

Note: Copy of Iran  
Brief given to [REDACTED]  
[REDACTED] on 31<sup>OCT</sup><sub>1978</sub> for  
the retention.

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IRAN: ROOTS OF DISCONTENT

I. Introduction

DCI

- 1. Last week - talked about Shah's state-of-mind; behavior
- 2. Let's look at underlying problems, causing current troubles.
- 3. Then what must be done to cope.

II. Shah too Much in a Hurry - Basic problem.

- 1. Turned to development only in 1960
  - a. Two decades to consolidate power (1941-60)
  - b. Wanted to make Iran middle industrial power
    - during his regime (2-3 decades)
    - in anticipation of oil output decline
- 2. Initial development in '62-'63
  - a. Imposed major land reforms in 1963 but agriculture neglected.
  - b. Economic planning focussed on industry especially heavy industry.
  - c. Education and literacy
- 3. Accelerated effort in '73
  - a. Boom in oil revenues (OPEC)
  - b. Vastly expanded effort - frantic pace
  - c. Enormous rise in imports of machinery and other goods
  - d. Serious clogging of ports, transport, construction

List of reforms

#1

Iran Educ. (Pie chart) #2

Literacy rate #3

3rd, 4th, 5th Plan #4

Exports- Imports 1970-78 #5

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TAB A

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- e. Severe shortage of skilled labor
  - 100,000 foreign
  - one in three skilled jobs unfilled

Iran Defense Budget #6

- 4. Defense Spending -
  - some \$15 billion on order
  - diverted funds, + trained manpower

Real growth in GNP #7

- 5. Economic improvement

Agricultural Output #8

- Substantial growth + better conditions
- Population growth 3% (nearly 50% under 15; two-thirds under 24)

Rural to urban (chart) #9

Urban growth (map) #10

Consumer Price Index #11

- 6. But generally expectations set too high - and not met
  - Shift from rural to cities (4.7% per year for decade vs. 1.1% rural)
  - Inflation, urban overcrowding (eat up 30% wage gains)
  - Unemployment (unskilled urban)
  - Conspicuous consumption of a few (rich/poor gap widens)
  - Rural 50% have 1/5 average urban income
  - Corruption in gov't.

### III. Sources of Troubles

- 1. Three groups of discontented:

- a. Religious community: Muslim clergy

- (1) For decades, have seen social change and modernizing as threat to:

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- (a) Islam's principles (Koran)
- (b) own status within society
- (2) Offended by --
  - (a) Changed status of women.
  - (b) Secular education
  - (c) Law reform (displacing clergy)
  - (d) Land reform - lost own large religious estates
- (3) Westernized, hedonistic culture.
- (3) Two tendencies
  - (a) Some (Ayatollah Khomeini) condemn whole programs and demand overthrow of Shah and turn to theocratic regime.
  - (b) More moderate want greater religious voice in the pace and direction of modernization.
- b. People who were poorer, disadvantaged especially in cities.
  - (1) Peasants coming to the city only to find own conditions not improved (they lack skills)
  - (2) Confronted w/unemployment, poor housing, inflation and inadequate public services.
  - (3) Turned to mullahs for support (tradition)
- c. People benefiting from rapid development
  - (1) Growth produced a prosperous middle class (including skilled) with no voice in regime; no mechanism to make feelings known.

Labor force

#12

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- (2) Student protestors emerge from this milieu
- (3) Fear regime of religious leaders in dominant role
- (4) But would like to see Shah in lower profile and more responsive.

2. Recent troubles

- a. Blowups; congruence of mullahs, fanning discontent of poor, abetted by students (1/2 born since 1963)
  - Exploit grievances by denouncing gov't and inequalities in income distribution
  - Effective in censuring gov't tolerance of liquor sales and official support for women's rights.
- b. Muslim faithful, agitated by rhetoric, joined the recent mass protests.

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- c. Silent majority stays silent *(also passes for reforms)*
- 3. Martial law and security forces can buy some time but do not resolve problems.

IV. Shah's Long-Term Challenge- Changing Priorities and Maintaining at Same Time

Anticipated shifts in resources

#13

- 1. Attempt to maintain law and order - diffuse discontent
  - a. Adoption of welfare programs (housing, schools, hospitals) that meet needs of impoverished - shift resources from military and nuclear projects to such programs (time needed for impact).
  - b. Placate religious leaders: by partly meeting demands for voice in formulating gov't policy affecting religion, ethics and morale.
  - c. Demonstrate he has abandoned one-man rule; intends to build liberalized gov't based on consent.

(See list)

Liberalization reforms

#14

- 2. Such programs risk his basis of support from the military in three ways:
  - a. Defense cuts may alienate officer corps
  - b. Officers may see Shah as soft
  - c. Senior officers see risks of recruits may refuse order if rely on martial law too long.

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V. If Shah is to Meet this Challenge

1. He must change his methods and style.
  - a. No longer "god-like"
  - b. Now must play politics
    - "Buy off" modernizers
    - Mollify religious leaders
    - Mobilize moderates
    - Hold military in line
2. This requires "interest group" politics which is an entirely new game for the Shah.
3. The big question is, "Can he change his whole way of life?"

VI. Can Judge how Shah is Succeeding in Coming Months

1. Getting through December (religious month) without a major flareup will be the next big test of his ability to manage situation.
2. Then if elections carried out next July, then period before (April-June) could be another test.

VII. Further Downstream His Economic Maneuvering Room Will Shrink

Oil *#15*  
Output  
Arable Land  
(Map) *#16*

1. Oil income decreasing somewhat over next decade.
2. Other planned exports petrochemicals, steel, copper, etc. face stiff internal demand and stiff external competition.
3. Problems of getting skilled labor.
4. Imports of food, etc., steadily increasing.

