Origins of Pre-Revolutionary Iranian Economic Cycles and Policy Response

Robert E. Looney

Iran's post-war economic history falls into four rather distinct stages. The first covers the period up to 1963 and was characterized by a relatively low rate of growth of about 5.5 per cent in constant prices between 1959 and 1963 (1959 is the starting point for most of the country's macroeconomic data) with nearly zero inflation. The second period covered the period 1964–70 (or 1973) and was characterized by a high rate of growth, about 10.5 per cent in constant prices, and increased inflation. The third phase, 1971–77, was characterized by extremely high rates of growth concurrent with a seemingly accelerating rate of inflation. The final stage, 1978 to the present, has been one of stagnation with high rates of inflation.

While these dates are somewhat arbitrary,[1] they do delineate four fairly distinct periods, each with its own particular characteristics. One thing that the first three stages seem to have in common is that during each period the economy, despite abundant oil revenues, began to suffer balance of payments problems that were both a cause and a consequence of political instability. The Iranian economy traditionally was able to absorb far more capital and consumer goods imports that it could support through foreign exchange earnings, thus forcing the government sooner or later to initiate fairly harsh stabilization measures. While much attention has focused on the third stage, an examination of the first two, particularly the first, is instructive because of the insights provided as to the workings of the economy and the way in which the government responded to the economic crisis of 1959, a response which perhaps because of its success at that time was not altogether different than the policies implemented nearly 20 years later by the government.

THE REZA SHAH PERIOD

Although attempts at industrialization and modernization in Iran go back to the early 1920s, the idea of economic development within a planning framework did not fully materialize until after the Second World War. The development policies of the government during the reign of Reza Shah (1925–1941) did not constitute development planning as the term has come to be understood in the post-war economic literature. The pre-war policies were restricted to partial investment programs for the public sector only, with little consideration concerning the activities of the private sector. Furthermore, the public sector programs that did exist did not reflect any explicitly defined set of policy objectives. As a result, the allocation of resources was not determined on the basis of any particular investment criterion. A number of specific investment projects in different sectors were implemented without giving sufficient consideration to their inter-relationships or their overall effects on such things as the level and distribution of national income.[2]

What is of interest in terms of the present study, however, is the fact that this period developed the framework for the development strategy the country was to follow until the time of the revolution. More specifically, the primary development objectives of the period were rapid industrialization and the development of the country's infrastructure, while agriculture was by and large ignored. The most important policy instruments of the prewar period, aside from the investment programs, included tax rates, wage and price controls, as well as government controls over the various aspects of foreign trade. Economic policy under Reza Shah was also characterized by the establishment of a state monopoly over foreign trade. This was a period before oil revenues had a significant impact on government finances. Most of the expense of these early development efforts was financed through the imposition of a tax on tea and sugar.[3]

Evaluations of Reza Shah's approach to economic reform have been extremely varied with Lambton's observation perhaps the most insightful:

> In spite of the apparent progress achieved during the reign of Reza Shah, and although Persia had become more conscious of her new role as a national state belonging to Western Society she had not yet found a sound basis for her new life, nor had she achieved a synthesis between the basis of Western Society and Persian tradition. The house had been swept of much of the past that remained but nothing solid had been put in its place.[4]

Variations of this theme have been expressed by others[5] all with the general thrust that Reza Shah's reforms were carried out at too rapid a pace, and much that was old was removed with not enough that was new put in its place – a view which we will find has also been used to describe his son's approach to the country's economic development.

THE FIRST DEVELOPMENT PLAN PERIOD (1949–1955)

The First Seven Year Development Plan was approved by the Iranian Parliament in 1949. Critics have described the plan as deficient both in basic planning methodology and objectives. While this issue is certainly debatable, it is clear that the plan was largely partial and did not take into account the role of investment by the private sector. In effect the plan was a collection of infrastructure projects to be executed by the newly established Plan Organization. The 1951–53 crisis over oil nationalization and the subsequent loss of oil revenues made the actual implementation of the plan impossible.

