

The Journal of Social, Political and Economic Studies

Spring 1985

Vol. 10, No. 1

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A MONETARIST INTERPRETATION OF INFLATION IN PRE-REVOLUTIONARY IRAN

By Robert E. Looney

Inflation poses a grave threat to any political system. It does so because it succeeds in touching the lives of the ordinary citizen — not some, but all — in a way in which government development expenditures are rarely able. Whether it is hyperinflation or gradual increases in prices over time, the damage done to the individual and society is evident. By creating an atmosphere of insecurity and futility, by permitting wholesale economic injustice and by giving rise to abject poverty, an environment is created which makes for irrationality in politics (1) and thereby deeply affects the nature and effectiveness of subsequent stabilization measures.

In retrospect the development of inflation in Iran, especially after 1973, together with the government's inability to stabilize the price level, undoubtedly was a major factor contributing to the success of the revolution against the Shah's government.

Green has noted that by 1977 (2)

...the problem was not purely political, but rather an outgrowth of the rapid decline in the Shah's development planning. As I argued earlier, the crisis of participation was transformed into a crisis of the system as a whole, in part as a consequence of the country's deteriorating economic situation. High inflation, unemployment and other issues ignited the population, not merely desires for greater political participation.

The nature of the Iranian inflation and the course of inflation related variables therefore merit considerable attention. In the following analysis particular emphasis is given to Iranian inflation in the 1970s, with an attempt made to identify the type and source of the inflation experienced.

In particular, an attempt will be made to test the monetarist approach to inflation in Iran. As will be shown in more vigorous fashion below, this approach is a logical one to use in examining price movements in pre-revolutionary Iran. First, the economy was relatively small in the sense that prices of goods and capital were determined in world markets, and over these Iran had

little control. Second, even though Iran was considered a less developed country in the 1960s and 1970s, the country did have a relatively advanced financial sector headed by a central bank which over most of the period under examination, was responsible for influencing the external balance (the balance of payments) as well as domestic credit conditions. Thus, Iran provides not only the conditions necessary for testing a monetary model but also provides some interesting insights into the model's policy implications, especially with regard to the government's stabilization efforts.

Inflationary Pressures – Overview

The Iranian economy enjoyed a prolonged period of price stability through the 1960s. Beginning in 1972, however, growing inflationary pressures developed and were present throughout the rest of the 1970s. During the Fourth Five Year Plan (1968-72), the annual rates of increase in the average level of consumer prices were low, ranging from 1 to 6 percent (Table 1). The corresponding rates of inflation for the Fifth Plan were on the other hand, all in excess of 10 percent, amounting to as much as 27 percent in 1977.

A comparison of the rate of increase in the money supply (Table 1) and that of the major inflation indices indicates that in the post-1973 period the Iranian economy had advanced beyond its absorptive capacity in the sense of finding the complementary factors of production (such as human skills, natural resources, and infrastructure) to be put to work alongside the rapid increase in financial resources. Apparently, injections of oil revenues beyond a certain level — that level being the annual absorptive capacity — only led to higher inflationary pressures with little or no corresponding increase in output resulting from this expenditure.

The evidence for Iran during the post-1972 period suggests a tendency to try to do too much in too short a time.⁽³⁾ The problem was aggravated by the jump in international inflation rates during 1973-74. Yet it would be a mistake to suggest that the observed rates of domestic inflation were due to purely international factors. On the contrary most studies on the subject indicate that in general international price increases contributed no more than 25 percent to domestic inflation in developing countries, leaving a substantial portion to be accounted

for by domestic factors.

Most domestic sources of the inflationary pressure build up in the mid-1970s can be traced to the decision to revise the Fifth Five Year Plan following the oil price increases. At that time, total investment projected for the duration of the plan was doubled and vast amounts allocated to social welfare and subsidy programs. Within the framework of the Fifth Plan the government's expenditures for 1974 were tripled compared to those in 1973. Of the total government budget for 1974 (R1s, 254 billion), only 28 percent went into fixed capital formation, whereas 58 percent was spent on current expenditures. The remaining 14 percent went for other payments which, for all practical purposes, were very similar to current expenditures.