Food  
Imports  
*#17*

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5/8

Exports-  
Imports to  
1985

5. Hence, serious balance of payments and resources problems.
6. Iran will push for higher oil prices.

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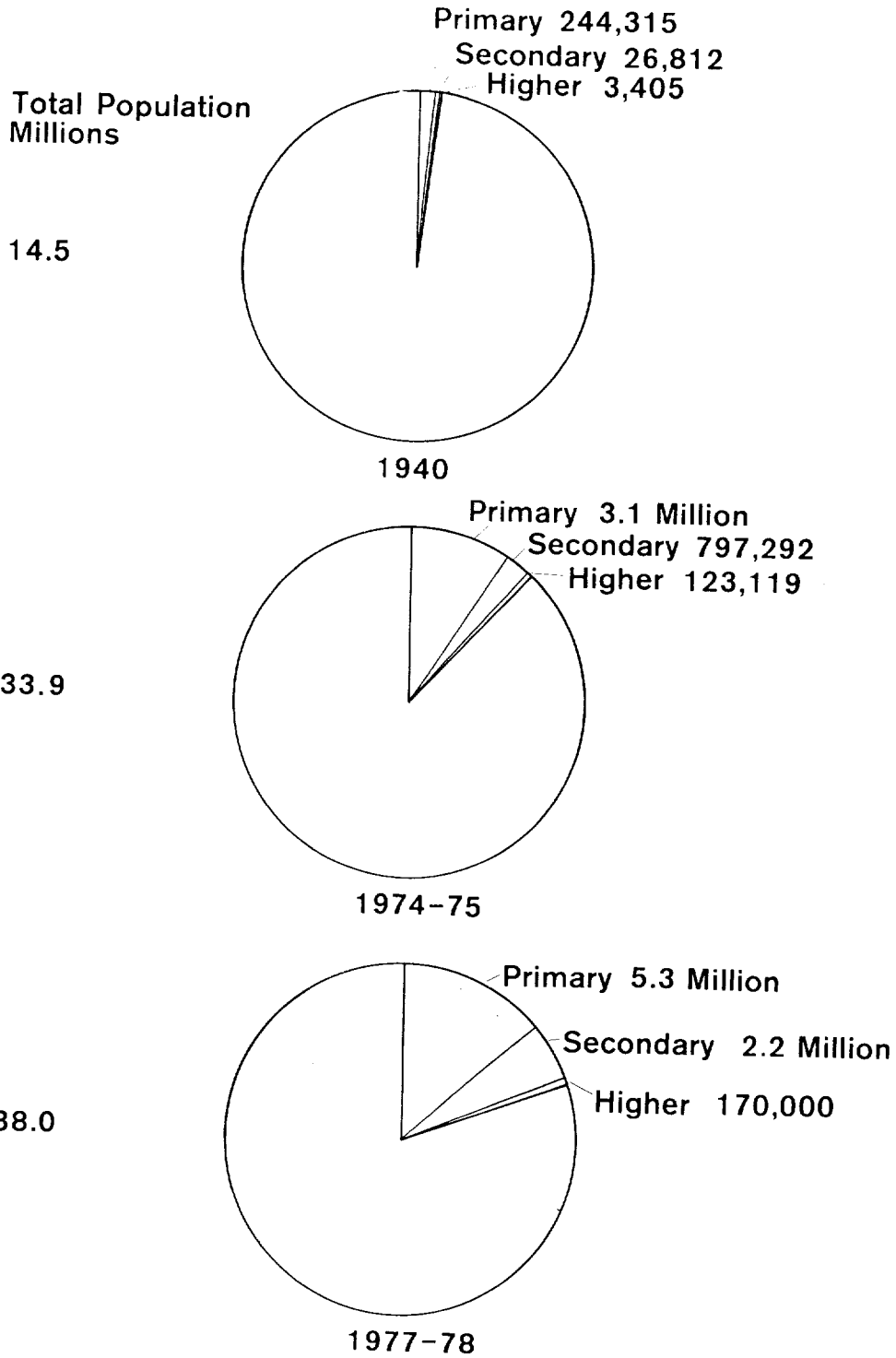
*Legal Record*

GRAPHICS AT  
TAB D OF  
HANDOUT  
NOTEBOOKS

THE SHAH'S REFORM PROGRAM

- 1962:
1. Land reform
  2. Nationalization of forests
  3. Public sale of state-owned factories to finance land reform
  4. Amendment of electoral law to include women
  5. Profit sharing in industry
  6. Creation of Literacy Corps
- 1964:
7. Creation of a Health Corps
- 1965:
8. Creation of a Reconstruction and Development Corps
  9. Creation of House of Equity, i.e., rural courts
- 1967:
10. Nationalization of water resources
  11. National reconstruction
  12. Administrative and educational revolution
- 1975:
13. Sale of corporate stock to workers
  14. Control of inflation
  15. Free Education, primary school through university
  16. Government support for expectant mothers and infant children
  17. Universal social security benefits
- 1977:
18. Ceiling on land prices
  19. Personal wealth disclosures by senior civil servants

