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## THE OUTLOOK FOR IRAN

Submitted by the  
**DIRECTOR OF CENTRAL INTELLIGENCE**

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

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on 13 February 1960. Concurring were the Director of Intelligence and Research, Department of State; the Assistant Chief of Staff for Intelligence, Department of the Army; the Assistant Chief of Naval Operations for Intelligence, Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, The Joint Staff; the Assistant to the Secretary of Defense, Special Operations; and the Director of the National Security Agency. The Atomic Energy Commission Representative to the USIB, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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## THE OUTLOOK FOR IRAN

### THE PROBLEM

To assess the situation in Iran and to estimate probable developments respecting Iran's stability and international position.

### SCOPE

We have in this estimate placed particular emphasis on the outlook for the Shah's regime and the chances and possible implications of an upheaval during the next two years or so. Iran's eco-

nomie situation, military affairs, and external relations have been treated primarily in terms of how they might affect, or be affected by, the stability of the Shah's regime.

### CONCLUSIONS

1. Developments in Iran during the past year have not led to any overall improvement in stability. The external and tribal threats to the regime appear to have lessened, but growing inflation and financial difficulties pose new threats to the country's stability. At the same time, the Shah has so far shown considerable skill in keeping the opposition fragmented and on the defensive. (Paras. 6-7)

2. The military and security forces remain at once the main support and chief potential threat to the present order and the Shah's own power. The Shah relies heavily upon them, yet the loyalty of some of their principal officers cannot be wholly assured. In addition, some junior officers

are disillusioned with the regime. In these circumstances, a coup attempt might take place at any time. The odds on such a development are difficult to assess. On the whole, we consider that the chances are against such an attempt unless the Shah should die or unless key military leaders should come to feel that the Shah's regime could not survive and that their privileged position was at stake. In addition, a coup attempt might be triggered by civil disturbances which threatened public order. (Paras. 10-13)

3. Iran's economic difficulties—chiefly increasing inflation and a foreign exchange shortage—will almost certainly have a deleterious effect on stability in the next few years. On balance, however, we do

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not believe that economic difficulties of themselves, are likely to precipitate an overthrow of the government during this period. (Paras. 21-27)

4. There will be difficult periods in Iranian relations with the US in the future, as there have been in the past. The Shah will seek more US support and stronger guarantees of his security. At the same time he will attempt to reduce Soviet pressures on Iran. However, as long as the Shah remains dominant, we believe that the odds are against any significant

change in Iran's basic Western orientation. (Paras. 28-32)

5. While a political upheaval which resulted in removal of the Shah might lead to an anti-Western foreign policy, most of the top military leaders, as well as many of the moderate opposition civilian elements, would almost certainly continue to look to the West, particularly to the US, as a major source of protection for Iran. However, it is unlikely that any successor regime would take such an outspokenly pro-West stand as has the Shah. (Paras. 30-33)

## DISCUSSION

### INTRODUCTION

6. Developments in Iran during the past year have not led to any overall improvement in stability. The external and tribal threats to the regime appear to have lessened, but growing inflation and financial difficulties pose new threats to the country's stability. On the other hand, the Shah has a good many cards in his hand and powerful forces in the country have a vested interest in the maintenance of the present regime.

7. The Shah continues to exercise close day-to-day control of the government. He has so far been successful in keeping opposition fragmented and on the defensive, and has blocked the rise of any personality who might organize popular discontent into a broad-based activist movement. Basically, however, his position depends upon the armed forces and the security apparatus. Although neither is free from political intrigue and conspiracy, the Shah has so far successfully divided and balanced off the potentially dangerous factions. In the meantime, he continues his efforts to ameliorate certain causes of dissatisfaction by such reform measures as a partial distribution of crown and public lands, proposed legislation to break up large private

estates, and laws to eliminate corruption in business and government and to correct tax abuses. These measures have had at best a limited effect in satisfying dissident and reformist elements; and it will remain extremely difficult to carry through a politically significant reform program over the opposition of powerful vested interests.

8. The past year has intensified Iran's economic problems. Inflation has attained major proportions and its adverse impact has been more widely felt because of the increasing monetization of the Iranian economy. The Shah's government is seeking to finance and support Iran's military buildup and economic development at a pace and to an extent for which Iranian resources are insufficient. This problem will become more acute if US aid is substantially reduced and if oil revenues level off.

9. In the foreign policy field, the Soviets have engaged in a sustained, and at times intense, campaign of subversive propaganda against the Shah, coupled with periodic efforts to intimidate (and occasionally even to lure) him into weakening his ties with the West. This has not as yet had any significant effect within Iran. However, it has

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frightened the Shah and caused him to look to the US for periodic reassurances of support against the Soviets.