This unprecedented expansion in government expenditures created a corresponding expansion of liquidity. The result was a rapid increase in effective demand. One net impact of the government's fiscal actions was the creation of an economic environment whereby producers were encouraged to make the utmost use of their means of production. Another consequence was that traders responded quickly by increasing imports to balance supply with demand. As a result, the demand for means of production and for primary and intermediate goods increased while simultaneously the available infrastructural facilities were used at maximum capacity. However, due to the general shortage of skilled workers and infrastructure capacity in certain key areas, the supply of domestically produced goods could not increase at the same rate as the demand. Inflationary pressures, therefore, mounted while at the same time the feedback effect of the oil price increases — an acceleration in world inflation — resulted in increased import prices.

Initially, the greatest inflationary pressures were concentrated in the construction and housing sector. Both the rapid increase in incomes and the increasing migration from rural to urban areas played an important role in creating shortages of not only available living quarters but construction materials (which was already evident prior to the Fifth Development Plan). The result was a sharp escalation in the price of land, construction materials, and wages of construction workers. In turn, the acceleration of inflation in the construction and housing sector spilled over to other sectors, finally increasing inflationary pressures in all other activities of the economy.

TABLE 1

IRAN: GROWTH OF MONETARY AGGREGATES: MEASURES OF INFLATION

(Average Annual Rate)	M1	M2	M3	M4	CPI	WPI	GDPDF
1960	11.50	-	-	-	10.04	3.15	3.04
1961	-16.73	-	-	-	3.17	1.28	2.14
1962	22.72	24.94	-	-	0.72	1.27	-0.26
1963	12.96	16.22	-	-	0.17	0.18	0.79
1964	10.98	13.81	-	-	4.11	4.64	1.83
1965	12.87	13.01	13.30	13.09	2.06	3.33	-2.31
1966	10.07	12.48	13.83	11.19	-0.34	-1.18	-0.52
1967	14.92	16.07	16.48	16.35	1.52	0.17	-0.79
1968	7.86	13.43	12.09	14.89	0.67	0.66	0.53
1969	6.07	15.07	14.76	17.94	3.64	2.61	0.52
1970	12.78	15.23	16.36	19.06	1.59	2.84	0.52
1971	17.17	19.36	19.82	18.33	4.24	5.79	7.27
1972	27.71	26.07	26.89	21.28	6.49	5.46	6.78
1973	22.93	23.25	24.93	25.35	9.76	10.11	31.79
1974	27.09	29.97	36.11	37.27	14.30	14.47	55.67
1975	16.76	25.79	21.59	25.09	12.74	7.40	10.38
1976	44.25	44.88	42.53	42.34	11.29	8.26	16.90
1977	-23.01	-26.09	-25.77	-25.70	27.31	14.65	19.50

Source: Computed from: Bank Markazi Iran, Annual Report, various issues; International Monetary Fund, International Financial Statistics, various issues.

As bottlenecks began to develop, the time lag in converting financial capital into productive capital lengthened, further impeding the adjustment of supply to demand, with increased shortages of materials and skilled labor. Many projects, both public and private, were not completed despite the fact that in many cases the budgets for these projects were actually spent. At the same time, a considerable volume of goods ordered from abroad did not arrive on time. As a result of these factors, aggregate supply was never able to catch up with aggregate demand during the Fifth Plan, the adjustment between demand and supply taking place instead through price increases.

Needless to say, the overspending of financial resources represented not only a loss in real resources with intertemporal implications, but also set in motion a series of inflationary pressures which were difficult to halt without the eventual resort to fairly drastic restrictive measures. The real resources lost — real in the sense that they represented an equivalent in exported barrels of oil — were resources that could have been used in the future to expand the country's productive capacity at a time when the relationship between the economy's annual financial inflow and annual absorptive capacity would permit it. When used in the present, as was the case, these resources were simply dissipated in the form of higher prices.