The interruption of oil production during the period of political instability and unrest accompanying the premiership of Mohammed Mossadegh ended with the signing in October 1954 of an agreement between the Iranian government and a consortium of oil companies. Production increased rapidly after the new agreement, but it was not until 1957 that the 1950 (the last pre-disturbance year) level was reached. The agreement between Iran and the Consortium provided the country a royalty roughly one-half the difference between the 'market value' of oil produced and the cost of production; i.e., one-half of the consortium's profits. Officially, Iran's share of the oil profits were paid in sterling, but could be transferred into other currencies at the request of the government.

Because nearly all of the government's expenditures were in local currency, the oil revenues had to be converted into rials. This was done through direct purchases from Bank Melli, and the rials thus obtained aggregated with general tax revenues. Economically, rials obtained in this manner had to have an inflationary impact on the economy because they did not (as is the case with taxes) have an offsetting component elsewhere in the country's income stream; i.e., they represented net injections to expenditure. The presumption was, of course, that private sector imports would ultimately fulfill the role of offsetting income stream leakages. And while the private sector did respond by accelerating its level of inputs, inflationary pressures soon developed.[6]

Iran's exchange rate during this period mirrored to a certain extent developments in the oil sector. From March 1946 to March 1956 the country had a *de facto* multiple exchange rate system. Both imports and exports were classified into several categories, and certificates for each class were required since the price of certificates varied from category to category (and given that Bank Melli was their sole buyer and seller), the system of certificates acted as a form of multiple exchange rates. From 1954 the rial began to strengthen and the country was able to initiate a single rate. The free market rate, except at odd times (e.g., when a decline in the price of oil was forecast) differed little from the official rate.[7]

Despite the resumption of oil production in 1954, the economy continued to languish. Commenting on the situation at the end of the first plan period, Jahangir Amuzegar noted that despite the government's concerted efforts both before and after the war, its plans and programs did not seem to have achieved their proclaimed objective of improving the living conditions of the Iranian masses. 'Although there is no statistical proof, there seems to be conclusive evidence that in the last thirty years the lot of the average individual in Iran has deteriorated and the inequalities in the distribution of wealth and income have been intensified.'[8] As an explanation Amuzegar speculated that:

> Among the greatest barriers to Iran's economic development are certain aspects of the Iranian mentality. Three-fourths of Iran's population are poor, illiterate farm workers living in widely scattered villages throughout the country. Many are sharecroppers; others are mainly landless peasants and tribesmen. Protracted poverty, chronic diseases, ignorance and isolation have made these people stagnant, custom ridden, and superstitious. Their *modus vivendi* based on fear, suspicion and insecurity has begotten attitudes of subservience, apathy, and individualistic self-interestedness. Although not inherently lazy nor necessarily content with their lot, they seem to have lost individual initiative, and become apathetic to hard work and outwardly fatalistic toward discomfort.[9]

THE SECOND DEVELOPMENT PLAN (1955–62)

After the overthrow of the Mossadegh government and the subsequent resumption of oil production and export in 1954, development efforts began anew. A Second Plan, largely financed out of oil revenues, was drawn up and initiated in 1955.

As was the case with the First Plan, emphasis was given to infrastructural projects. Similarly, investments for inclusion in the plan were chosen without any particular systematic framework in which their simultaneous impacts could be assessed and evaluated; i.e., the plan was largely a set of independent projects, whose main commonality was that they had been easy to identify. Almost all the plan's allocation to the agricultural sector went to three large dams, Karaj, Safid Rud and Dez. Similarly, allocations in the industrial sector were concentrated in several major projects, the construction or modernization of large textile, sugar and cement factories. Transportation and communication projects were confined to construction of inner city highways and the extension of the railway network, with little attention given to feeder roads and other rural projects.