**10. THE QUESTION OF INTERNAL STABILITY—  
THE SECURITY FORCES AND THE OPPOSITION**

10. The military and security forces remain at once the main support and the chief potential threat to the present order and the Shah's own power. Through the powerful National Intelligence and Security Organization (SAVAK), headed by General Bakhtiar, and through military intelligence agencies, the Shah has for some years kept a sharp eye not only on civilian dissidents but also on the officer corps. He has maneuvered to keep authority diffused and to play off leading officers against each other. His ability to continue these tactics successfully is not certain. Although he quickly uncovered one senior officer's conspiracy, intrigue apparently continues. The loyalty of some principal officers of the military and even of SAVAK cannot be wholly assured. If a coup led by key senior officers had connections with the security apparatus, its chances of success would be increased.

11. There are also indications that some junior officers are disillusioned with the regime, especially because of venality and corruption in the government. Some are also affected by the nationalist and revolutionary currents of thought touching much of the area and share the political outlook of various civilian groups opposed to the present regime. In the long run, they may present a major threat to the regime. That such sentiments exist, however, does not lead to the conclusion that an Iranian upheaval, when and if it should take place, would necessarily be along the lines of the Egyptian or Iraqi revolutions. Junior officers might, for example, back a less radical move, in cooperation with senior commanders or civilian elements, to cut down the Shah's power without eliminating him or to replace him with a more tractable member of the ruling family.

12. At the same time, there are important factors which tend to militate against initia-

tion of a coup. At present there is no evidence that the junior officers, among whom there is considerable discontent, have either the capability or intention to initiate a coup. The senior officers presently enjoy a highly privileged position through the support they receive from the Shah and have a strong vested interest in the status quo. Few have any strong ideological motivation for desiring a change in regime. Moreover, they fear that a coup attempt might unleash revolutionary forces in the country, and they are probably uncertain about the degree of US support which would be extended to a successor government.

13. A military coup attempt might take place at any time. The odds on such a development are difficult to assess. On the whole, we consider that the chances are against a coup attempt unless the Shah should die or unless key military leaders should come to feel that the Shah's regime could not survive and that their privileged position was at stake. In addition, a coup attempt might be triggered by civil disturbances which threatened public order.

14. Most of the nonmilitary opposition is divided and continues to be harassed and neutralized by SAVAK. The remnants of the parties that formed the National Front of the Mossadegh era, subsequently associated in the loosely knit National Resistance Movement, appear to be doing little more than keeping contact among leaders and members, issuing occasional publications—openly or covertly—and in general seeking to survive against the day when the situation might again be ripe for exploitation. The current appeal of these elements is, on the whole, limited to educated or semieducated urban groups. In any case, substantial support from the Iranian military, whether junior or senior, would probably be essential to the success of any move by civilian dissidents to seize power.

15. The long-run importance of this civilian opposition is not, however, to be discounted. If a dramatic issue and effective leadership should emerge, the opposition would probably be able to mobilize popular support for attacks on the present order. It would probably

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also give the impetus of nationalist and anti-imperialist policies.

16. The Shah may bring younger elements into the cabinet to improve the regime's appeal to urban reformist opinion. At present, however, there appears to be little chance that the Shah will be willing to make any move toward substantial liberalization of the political system. He believes that strong personal rule is the best type of government for Iran and the only way to carry out social and economic reforms. However, he has been unable to elicit the full support of the social and economic elite groups on which his control of the Majlis has depended. Furthermore, he almost certainly fears that any real liberalization of the political system could easily get out of hand and result in his own ouster. Under these circumstances, widespread dissatisfaction with the existing situation will almost certainly continue endemic in Iran.

17. As in the past, the Iranian Communist Party (Tudeh) will probably seek to exploit mass dissatisfaction. However, the Tudeh has been the target of constant and apparently effective counteraction by the security forces, notably SAVAK, and has not been successful in its efforts to establish cooperation with other civilian opposition groups. Nevertheless, the Tudeh probably has at least a hard core of members left in Iran which is helped by exiled Tudeh leaders and members, many of whom have been given a haven in neighboring Iraq. We do not anticipate that the Tudeh will become a serious threat during the next two years or so, barring a chaotic situation brought on by other forces.

18. Iran's perennial minority problems are under fairly firm control by the regime. The 750,000 Kurds in northwestern Iran continue to be the most serious potential source of tribal disaffection. The Iranian Kurds are by no means united among themselves, but practically all of them are inherently resentful and suspicious of any central authority; some of them are susceptible to outside manipulation and incitement through their ties with Kurdish groups across the borders in Iraq and the USSR. The regime in Tehran has contin-

ued a dual policy of severely repressing any manifestations of antigovernment sentiments among the Kurds and at the same time soothing them by certain economic development projects and by token gestures at cultural autonomy.

19. During the past year, both the Iranian and Iraqi Governments have attempted to use the Kurds in a continuous subversive and psychological campaign against each other, so far with little apparent result. This campaign is likely to continue indefinitely even though both Iran and Iraq are aware that manipulation of the Kurdish nationalist question is potentially dangerous to Baghdad and Tehran alike. On the whole, we do not believe that any mass Kurdish uprising in Iran is likely during the period of this estimate.