Other sources of inflation are of course logically possible and not inconsistent with the data on price changes that is available for this period.

While few would challenge in principle, the broad interpretation of Iranian inflation outlined above, its high level of generality makes it of somewhat limited use in evaluating the effectiveness of the government's anti-inflation programs.

The increase in the rate of inflation in the first half of the 1970s together with the government's seeming inability to stabilize the price level dramatized the need for a deeper understanding of the country's inflationary process. Something of a debate concerning the precise cause of the rapidly accelerating price level transpired during this period. In particular the role of money and of monetary policy in controlling increases in domestic price was a commonly debated topic in planning areas.(4)

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1963	12.96	16.22	-	-	0.17	0.18	0.79
1964	10.98	13.81	-	-	4.11	4.64	1.83
1965	12.87	13.01	-	-	2.06	3.33	-2.31
1966	10.07	12.48	13.30	13.09	-0.34	-1.18	-0.52
1967	14.92	16.07	16.48	16.35	1.52	0.17	-0.79
1968	7.86	13.43	12.09	14.89	0.67	0.66	0.53
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1974	27.09	29.97	36.11	37.27	14.30	14.47	55.67
1975	16.76	25.79	21.59	25.09	12.74	7.40	10.38
1976	44.25	44.88	42.53	42.34	11.29	8.26	16.90
1977	-23.01	-26.09	-25.77	-25.70	27.31	14.65	19.50

Source: Computed from: Bank Markazi Iran, Annual Report, various issues; International Monetary Fund, International Financial Statistics, various issues.

Role of Money

The role of money⁽⁵⁾ and monetary policy has of course been one of the often debated issues not only in Iran but in most developing countries for a long time. Despite Schumpeter's⁽⁶⁾ dramatization of money and credit as a "phenomenon of development," the nature of monetary policy remained indistinct and ill-defined in Iran for two reasons. For one thing monetary policy was viewed in a narrow perspective as influencing aggregate spending via the regulation of interest rates, credit availability and credit allocation. For another, views on the role of money and monetary policy were dominated by the then prevailing perception by the government of the growth process itself, which had not assigned a meaningful function to money but rather emphasized the role of oil-financed physical capital accumulation.

The lack of interest in Iran in monetary aggregates and monetary control largely stemmed the excessive preoccupation of the economic policy makers with techniques of monetary management, reflecting an emphasis on cyclical rather than long run objectives, and on the deficiencies of these techniques for Iran.⁽⁷⁾ For instance it was not considered effective for the central bank to manipulate bank (discount) rates as an instrument of policy because there were no market instruments or traditions among banks to react to bank rate changes in a definite and predictable fashion: open market operations were not thought to be feasible because there were insufficient government bonds for the Bank Markazi buy and sell on a large scale.⁽⁸⁾

Clearly, the issue of whether Iran's inflation was the consequence of the upward push of costs or the upward pull of demand on prices is important largely from the difference between the recommendations for anti-inflationary policy; i.e., the demand-pull explanation leading to the recommendation of monetary restraint and controlled levels of government expenditure, and the cost-push explanation leading to the rejection of macroeconomic measures of this sort in favor of policies related to the process of price formation and wage determination.

The difference in policy recommendations was not entirely a difference between right wing conservative and liberal technocratic solutions. Nevertheless, the two schools of thought did

differ fundamentally over policy, one school (the monetarist) recommending measures involving a higher volume of unemployment in order to stop inflation,(5) the other (the government) preferring repressive measures that sought to restrain inflation without sacrificing growth or unemployment (both schools were united in their belief that inflation should be stopped, a conviction that became increasingly strong by 1977).

As in many instances in Iran, the economic issues surrounding the control of inflation became so closely bound up with political issues that, for some writers at least, it is difficult to determine whether the economic analysis preceded the policy recommendations or vice versa. Rather than survey the writings of each position therefore, the key aspects of both will be referred to selectively in the discussion that follows.