As revealed by actual choices, therefore, it seems that the overall tendency of the planners was to select projects with low value added returns and low employment generating effects. As a result the investment program was dominated by the relatively few capital intensive projects. In sum the investment program had all the shortcomings of an unintegrated public investment program prepared on the basis of the so-called project-by-project approach characteristic of the lack of a clearly defined development policy.[10]

It cannot be denied, however, that the task of designing a good development plan in Iran at this time was indeed difficult. The lack of both statistical data and familiarity with planning methodology and techniques were a major limitation. In addition the overriding aim of the government at the time seemed simply one of initiating an investment program of some sort and as soon as possible. It was the size rather than the composition of expenditures which received the highest official consideration. As a result most of the basic planning issues were not even raised, and the Second Plan was destined from its very inception not to satisfy the attributes (such as efficiency and internal consistency) of a well designed development plan.[11]

More fundamentally, however, the somewhat capricious attitude of the government toward planning at this time undoubtedly stemmed from the fact that political power, the commitment of which was necessary if planned economic development was to be achieved, was difficult to locate and define. The Shah was obviously much more than a constitutional monarch, but clearly did not have absolute power. He had to act within certain indeterminate boundaries not easily definable even for him. On the other hand, genuine democratic institutions were non-existent. Political power appeared to rest on a very precarious set of balances among the dynasty, the feudal landlords, the army, the clergy, and the emerging new urban classes among which as yet only the merchants and intellectuals seemed to exert any major political influence.[12]

By the late 1950s these power groups (none of which was very homogeneous) had more or less successfully kept each other in check. This type of environment was obviously not conducive to planned economic development. Further the balance between the different groups was not only precarious but also contained a number of inner contradictions many of which were never effectively resolved. It is little wonder therefore that the first two plans had vaguely stated objectives with no apparent focus.

Plan Financing

In terms of the financing of the plan, the government's oil revenues at the time were divided among three agencies: the Plan Organization, the Ministry of Finance, and the National Iranian Oil Company (NIOC), with about 80 per cent going to the Plan Organization. Subsequently, the Plan Organization's share was reduced (only to be restored again in the late 1960s). The reduction in Plan Organization allocations appears to have not only reduced its implementation capability at the time but more importantly was an indicator of the attitudes towards development that prevailed among some of the leading government officials.

Several technical aspects surrounding the oil agreements are of interest. The consortium–oil revenue–government expenditure linkage meant that in effect the government agencies that converted their share of the oil revenues to rials (denominated in sterling) would, in contrast to the usual situation in developing countries, benefit directly from a devaluation of the rial; i.e., they would receive more rials for the same quality of oil receipts. This situation created a set of incentives whereby devaluation could then increase the Plan Organization and Ministry of Finance's imports (because a smaller amount of oil revenue would be required to obtain the necessary rials). If after devaluation the private sector continued to buy all the foreign exchange the public sector offered, then devaluation would be in effect a tax on the private sector.

A revaluation of the rial in terms of gold would, of course, produce a windfall gain, and this was in fact what the government did. By setting the buying and selling rates of the rial at 75 and 76.5, respectively, the authorities created a disparity in the gold-rial rate; i.e., the gold content of the rial still implied an official exchange rate of 32.25 rials per dollar. In order to bring the gold content rate into equality with the actual rate at which the currencies were exchanged, the rial was revalued in terms of gold during May 1957. The result was to release 7.1 billion rials ($95 million of gold) from notecover; i.e., approximately $95 million in gold which at the previous gold content exchange rate (32.25 rials per dollar) was required under existing law to be as note-cover was under the new gold content exchange rate (75.75 rials per dollar) released for other uses. Most of the revaluation windfall was allocated for loans to agriculture, and industry for the purchase of equipment.

It has been argued that the revaluation of the rial was used to provide the rationale needed by the authorities to accelerate the expansion of the money supply (by the amount equivalent to the rise in the rial value of the country's stock of gold and foreign exchange).[13] In any case, the change in the rial rate did mean a considerable once-and-for-all rise in rial revenues of the government and a subsequent rise in its level of expenditure. It is clear, of course, that the so-called revaluation-financed projects were no different from the government undertaking its increased expenditures by simply printing money.

Whatever its motives, the net effect of the government's manipulations was to facilitate the expansion of credit to the private sector. Loans extended to the private sector increased by 46.1 per cent in 1957, 60.5 per cent in 1958, and 32.4 per cent in 1959. The industrial loans financed through the banking system were limited to one-third of the total investment of the project in an attempt to attract a significant amount of personal and business savings into productive capital formation.