## Iranian Education

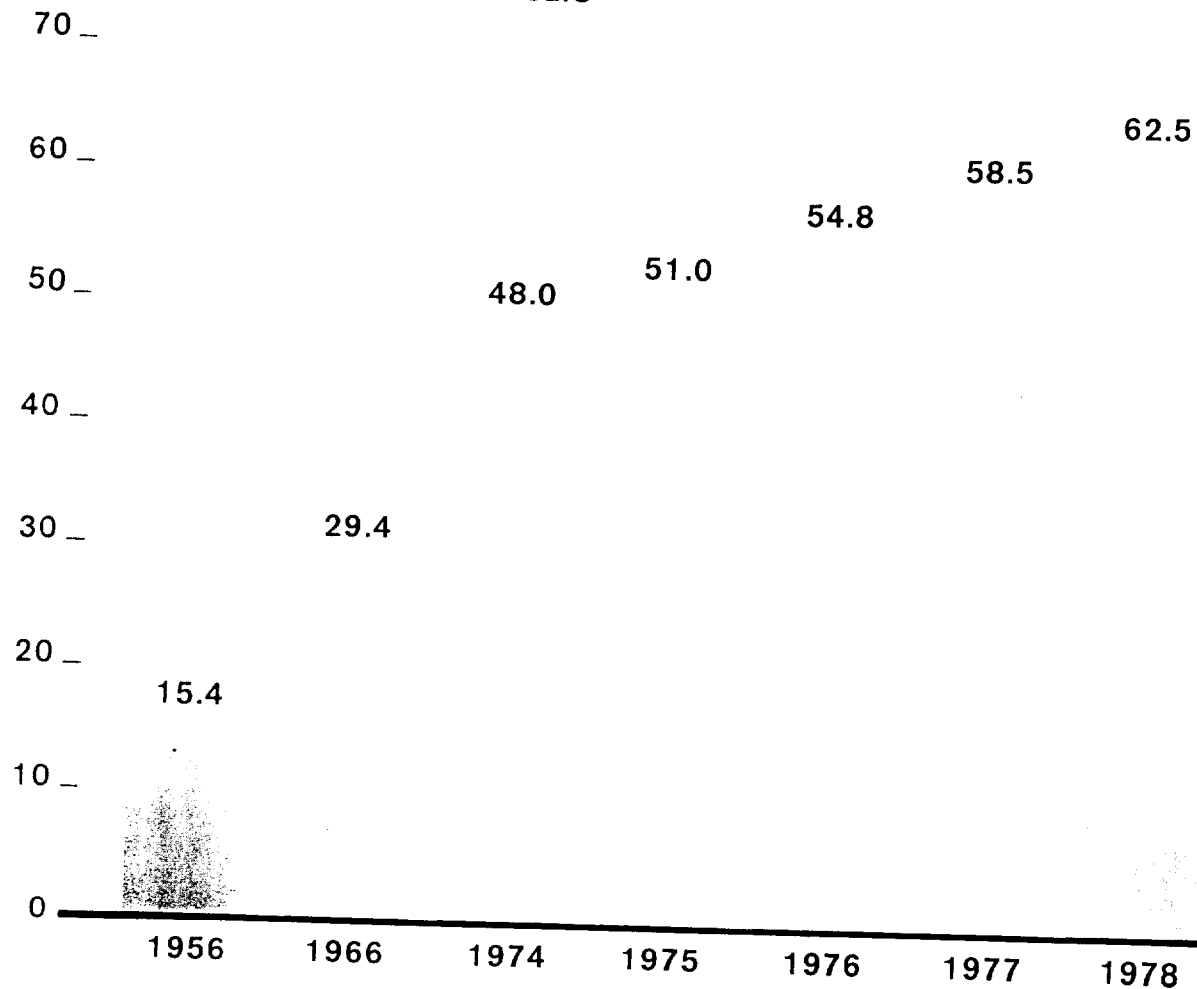


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#2

### Iran's Literacy Rates

Percent of Population Over 7 Years



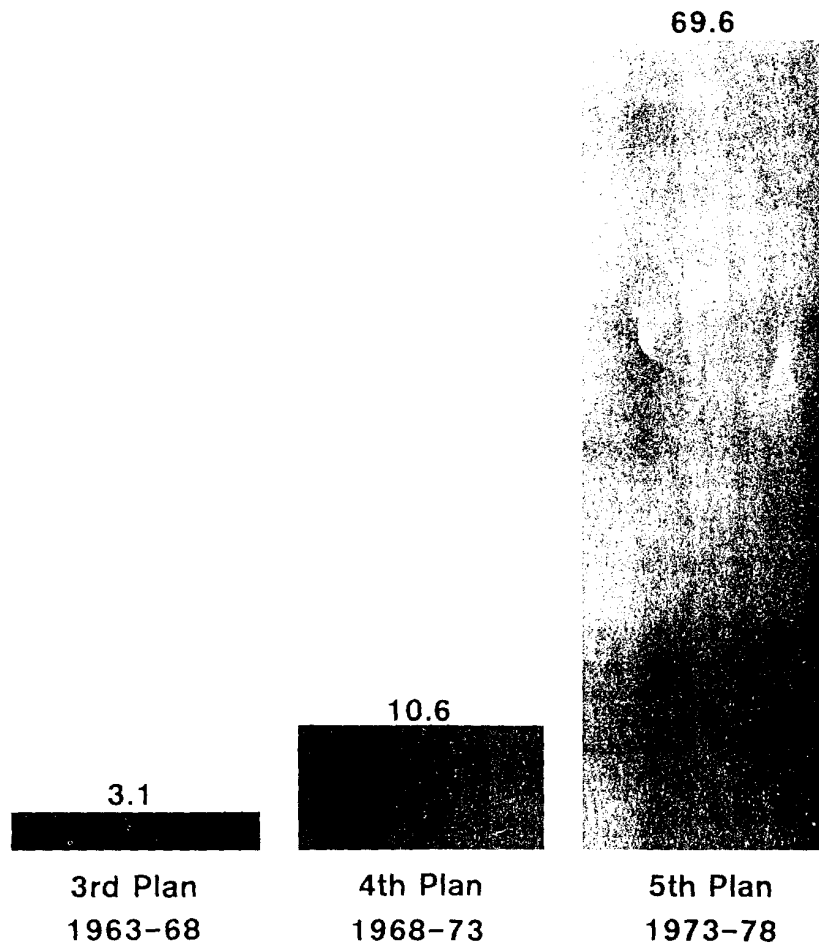
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#3

## Comparison of 3rd, 4th, and 5th Iranian Investment Plans

Total Planned Investment

Billion US \$



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#4

IRAN OIL REVENUES  
(in \$US billions)