Suffice it say that in terms of numbers, those who thought that attempts to control the money supply were a useful and production endeavor were quite in the minority. The predominant view among most officials in the country was that the scope for demand management was severely limited for two reasons:

1. The nonpolicy disturbances to which monetary policy must respond invariably originated in the supply side (weather, bad crops, etc.) or abroad (changes in oil revenues) so that policy efforts to change domestic demand were of little or no consequence in their net effect on output and employment. Instead, the conventional wisdom in Iran was that the country's employment and growth was more closely related to the pace and nature of the economic development budget contained in the five year plan; i.e., the state of aggregate demand was given little recognition in this regard.

2. Coordinating supply and demand (equating savings and investments, etc.) is the central task of markets. The more complex an economy becomes (i.e., the more indirect are the economic relationships between members of a society), the more difficult this coordinating task is and the more sensitive these relationships are to disturbances. Here the conventional wisdom maintained that because the economy was by its very nature relatively uncomplex in this sense (retaining a high degree of barter), the coordination of supply and demand was without meaning, and consequently attempts to "fine tune"

TABLE 3

TRAN: MONETARY DETERMINANTS OF INFLATION, 1959-1977

Equation	Dependent Variable	Independent Variables							Intercept	r ²	F
		GM2L	GM2L2	INFCL	GNOXNP	WINF	GM2	ZAG			
1	INFC	0.80 (0.03)							-9.19 (-6.09)	0.928	142.51
2	INFC	0.67 (7.17)	0.26 (1.72)						-11.42 (-6.01)	0.945	85.40
3	INFC	0.50 (3.67)	0.51 (2.48)						-10.87 (-6.09)	0.958	67.82
4	INFC	0.76 (8.39)	0.59 (2.91)	-0.57 (-2.12)					-16.15 (-5.83)	0.963	78.31
5	INFC		0.93 (10.16)		-0.63 (-1.93)			0.12 (1.74)	-7.20 (-3.30)	0.950	56.51
6	INFC	0.61 (7.57)	0.41 (2.96)		-0.41 (-2.53)	0.10 (1.20)			-8.98 (-5.05)	0.972	68.77
7	INFC	0.75 (9.06)	0.62 (3.34)	-0.67 (-2.66)		0.14 (1.71)			-16.78 (-6.61)	0.973	71.92
8	INFC	0.65 (7.49)	0.31 (2.19)			0.07 (0.70)			-9.55 (-4.83)	0.964	53.40
9	INFC	0.86 (-1.01)	0.69 (2.36)	-0.62 (-2.09)				-0.17 (-1.21)	10.26 (3.20)	0.118	1.47
10	INFC	0.81 (10.66)						0.01 (0.20)	-9.47 (-4.54)	0.929	65.06
11	INFC	0.65 (2.92)	0.23 (1.03)						-10.62 (-1.74)	0.945	51.35

Note: See text for identification of symbols.

demand by the authorities would be of little avail.

The Monetarist Approach to Inflation

The monetary approach to inflation in Iran starts with the fundamental proposition that inflation is merely an interaction of market supply and demand for money. Put differently, price movements are viewed by this model as systematically dependent upon current and immediate past evolutions of the interaction between supply and demand conditions.

The starting point of this analysis is the basic monetarist model derived from the equation of exchange.⁽⁹⁾ More specifically, assume a simple money demand function of the following form:

$$(1) M/PY = Y^a C^b$$

where M is the (exogenously determined) nominal stock of money; P is the price, and Y is a measure of real income, and C is the expected cost of holding real balances. Equation (1) is solved for P and expressed in terms of growth rates (or depicted by G prefixing the variable): (2) $INF = RM - (1-a)GY - bGC$.