Rising government expenditures together with the unprecedented expansion in private-sector credit produced Iran's first major economic boom during this period. Expansion was most pronounced in both urban housing and industry. Private sector investment in construction in Tehran, for example, rose by 85 per cent and 130 per cent in 1958 and 1959, respectively. In addition to the government's fiscal actions, the expansion was aided by a major liberalization of restrictions on the importation of capital equipment. Rising aggregate demand, cheap loans and increased imports combined to sustain the investment boom for several years. The most rapidly expanding areas for investment appear to have been the more traditional ones of textiles, cement, sugar refining, leather, bricks, etc. Furthermore, investment during this period was largely for plant expansion or new plants built by individuals or concerns that already were operating similar plants.

It is significant that few firms owned or controlled by new entrepreneurs came into existence during the investment boom, suggesting that the type of entrepreneurs willing to venture into new areas or take great risks were in short supply at this time. The failure of the system to induce diversification and greater private sector response to new productive investment opportunities exposed what was over the years probably to become the major shortcoming inherent in the country's economic system.

Inflationary Pressures

By the late 1950s the point had apparently been reached where even the expanded growth of imports could not prevent inflation from increasing at rates significantly over its historical pattern (although at a rate still somewhat below that experienced by many other countries at the time).

Since the economy still had a relatively simple structure at the time, it is tempting to explain this inflationary surge as simply one of excess demand. A closer examination of what information is available for the period indicates that while the demand-pull mechanism was important, other factors were also at work. For instance, if excess demand were the sole cause of inflation at this time, imports should have increased even more than they did. Prices rose by only one per cent in 1959, partially because imports increased by roughly one-third during that year. A year later, however, the price level had risen by 10 per cent, yet imports had expanded by only 10 per cent.

Given the limited data covering this period, one can only speculate as to the reasons for the deceleration in import growth. Clearly the drop in foreign assets of the banking system did contribute to the decline, falling as they did from 16.41 billion rials in 1959 to 11.40 billion in 1960. Another contributing factor could have been the effect on demand of changes in the distribution of income that was taking place at the time. Employment was increasing rapidly in urban areas. In 1960 the lower range of wage rates for urban jobs averaged from 20 to 60 rials per day. Given the relatively high price level of most imported goods, however, an increase of wages at rates of even 10 to 20 per cent would probably be sufficient to shift this income group's profile of demand significantly from domestic to foreign goods. Instead, the increased demand originating in the upward wage movements was likely to remain concentrated in domestic consumer goods, thus preventing excess demand from spilling over into imports.

On the other hand increases in incomes of the upper and middle income groups seem to have resulted in increased demand for consumer durables, higher quality textiles and food products, much of which were imported. And as already noted most new investments during this period relied on imported capital equipment. If rising incomes of the higher income groups and the acceleration in private investment did in fact cause the import boom of 1959, a deceleration in investment activity thereby reducing not only imports but also upward pressure on the lower end of the wage scale would be expected to lessen the upward pressure on prices. If in fact these patterns were at work, unused capacity – i.e., unused foreign exchange – would probably materialize. In fact, foreign assets of the banking system increased from 11.40 billion rials at the end of March 1960 to 15.88 by the end of 1961.

Balance of Payments Problems

Beginning in 1959 the total balance of payments deficit began to accelerate rapidly. The cumulative short fall for 1958–61 amounting to around $276 million, therefore, had to be financed through the running down of reserves. Indeed the four-year deficit was $51.6 million greater than the surplus built up during the preceding four years. By the end of 1960 the country had only enough foreign exchange to finance several weeks' essential imports.

The main source of this mounting payments deficit was clearly the rising trade deficit. The latter deficit can in turn be traced to the uncontrolled expansion of imports and the stagnant level of exports (Table 1), the combination of which led to deficits much over their historical levels.