1969 - \$1.9

1970 - 2.2

1971 - 3.4

1972 - 3.8

1973 - 5.5

1974 - 20.8

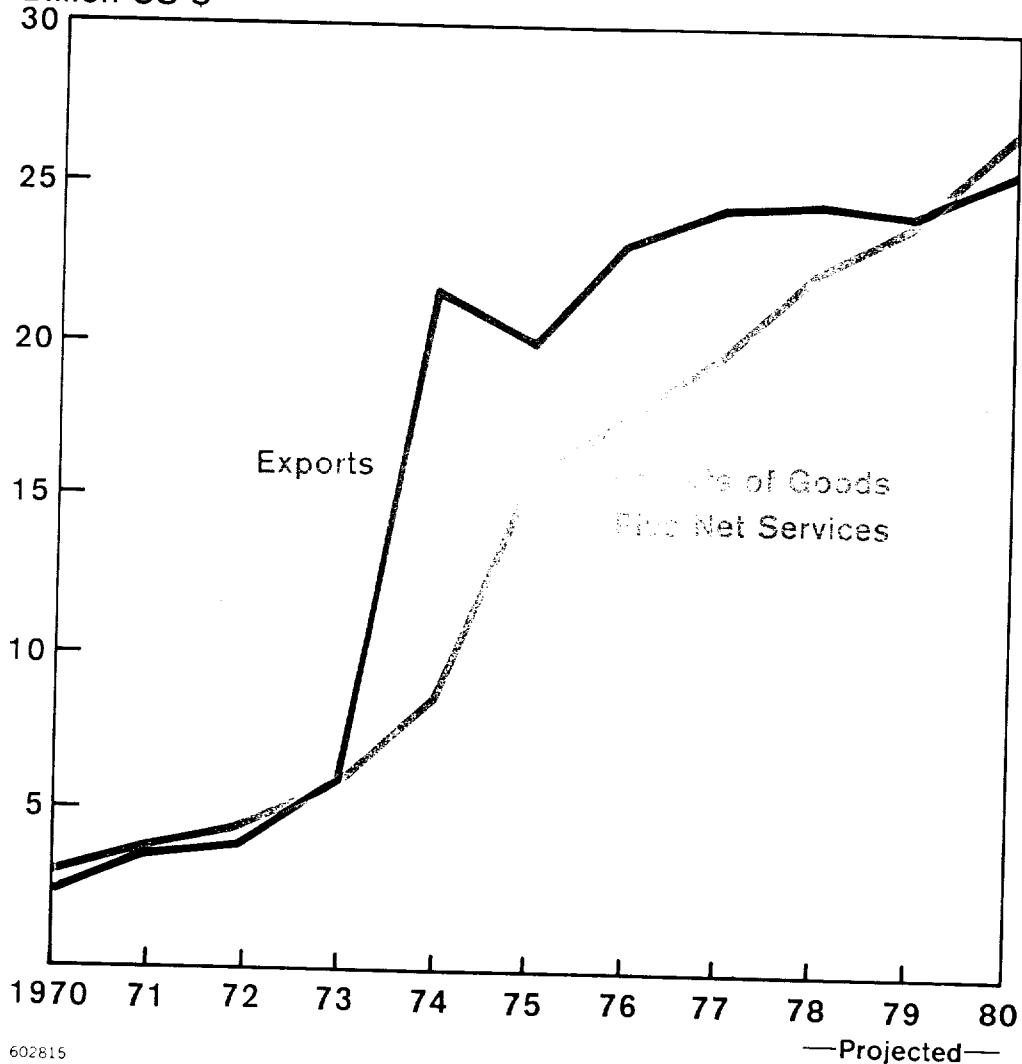
1975 - 19.4

1976 - 22.4

1977 - 23.5

### Iran: Current Account

Billion US \$



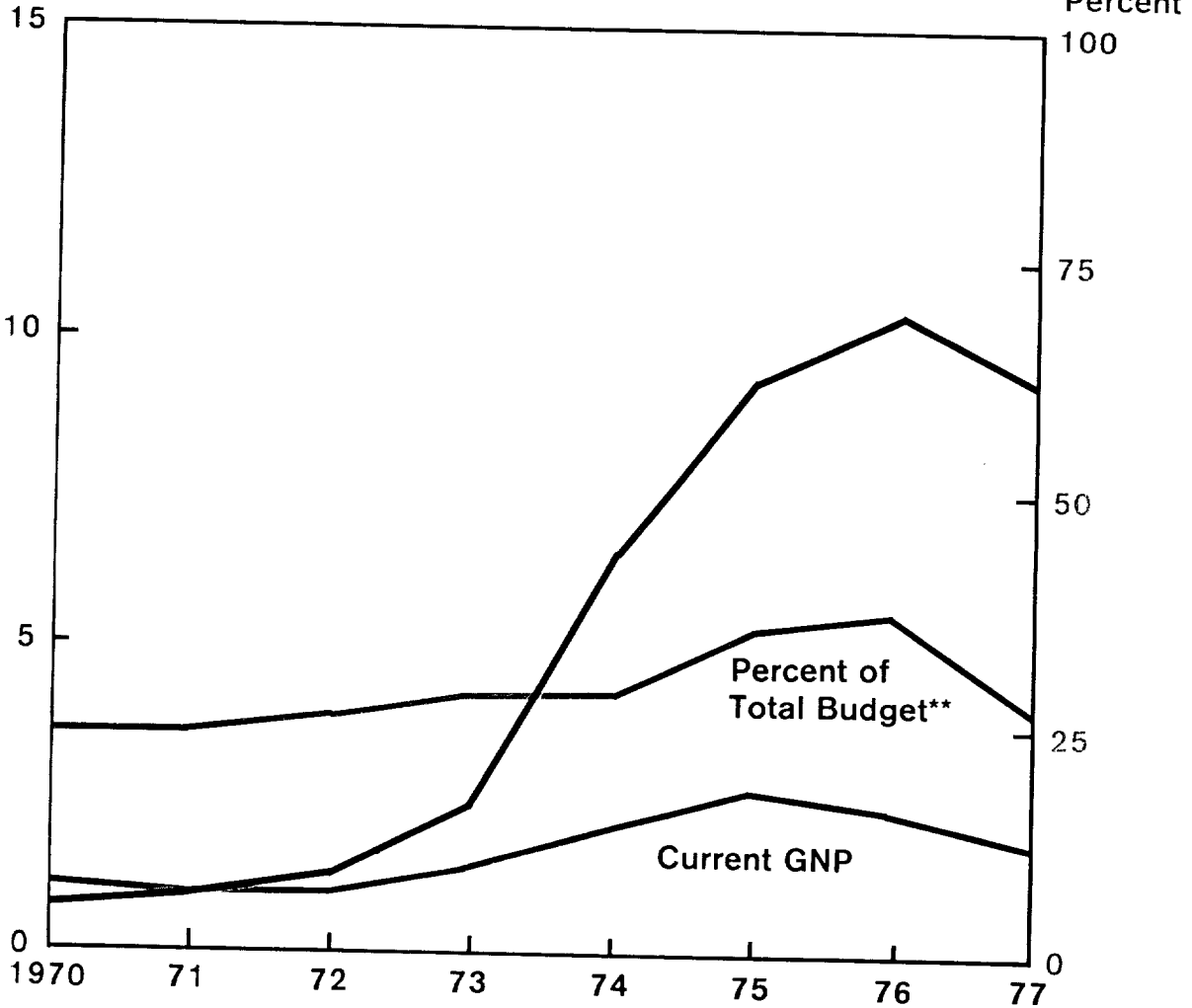
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—Projected—

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# Iranian Defense Budget\*

Million US \$



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\*Adjusted for military related items not carried under National Defense line item

\*\*Capital and current

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Value Added (Non-Oil and Non-Agriculture  
Sectors)  
Percentage change from previous year