Equation (2) incorporates the basic elements of the monetarist approach to inflation: money, real income, and the expected cost of holding real balances. In addition, this formulation captures the basic methodological bias of the monetarist school; i.e., the equation has a limited number of variables, and the nature of relationships is clear and straightforward. The growth of money relative to output and cost of holding real balances will generate an increase in the rate of inflation. The growth of real income will cause decreases in the rate of inflation (via absorbing money in the increased demand for real balances). Similarly, the rate of inflation is assumed to be inversely related to the expected cost of holding real balances.

Equation (2) assumes instantaneous adjustment of monetary changes and no money illusion. Therefore, the tested form of the monetarist equation is:

$$INF - a + a_1GM + a_2GML + GML2 - GNOXNP + EXP$$

where GNOXNP is growth of real non-oil income; GML is the growth of the money supply lagged one year; GML2 is the growth in the money supply lagged two years, and EXP is some measure of inflationary expectations.

The basic monetarist contention is: 1) that the causal relation runs from money to prices and output; 2) any persistent

TABLE 2

IRAN: MONETARY DETERMINANTS OF INFLATION, 1959-1972

Equation	Dependent Variable	Independent Variables							Intercept	r ²	F
		GM2L	GM2L2	INFC	GNDXIP	WINF	GM2	ZAG			
1	INFC	0.66 (2.19)							-7.01 (-1.62)	0.445	4.81
2	INFC	0.62 (2.79)	0.85 (2.46)						-19.00 (-3.28)	0.749	7.45
3	INFC	0.05 0.26	0.62 (3.39)					0.36 (3.94)	-13.21 (-4.03)	0.949	24.68
4	INFC	0.87 (4.02)	1.07 (3.62)	-0.61 (-1.99)					-24.64 (-4.57)	0.874	9.24
5	INFC		0.55 (1.32)		-0.47 (-1.92)			0.34 (2.50)	-6.77 (-2.30)	0.897	11.60
6	INFC	0.71 (3.62)	1.01 (4.23)	-0.81 (-3.04)		0.26 (1.82)			-21.70 (-4.73)	0.940	11.80
7	INFC	0.53 (2.14)	1.09 (3.20)			-0.04 (-0.23)			-17.00 (-2.88)	0.892	6.17
8	INFC	0.45 (1.48)	0.70 (2.16)	-0.41 (-1.49)					-12.42 (-1.49)	0.937	11.15
9	INFC							0.043 (1.73)			
10	INFC		-0.80 (-0.26)					0.47 (4.88)	-4.63 (-3.08)	0.799	23.89
11	INFC	0.15 (0.58)	0.44 (1.41)					0.47 (3.00)	-3.94 (-1.25)	0.802	10.12
									-4.89 (-0.64)	0.890	10.83

Note: See text for identification of symbols.

increase in money relative to output is a sufficient condition for inflation; 3) the magnitude and length of inflation is dependent on the magnitude and persistence of monetary growth; 4) the occurrence of inflation is independent of the level of employment in the economy, and 5) it is the increasing growth rate of money which yields inflationary pressures.

The results of the monetary regressions on the rate of increase in the consumer price index indicate that the monetarist model performs extremely well. Both the growth in M1 and M2 were used, with M2 performing slightly better. M2 by itself, however, is not significant when lagged one year.

GM2L is highly significant explaining nearly 45 percent of the observed rate of inflation (equation 7, Table 2). When combined with MG2L2, expected inflation INFC (lagged one year) and world inflation WINF, GM2L explains 94 percent of the variance in INFX. In general, the growth of world prices gives somewhat better results than world inflation lagged one year. The growth in non-oil GDP does not significantly contribute to the regression equation when introduced with lagged GM2 nor does the deviation from the trend of real non-oil income.

Openness measures (ZLON) are significant and of the right sign when regressed with GM2L and GM2L2. They are right on the border of acceptability, however, but do improve the r^2 somewhat further.