How did the situation reach this state? As George Baldwin notes, it was not because no one realized what was going on:

> The trade and payments statistics were certainly good enough to have warned what was happening. Nor was it because there were no Iranian officials who recognized the danger signals and argued for more prudent policies toward imports and the casual assumption of foreign debt. The 1958–61 payments slide was essentially one more symptom of the general condition of Iranian politics during this period: a few sensible people who understood were not in positions of political control, and the people in positions of control either did not understand or would not listen. If real trouble developed, the authorities seemed to think new loans would always be arranged or that the American Government would buy the country back from the brink, or the oil revenues might be pushed

TABLE 1

EXCESS OF IMPORTS OVER NON-OIL EXPORTS

	Per cent
1900–1905	82
1910–1914	61
1925–1929	63
1935–1939	16
1946–1948	97
1955–1960	263
1957–1960	363

Source: George Baldwin, *Planning and Development In Iran* (Baltimore: Johns Hopkins Press, 1967), p.59.

> up by pressuring the Consortium for higher prices. As a last resort officials could resign and turn the mess over to someone else. All these remedies were tried. The Iranian talent for ingenious maneuver under pressure succeeded in confining the financial crisis and avoided the rupture with her principal foreign creditors which clearly threatened.[14]

By the end of 1960, therefore, the monetary induced boom had come to its inevitable end with the country facing both excessively rising prices and a large and growing current account deficit. The government was forced to embark on a now famous economic stabilization program initiated by the International Monetary Fund. This program consisted of a set of standard IMF measures including direct control of private sector credit, the raising of interest rates, the restriction of imports, and forced reductions in government expenditures.

As a result of these measures, the boom of 1957–60 was soon turned into a deep recession. Real private sector gross domestic fixed capital formation declined by 7.7 per cent and 9.5 per cent in 1961 and 1962, respectively. Public sector investment also dropped by 11.6 per cent in 1962. The more traditional sectors, such as agriculture, construction and domestic trade were most seriously affected by the recession. Domestic trade (which covers the economic activities of the bazaar) probably suffered the most because it bore the full brunt of the plan's import and credit restriction measures. In fact, the value added in trade actually declined by 2–3 per cent in 1961, while showing only a marginal increase in 1962. The modern sector, it appears, fared much better during the recession with the value added of manufacturing and mining (excluding oil) increasing in real terms by 8.4 per cent and 13.6 per cent in the depressed years of 1961 and 1962, respectively.

The asymmetrical impact of the stabilization program upon the traditional and the modern sectors of the economy inevitably created a number of social and economic problems. Most serious in this regard was the growing mass discontent among both low-income urban groups (a large proportion of whom were unemployed migrant construction workers) and the bazaar merchants (who as a group had been the most severely affected by the government stabilization program).

The administration's response to the deteriorating conditions was the introduction of a number of reforms including:

1. land reform
2. profit sharing in industry
3. female suffrage
4. nationalization of forests
5. return of state industries to private enterprise
6. the formation of a literacy corps

The reforms were clearly a real threat to the interests of the landed upper and propertied middle class and certainly perceived that way by them. Thus, instead of relieving the social tensions, the economic and political uncertainties created by their initiation may in fact have aggravated certain groups to the point of reviving old alliances, particularly that between the ulama and the bazaar merchants, especially in regard to their joint opposition to the regime. The culmination of unrest was a series of mass demonstrations against the regime in June 1963. In contrast to those nearly 15 years later, these were quickly and brutally suppressed.

EMERGING DEVELOPMENT PATTERNS

The late 1950 to early 1960 period is of interest because several patterns emerged from the country's first attempt at accelerated growth during this period that were ultimately to be repeated on a much larger scale in 1978–79. Of special note in this regard is: (1) the role of the oil sector in the economy, and (2) the rigidity of indigenous institutions to economic growth.

Role of the Oil Sector

The main characteristic of the oil sector at this time (and to this day as far as that is concerned) was that it was in no sense indigenous to the economy, but rather superimposed on it. Although output was increasing rapidly and investment in the sector was also accelerating in the industry, it did not provide the nucleus around which the entire economy could develop. While this pattern is typical world-wide, it was undoubtedly intensified in Iran due to the country's predominantly rural agricultural village oriented social and economic system. Because most village inhabitants had no contacts beyond their immediate village whatever potential spread the oil sector may have had were quickly dissipated. Since farming methods with several exceptions were primitive, levels of income in rural areas remained very low. As a result most of the economy imposed few demands on the oil industry, and responded little if at all to increases in the supply of oil or to the demands for skilled labor and other inputs generated by that industry.