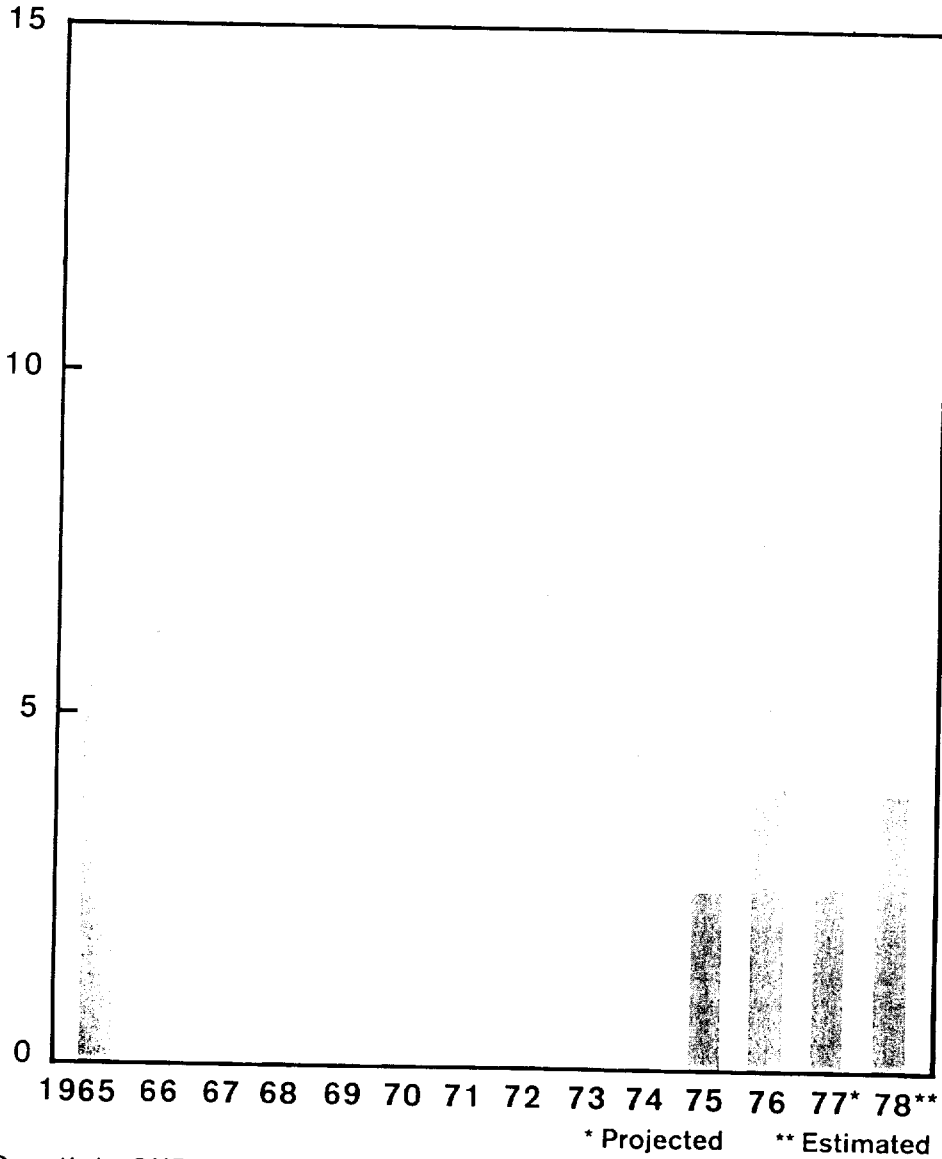
	<u>Industries and Mines</u>	<u>Services</u>
1963	12.7	5.3
1964	5.0	13.0
1965	19.9	13.7
1966	9.0	9.0
1967	15.8	9.8
1968	11.4	12.9
1969	7.6	12.1
1970	8.8	13.7
1971	8.2	13.1
1972	14.7	23.2
1973	16.3	19.2
1974	22.4	18.1
1975	22.7	15.3
1976	14.8	14.3
1977	8.7	9.6

Sector Composition of GDP (in percent)

	1975	1977 <sup>est.</sup>
Agriculture	10	10
Industries and Mines	17	19
Services	33	36
Oil	40	35

## Real Growth in GNP

Percent



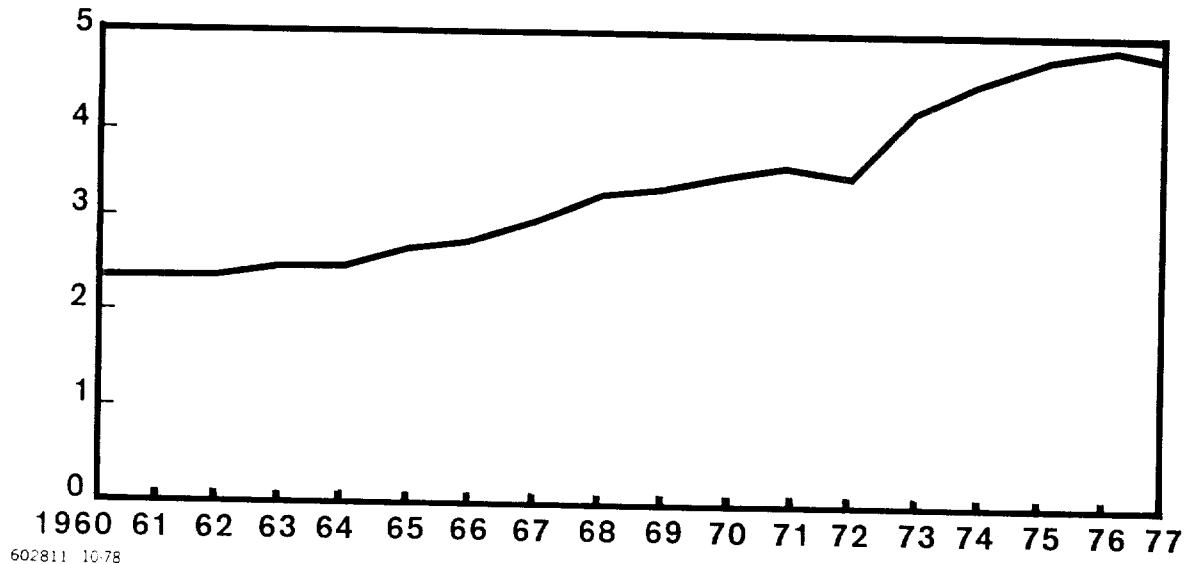
Growth in GNP dropped off substantially in 1975 when worldwide recession reduced demand for Iranian oil. As a result, Iranian oil output declined 11 percent that year.

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## Real Agricultural Production

Constant 1974 Prices

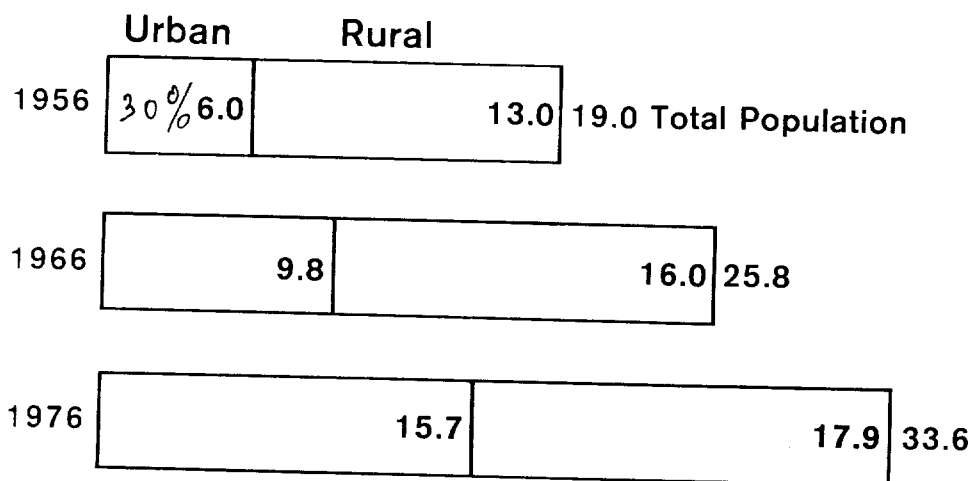
Billion US \$



48

### Rural to Urban Migration in Iran

Millions



1978 50%

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#9

Iran: Major Cities-Population Trends

<u>City</u>	<u>1976 Census</u>	<u>1966 Census</u>
Tehran	4,496,159	2,980,044
Isfahan	671,825	424,045
Mashad	670,180	409,616
Tabriz	598,576	403,413
Shiraz	416,408	269,865
Ahwaz	329,006	206,375