The negative sign on the inflationary expectation term (INFCL) as proxied by last year's rate of inflation is of interest and has certain implications for monetary policy. The negative sign indicates that, with increased inflation, individuals may have actually increased their holdings of money. An apparently irrational move since inflation was eroding the value of these holdings at the time. This however can to some extent be explained by the financial structure of the country, which can be characterized by;(10)

1. greater reliance of firms on internal financing than on the issuance of new securities;
2. only limited activity in the domestic stock exchange with new securities being mainly purchased by the financial institutions rather than the non-bank private sector, and;
3. deposits with the monetary system constituting the

major portion of the public's claims on the financial intermediaries.

The lack of developed markets where borrowers and lenders could interact directly, together with a lack of confidence in the stability of the country's financial markets and the inadequacy of government regulations for dealing with fraud in the stock markets apparently made broad money (M2) the most desirable asset to hold during this period. The reason for the desirability of money despite the fact of rapidly rising prices at the time must have been due to the fact that individuals perceived it a relatively riskless asset in the short run. (11)

When the results for 1959-72 (Table 2) are compared with those for the period as a whole (Table 3), several differences appear.

1. In general, the monetary impact is not as strong (based on r^2 values).
2. The monetary impact came sooner in the 1959-73 period with GM2 significant then, but not for the period as a whole.
3. In general, the coefficient for money lagged one year was quite similar for both the periods (except when included in regressions with GM2).

Tentatively there is no real evidence here that a fundamental structural shift occurred after 1972. Monetary variables seem to have played a predominant role in influencing the movement in the country's price level before and after the oil price increases.

Conclusion

It is fair to say that in the 1970s most Iranians considered inflation to be an economic malady of sorts. This suggests approaching the study of inflation in the same way that the medical profession approaches the study of other diseases. One thing we can learn from them is that it pays to concentrate at first on certified, known, unambiguous causes of the disease.

Based on the above analysis (8) of monetary movements, it is clear that any meaningful framework for the analysis of inflation in Iran must systematically take into account the role of money in the economy. The link between real expenditures and monetary increases would seem to be the key element. Real demand in the country is determined in part by factors that depend on aggregate supply and in part by factors that are

determined independently of supply. An approach along these lines might assume that the factors that bring demand and supply into balance are ultimately responsible for the economy's domestic price changes.

It is interesting in retrospect that in nearly every year after 1970, the Bank Markazi Iran (The Central Bank of Iran) Annual Report made some statement to the effect that inflation in the country was a problem of excess monetary demand. Typical of the bank's approach was the implicit application of Fisher's version of the quantity theory of money; i.e., in 1975 the bank noted that:(12)

During recent years, due to the very speedy growth of income the total demand increased at a higher rate than total supply of goods and services. This situation not only resulted in creating new difficulties for the economy, but also increased inflationary pressures. During recent years, especially in 1973, due to the expansionary financial activities of the Government and the speedy growth of credits extended by the private sector, the money supply and consequently the effective demand increased at a much higher rate than could be accommodated by domestic production.

We find in their reports, therefore, that the Bank accepted a model which usually implicitly but sometimes explicitly linked inflation with monetary factors. Furthermore, a careful reading of the Bank's reports leads one to conclude that its senior economists tended to view the economy as one where aggregate demand was determined by factors associated with Fisher's version of the quantity theory of money.(13) Specifically, in recommending policies designed to assure monetary stability, the Bank implicitly assumed that the economy's prices and wages were, for the most part, flexible. Stabilization measures suggested by the Bank at one time or another included:

1. restrictive monetary policies
2. restrictions on government expenditures (mainly government consumption expenditures)
3. reduction of import controls
4. lower wage and salary adjustments (presumably limited to less than the previous year's inflation rate)

Nowhere in the Bank's analysis of the country's inflation is there any evidence that its officials felt the underlying structure

of the economy prevented high and steady rates of economic growth with price stability, provided the proper monetary and fiscal policies were implemented.

Ironically the Government's approach to stabilization of the price level apparently rejected this analysis and instead consisted for the most part in the implementation of various anti-profiteering campaigns involving direct state action.(14) For example in the 1975 anti-profiteering campaign more than 250,000 businesses were briefly closed, over 8,000 shopkeepers were jailed, and another 23,000 shopkeepers and merchants were sentenced to deportation (later rescinded to remote areas of the country.)