In fact after six decades of operations the petroleum sector remained a virtual appendage to the Iranian economy, with little direct impact on the industrialization of the economy. The bulk of the requirements of the oil industry consisted of capital goods which were imported duty free including parts and equipment required in the operation of the refineries, the oil fields, and pipeline transportation. Thus, for the period 1962–66, 88.3 per cent of the total purchases of the consortium of foreign oil companies and an estimated 90.7 per cent of those of the National Iranian Oil Company (NIOC) were foreign.[15]

In short, the oil industry did not play a leading sector role similar to that played by the textile, iron and steel, railroad and automobile industries in the earlier stages of the development of some of the Western nations. The industry was important, therefore, largely in Iran's development program because it provided a source of easily controlled and easily mobilized revenue for the government and a supply of foreign exchange greatly in excess of what the indigenous Iranian industries could possibly earn and not because it imparted directly its dynamism to the rest of the economy.

Institution Building

In terms of its institutional development, it is clear the country was not at the 'take off' stage at this time. Not only was the economy extremely rigid and unresponsive but perhaps just as significant the country's social arrangements remained deeply engrained in forms that were the virtual antithesis of those required to facilitate economic growth. Those more perceptive in the government undoubtedly saw as an immediate goal not one of sustained equilibrium growth but more realistically a limited one of uprooting and eventually replacing a mode of behavior and set of institutions that had become established over centuries of static economic performance.

More specifically, while the rural groups remained tradition bound, most of the urban population living as they had for centuries through successive periods of invasions, civil wars, and political instability had become distrustful, self-interested and cynical. Iranian businessmen had grave misgivings about prospective partners and generally minded their own businesses, often withdrawing from large scale cooperative endeavors. Conservatism, drive for quick profits and a high discount of the future were their common characteristics.

On the other hand, while the bureaucrats and the ruling intelligentsia were informed, educated and ambitious, they often tended towards pessimism and despair. Living in their country's glorious past and disappointed with its plight at the time, they frequently sought scapegoats, and tended to blame their troubles on anything and anyone but themselves. Fearful and suspicious, they questioned the motives and mistrusted the counsel of others. An extreme sensitivity to defeat and failure made them fearful of trying new things. The majority lacked initiative for constructive action, risk-taking and free enterprise.[16]

Based on its actions at the time the government seems to have opted for a development strategy that would attempt to achieve high growth with institutional change; i.e., its strategy was apparently designed so that the process of accelerating economic change would also undermine many if not all of these institutions. The ultimate goal of this institution-destroying phase was undoubtedly the creation of an atmosphere that would permit rapid development of modern westernized groups possessing progressive attitudes towards change and with access to positions of importance.

For example, projects that resulted in increasing inconsistencies with respect to the prevailing social and economic arrangements; i.e., a road building program that made tribal life a little more bearable, a rural credit program that reduced the dependence of the peasant on the landlord, a village electrification program that relieves a bit of the drabness of the daily routine were seen by the authorities as ultimately transforming existing attitudes and socio-economic relationships in the country towards arrangements more compatible with increases in material well-being.[17]

CONCLUSION

Despite its increased oil revenues, Iran began to experience a number of difficulties during the Second Plan period, including strong inflationary pressures and a rapid fall of official foreign exchange reserves. Interestingly enough, these problems do not seem to have been caused exclusively by the government's excess spending, but instead appear to have their origin in more fundamental structural problems characterizing the economy at this time.