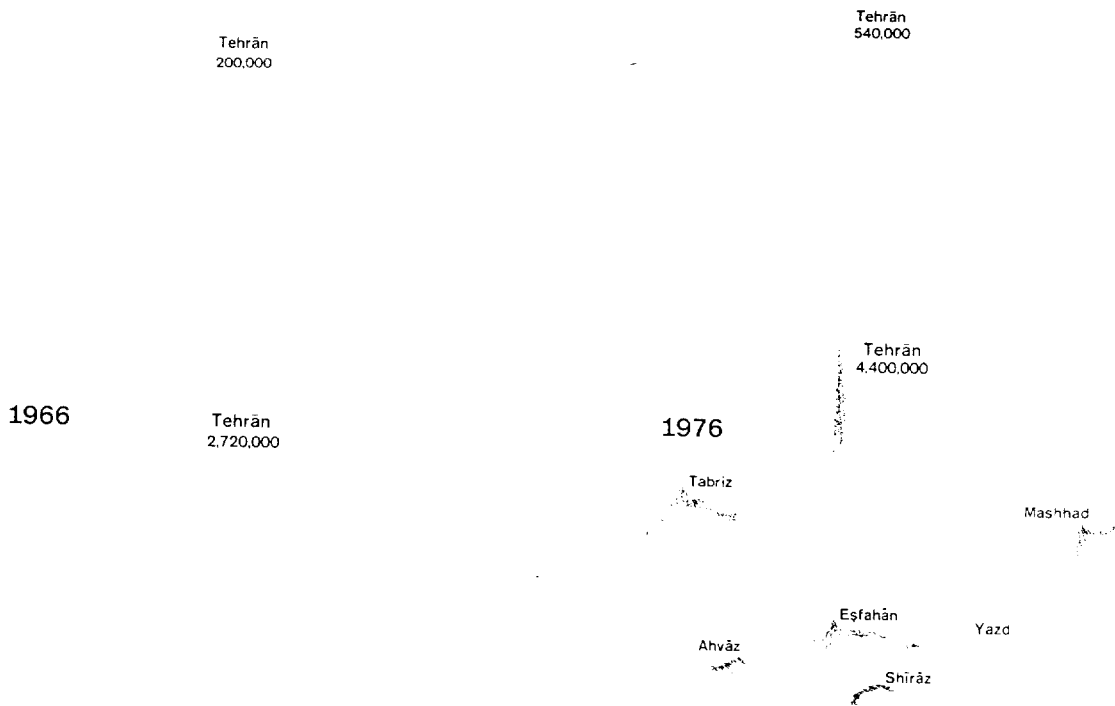
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### Iran's urban population growth, 1900-76...

The growth of cities having 40,000 or more inhabitants (58 such cities in 1976) is traced by rises in the statistical surface.

1900

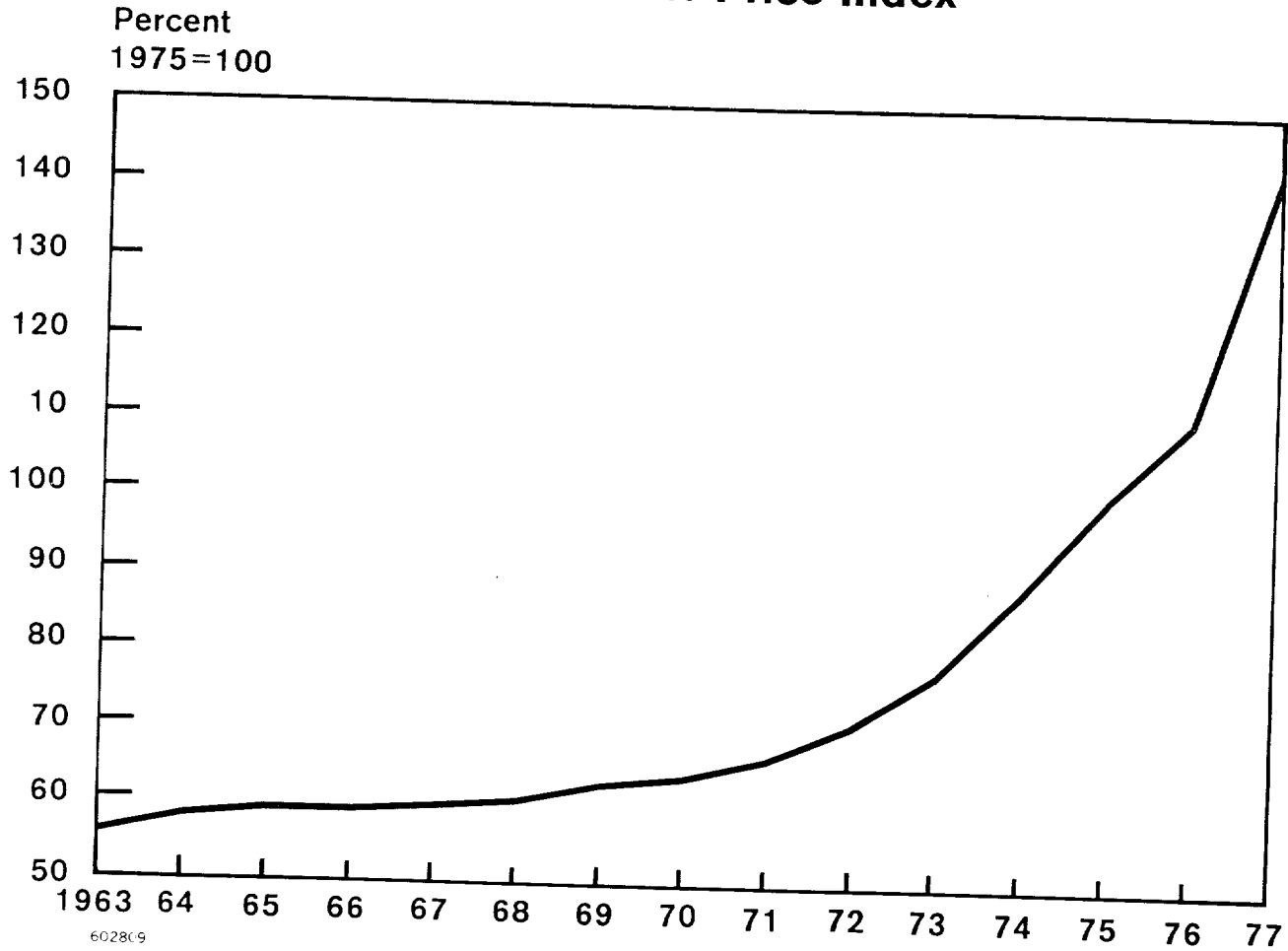
1940



503375 6-77 (543404)