Governmental measures in 1977 to reduce inflation through the imposition of credit controls set off a major deceleration of the industrialization program. As a result of this stabilization program, the construction industry, a major source of employment for unskilled rural labor, underwent a severe contraction in 1977 with the rural migrants as a whole suffering the greatest decline in living standards because of the continuing inflation. The bazaar merchants, dependent on state credits to finance many of their activities and affected by the inflation, came to feel by 1977 their economic role in society increasingly threatened by the pattern of development that was gradually narrowing their possibilities for private capital accumulation and upward social mobility. Finally, local industrialists joined the merchants to express their opposition to price controls, anti-profiteering campaigns and an endless series of government decrees placing limits on capital accumulation and expansion.

Little wonder the revolution saw a mass uprising against the regime. Given that the monetary sources of inflation were early the Central Bank, and that fairly easily implemented stabilization were then efforts suggested by the Bank (that most likely would have been successful), the question arises as to why the regime failed to take this advice into account and instead continued to proceed with various restrictive decrees and anti-profiteering campaigns. One answer has been suggested by Green:

...mobilization systems create expectations that cannot possibly be met. Significantly, as we shall see in the Iranian case, a denial of participation can be linked with virtually any issue, whether it is particularistic or of wide

social consequences. High taxes, low income, inflation, repression, or unemployment can all be attributed to the absence of popular input into the state. The mobilization regime alerts a populace that there is such a thing as participation, that it is important and desirable, and perhaps most significantly, that this input is needed by the regime and will be subsequently sought. Such a process is self-defeating, for by its very nature a mobilization regime is unable to sanction or even assimilate potentially critical input without having to change its character — something such regimes generally resist.

Footnotes

- (1) Brian Griffiths, *Inflation: The Price of Prosperity* (New York: Holmes & Meier, 1976), p. 3.
- (2) Jerrold D. Green, *Revolution in Iran: The Politics of Counter Mobilization* (New York: Praeger Publishers, 1982), p. 63.
- (3) Firouz Vakil, "Iran's Basic Macroeconomic Problems: A Twenty-Year Horizon," *Economic Development and Cultural Change* (July 1977), p. 722.
- (4) Cf. the account given in N. Keddie, "The Midas Touch: Black Gold, Economics and Politics in Iran Today," *Iranian Studies* (August 1977), pp. 343-66.
- (5) For a clear concise statement of the theory together with its contrast to other views on the inflationary process, see Harris Johnson, "Monetary Theory and Policy," *American Economic Review* (June 1962), pp. 335-384.
- (6) J.A. Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*, translated version by Redvers Opie (Cambridge: Harvard University Press, 1934).
- (7) For an early criticism of this narrow view of the development process, see Richard Benedick, *Industrial Finance in Iran* (Cambridge, Massachusetts: Harvard University Press, 1964).
- (8) *Ibid.*, Chapter 7.
- (9) The formulation used follows that developed by A. Harberger. Cf. Arnold Harberger, "The Dynamics of Inflation in Chile," in C. Christ, ed., *Measurement in Economics* (Stanford, California: Stanford University Press, 1963), pp. 219-250.
- (10) Cf. Benedick, *op. cit.*
- (11) R. McKinnon has developed a theory of monetary policy around this type of situation. Cf. R. McKinnon, *Money and Capital in Economic Development* (Washington: Brookings Institution, 1973), p. 38.
- (12) Bank Markazi Iran, Annual Report, 1975 (Tehran: Bank Markazi, 1975), p. 69.
- (13) For a discussion of the Fisher theory as relevant for developing countries, cf. Milton Friedman, "Monetary Policy for a Developing Society," Bank Markazi: Iran, *Bulletin* (March-April 1971).
- (14) An excellent account is given F. Halliday, "Iran: The Economic Contradictions," *MERIP Reports* (July-August), 1978.
- (15) Green, *op. cit.*, p. 8.