There is no doubt that the sharp reversal of 1960–62 was crucial in fomenting not only increased revolutionary action but also in the creation of a fairly broadbased opposition to the regime. The recession of 1960–62, however could not have brought about the level of 1962–63 internal strife by itself. Clearly, the role of the religious groups in the organization of political opposition and their mobilization of the masses was a crucial element.[18] As in 1978 it was the development of adverse socio-economic conditions that provided the appropriate environment for the ulama's particular brand of opposition to flourish and eventually succeed. The government's harsh suppression of the 1963 demonstrations undoubtedly enhanced the position of the leading religious groups giving the impetus to the ulama's opposition to the Shah's regime which was to be so crucial in the February 1979 revolution and its aftermath.

The general conclusion that emerges from this discussion as to the progress made by the country towards development by the early 1960s depends very much on how one views the development process. The growth in output that took place in the late 1950s and early 1960s was limited to a handful of traditional Iranian products and industries. At the same time, the major sector of the economy, agriculture, remained virtually stagnant. No new, dynamic sector had been stimulated by the increase in oil revenues and the unwillingness of entrepreneurs to assume risks in undertaking new productive investments cast some doubt on the contribution the private sector was willing and able to make to future growth. Inflation was also beginning to be associated with the country's growth process and had reached levels that were quite likely to be inconsistent with long-term continuous growth. Worse yet, instead of being eliminated by the availability of foreign exchange, price increases seemed at times to be fostered by that availability, in that increases in foreign exchange permitted expanded employment and wage bill. The resulting distribution of income caused the demand for domestically produced commodities to expand at a rate faster than supply. This situation was to be repeated a number of times over the years.

Despite the far-reaching impact that the resumption in oil revenues was to have on the economy, the process of oil-induced economic development had certain ramifications. As oil came to be the initiator of the country's economic development, the accompanying structure of production and trade began to evolve in a very artificial environment – one in which certain built-in distortions not only seemed inevitable but were at the time looked upon by many in the government as beneficial to the whole modernization process. In general, governmental policy formulation together with the country's industrialization process based on oil-induced distortions not only impeded the process of diversified economic development but actually created a productive structure that was inherently stagnation-prone.

NOTES

1. The first three periods are those identified by the former Iranian Minister of State in Charge of Planning and Budget, Abdol-Majid Majidi, in his 'Iran 1980–85: Problems and Challenges of Development', *The World Today* (July 1977), p. 267.
2. Farhad Daftary, 'Development Planning in Iran: A Historical Survey', *Iranian Studies* (Autumn, 1973), p. 177.
3. Cf. A. Banani, *The Modernization of Iran: 1921–1941* (Stanford: Stanford University Press, 1961), Ch. 7.
4. A. K. S. Lambton, 'Persia', *Journal of the Royal Central Asian Society* (January 1944), p. 14.
5. See particularly George Baldwin, *Planning and Development in Iran* (Baltimore: Johns Hopkins Press, 1967), Ch. II.
6. Henry Bruton, 'Notes on Development in Iran', *Economic Development and Cultural Change* (July 1961), pp. 625–9.
7. Ibid.
8. Jahangir Amuzegar, 'Iran's Economic Planning Once Again', *Middle East Economic Papers* (1957), p. 3.
9. Ibid., p. 4.
10. A. Waterson, *Development Planning: Lessons of Experience* (Baltimore: Johns Hopkins Press, 1956), pp. 61–3.
11. Daftary, op. cit., p. 82.
12. P. Bjorn Olsen and N. Norregaard Rasmussen, 'An Attempt at Planning in a Traditional State: Iran', in E. Hagen (ed.), *Planning Economic Development* (Homewood, III.: Richard D. Irwin, 1963), pp. 227–8.
13. Cf. Bruton, op. cit., for an excellent, detailed discussion of these points.
14. Baldwin, op. cit., p. 58.
15. William Bartsch, 'The Impact of the Oil Industry on the Economy of Iran', in Raymond F. Mikesell (ed.), *Foreign Investment in the Petroleum and Mineral Industries* (Baltimore: Johns Hopkins Press, 1971), pp. 256–7.
16. Amuzegar, op. cit., p. 5.
17. Bruton, op. cit., p. 640.
18. Thomas Walton, 'Economic Development and Revolutionary Upheavals in Iran', *Cambridge Journal of Economics* (September 1980), p. 278.