what he termed a vacation. Khomeini formed the Revolutionary Council that would be in charge of selecting and installing a provisional government after the fall of the shah. On January 16 the shah left Tehran for Aswan, Egypt, and Bakhtiar officially took charge.

Bakhtiar's tenure as prime minister lasted about one month. During this period, newspapers that had been banned by the military government started to publish again. A large number of political prisoners were released, and SAVAK was officially abolished. Bakhtiar also tried to arrange a meeting with Khomeini to discuss the future of the nation. Demonstrations and strikes nevertheless continued, many resulting in severe clashes with army troops.

On February 1 Khomeini returned to Iran. Hundreds of thousands of people lined the streets to welcome him. On February 5 he named Mehdi Bazargan to head the provisional government, despite Bakhtiar's assertions that he was still the legitimate prime minister of Iran. Pro-Khomeini demonstrations continued and extended to sections of the armed forces, resulting in a bloody clash between Air Force technicians and the Imperial Guard. The whole episode finally ended on February 11, when the Army Supreme Council announced the armed forces' neutrality in the political crisis. Bakhtiar disappeared, Tehran's military governor and other senior army generals were captured, and the commander of the Air Force was killed by the revolutionary forces. Khomeini supporters took over the state radio and television on February 12, and the provisional government of Bazargan officially took charge.

The Provisional Government

Bazargan's cabinet consisted of some prominent leaders of the National Front, most of whom came from the Freedom Movement party. These were mostly moderate individuals whose basic attempt was to start things moving again without imposing severe changes upon the structure of the system. However, Bazargan faced an increasing challenge from Islamic fundamentalists who sought to take the power away from the government.

These fundamentalists had influence in the Revolutionary Council and operated through four distinct arms: the revolutionary courts, the revolutionary committees, the Islamic Republic party (IRP), and the Hezbollah (the Party of God). The activities of the revolutionary courts