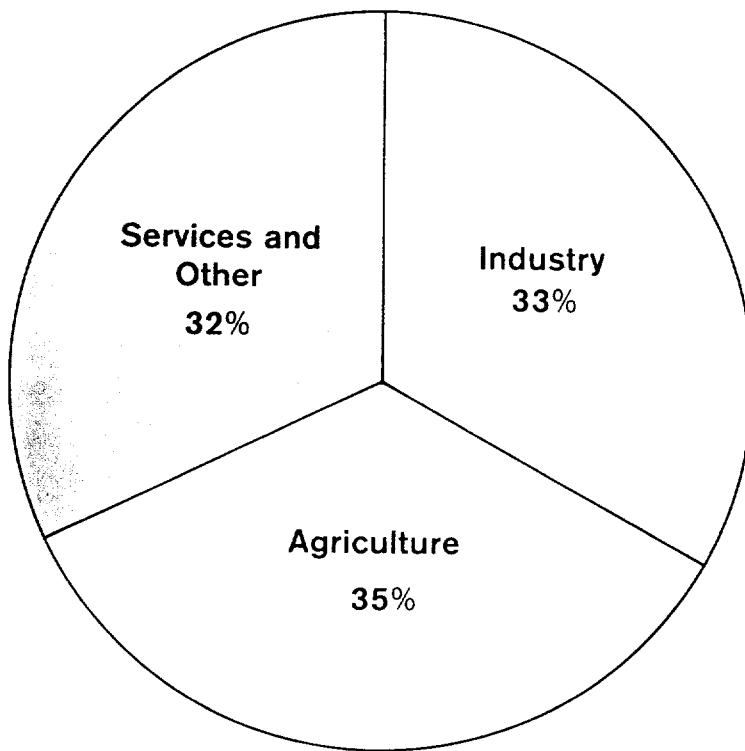
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### Iran's Consumer Price Index



#11

### Iran: Composition of Labor Force, 1978



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#12



POSSIBLE SHIFTS IN RESOURCES

Cuts

- Nuclear power program (originally 20+, now 4)
- Some sophisticated weapon purchases
- Broad industrial program
- Highway & railroad electrification projects

Expansion

- Rural development
- Social welfare

eg rural transport  
communications  
electrification

- e.g. education  
housing  
medical

- e.g.  
Steel making  
Copper complex  
petro chemical plts

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Proposed Agreement Between PM Sharif-Emami and Religious and National Front Moderates (Note: This is unconfirmed).

- A. Nine demands accepted by PM.
1. Support for religious leaders to form their own party.
  2. Reopen Hosseiniye religious meeting place.
  3. Allow moderates' human rights organization to register.
  4. Freedom of the press.
  5. Royal family stay out of all business and under tight reign.
  6. No postponement of next summer's elections.
  7. Law to speed corruption trials (agreed, but must be moderate).
  8. Shah to reign, not rule - stay out of daily government business (agreed, but Shah still commands Army).
  9. More religious materials in textbooks.
- B. Three demands not met.
1. End to martial law (PM said would try to end before 6 months).
  2. Dissolve parliament (PM will consider dissolving 1-2 months early and going into election period before June).
  3. Release political prisoners (On Shah's birthday release prisoners except those convicted of specific crimes of murder, terrorism, etc.)

*This list is not in the other Notebooks.*

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## Likely Oil Production Scenario for Iran

Millions b/d

5.7	6.0	5.8	5.5
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1977

1980

1982

1985

Projected

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#15

MAIN FEATURES OF THE SHAH'S LIBERALIZATION PROGRAM

1976 - 1978

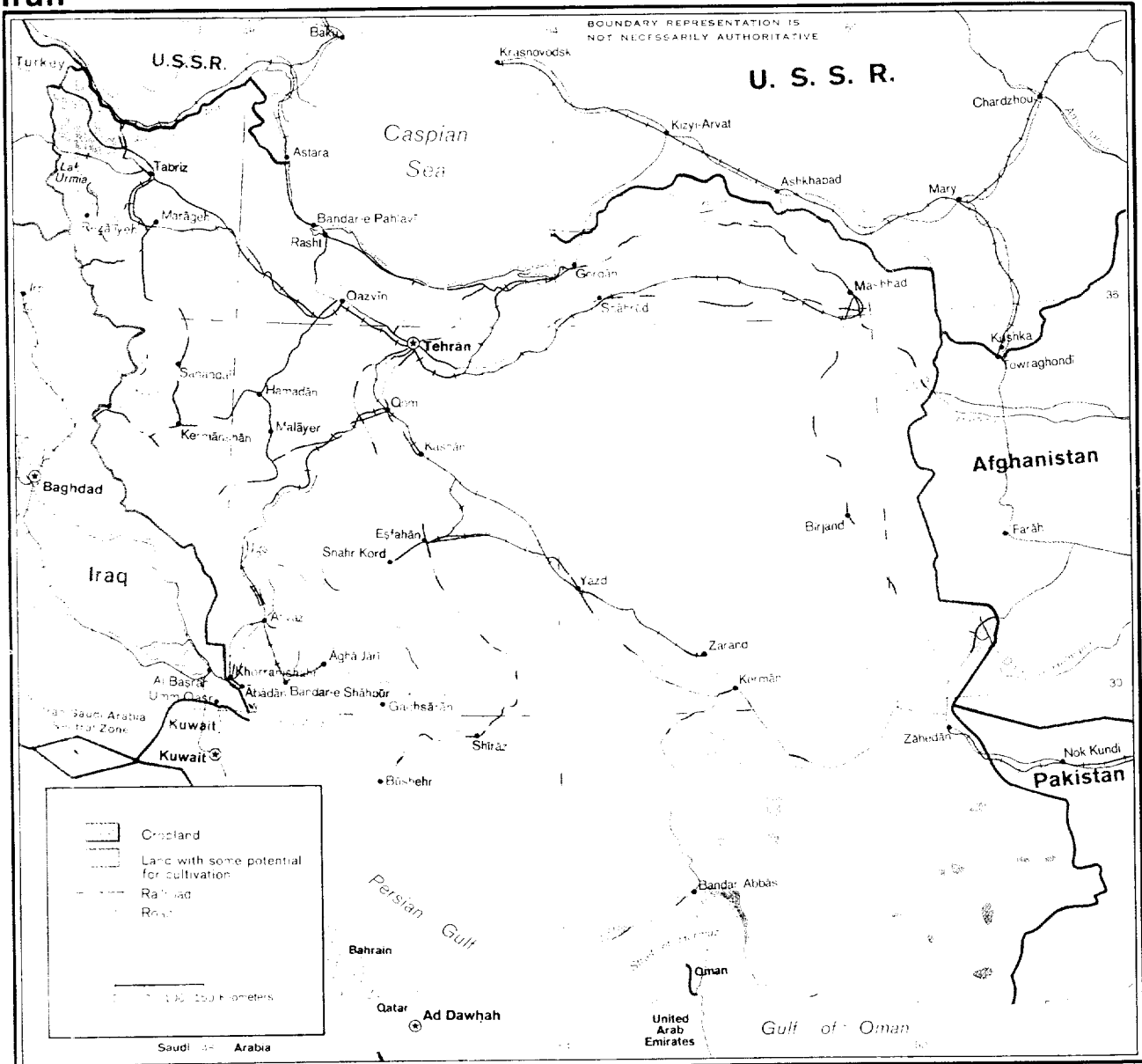
- FREE ELECTIONS NEXT JUNE.
- POLITICAL PARTIES PERMITTED EXCEPT FOR COMMUNISTS.
- PRESS CENSORSHIP LIFTED.
- TRIALS OF POLITICAL OFFENSES, EXCEPT TERRORIST ACTIVITY, SHIFTED FROM MILITARY TO CIVILIAN COURTS.
- POLITICAL PRISONERS, EXCEPT TERRORISTS, TO BE RELEASED.
- POPULAR CRITICISM OF GOVERNMENT PERFORMANCE IS ENCOURAGED.
- PARLIAMENTARY SESSIONS ARE NATIONALLY TELEVISED.

Iran

Mexico

Total land area (Km <sup>2</sup> )	1,647,240	1,978,800
Of Which Cropland (Km <sup>2</sup> )	98,834 (c.6%)	237,456 (c.12%)

### Iran



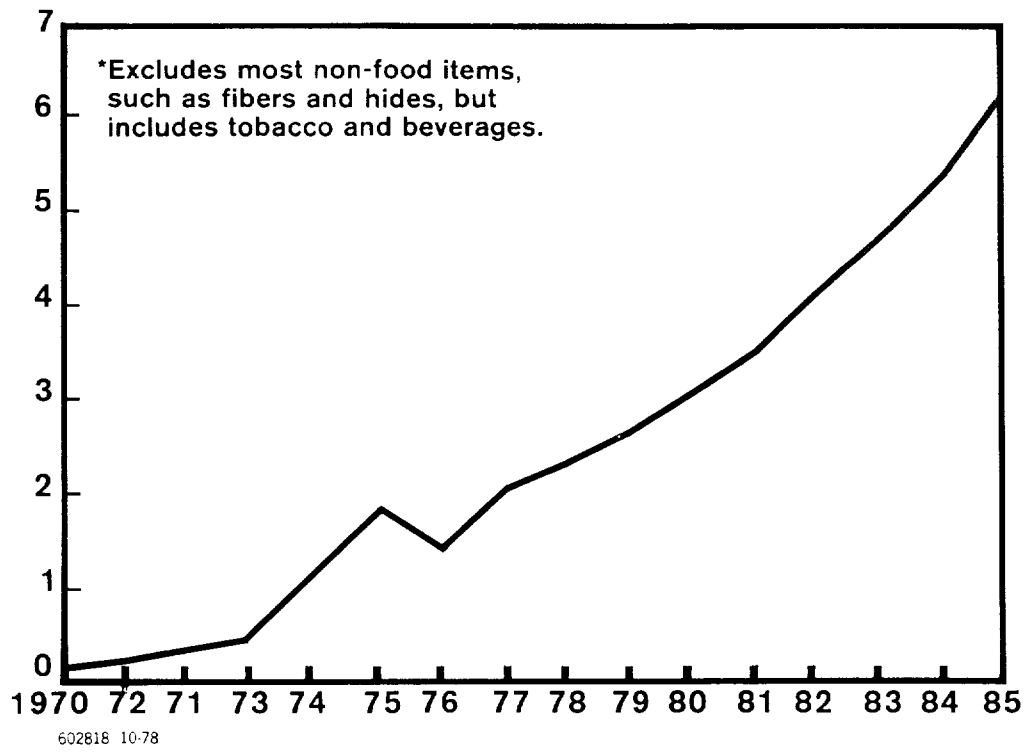
Population: 38 million; 50% urban

*Only 6% is currently being cropped.*

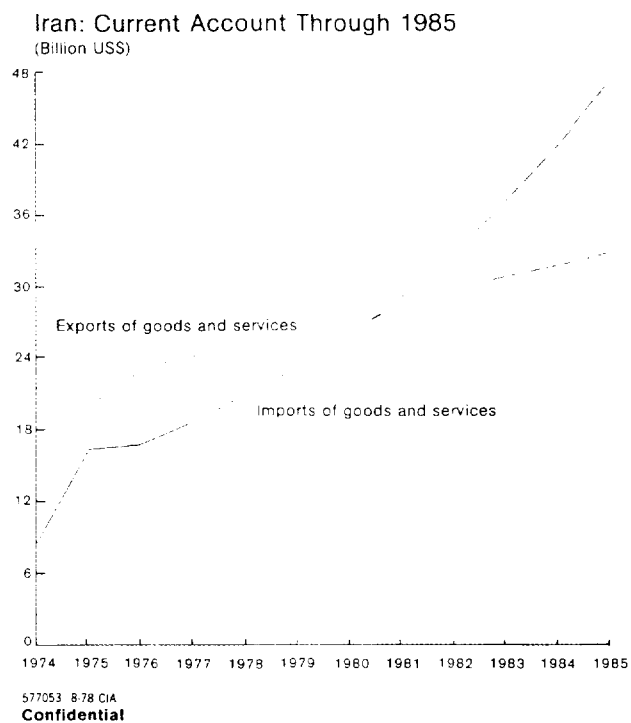
#14

### Iranian Agricultural Imports\*

Current Billion US \$



#17



Note: Does not reflect:

- 1) Any cutbacks of military or nuclear equipment.
- 2) Any rise in the real price of oil.

#18