20. There are no indications that other minority elements—including the 250,000 Arabs in Khuzistan in southwestern Iran—represent more than a potential source of trouble for the government. The Arabs of Iran can hardly be characterized as overwhelmingly loyal to the state, and might prove susceptible to incitement from Iraq. They probably could cause trouble, e.g., through sabotage of oil installations, but they lack the organization and leadership necessary to create large-scale disorder. In addition, the split between Iraq and Nasser's Pan-Arab movement serves to dissipate the force of the Arab unity appeal. Nasser himself has been going easy on propaganda designed to stir up Iran's Arabs against the Shah's regime, and will probably continue this restraint at least as long as his troubles with Baghdad persist.

### III. STABILITY AND THE ECONOMY

21. The Iranian economy has in some respects made impressive progress over the past few years. Gross national product has increased by about 5 percent annually for several years. The number of banks and industrial plants has nearly doubled since 1955, and a start has been made on land reform and the modernization of the government's economic institutions and practices. Until the latter half of 1958, Iran's growing oil revenues and large-scale foreign assistance enabled the regime to

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finance both its military buildup and a growing public investment program without serious economic strain. Foreign exchange reserves increased, and prices remained steady due to excellent harvests and a liberal import policy.

22. This picture began to change in late 1958 when the development of a private investment boom, on top of the military buildup and the public investment program, caused strong inflationary pressures. Prices rose 13 percent during 1959 and resulted in considerable hardship for many Iranians. Prices of some basic foods are continuing to rise.

23. The regime has taken a number of steps to cope with the growing inflation, including cutting back expenditures under its Seven-Year Plan (1955-1962). These steps are unlikely to halt the rise in prices, however, chiefly because the government has no effective means of controlling the private bank loans which have sparked the private investment boom. The necessary powers for such control are provided in a bill recently introduced in the Majlis, but it is not certain whether the bill will be passed over the opposition of powerful financial interests.

24. Iran's foreign exchange problems are also becoming increasingly serious. The reduction in the rate of increase in oil revenues, which began in late 1958, coupled with growing foreign debt repayments and rapidly rising imports of capital goods, resulted in a loss of about \$48,000,000 in foreign exchange reserves in the fiscal year ending March 1959. Estimates for the current fiscal year ending March 1960 are that the loss of reserves will be even larger and may total as much as \$70,000,000. If there should be a loss of this magnitude, the country's reserves would be reduced to about \$65,000,000, well below the \$100,000,000 required by law as backing for the currency. Iran may have to resort to temporary fiscal expedients to meet this situation, but such action would not solve the basic foreign exchange problem. In any case, a foreign exchange crisis during 1960 is almost certain.

25. In his efforts to cope with the deteriorating financial situation, the Shah will probably continue to rely mainly on seeking new loans

and grants from the US and other Western sources. He will probably also try to get US support for a rescheduling of Iran's foreign debt repayments. (Iran now has a foreign debt of about \$830,000,000, of which some 25 percent is scheduled for repayment by 1961.) He is likely also to put mounting pressure on the oil consortium to increase its exports and to refrain from further price cuts. If the consortium does not meet his demands, the Shah will probably move to revise the terms of the consortium agreement.

26. Over the long run, the outlook for Iran's economy is uncertain. If Iran can weather the next two or three years, it will be able to realize the benefits of the development program and private investment boom. A period of soundly based economic growth with rising living standards could follow. If this is to happen, however, the government will have to face up promptly to its economic problems. It will have to undertake more stringent financial measures than it has yet done; it will have to assure more honesty and efficiency in administration; and it may even have to reduce military expenditures. In view of the 15.5 percent increase in government expenditures proposed for the fiscal 1961 budget—including at least a 17.5 percent increase in military outlays—the prospects that the government will put its economic affairs in order do not appear promising.

27. Iran's economic difficulties will almost certainly have a deleterious effect on stability in the next few years. The foreign exchange shortage will restrict the financial activities of the moneyed classes who have invested heavily in the business boom of the past few years. Continued inflation will have a sharp impact on the politically conscious middle class and other urban elements. Indeed, dissatisfaction resulting from inflation could provide a basis on which various opposition groups could unite against the government. This in turn could increase the chances of popular disturbances. If these troubles should be compounded by serious crop failures or a major decline in foreign aid or oil revenues, popular discontent might become sufficient to precipitate a political upheaval. On

balance, however, we do not believe that economic difficulties, of themselves, are likely to precipitate an overthrow of the government during the next year or two.

#### IV. INTERNATIONAL POSITION

28. There has been little change in Iran's international position in the last year, and the Shah continues to be committed to CENTO and to close ties with the US. At the same time, there have been discussions with the USSR aimed at reducing the steady flow of Soviet propaganda against him and against Iran's foreign policy. Early last year, Iran and the USSR began negotiations on a possible nonaggression pact. When these were broken off by Iran under heavy pressure from the West and Iran's CENTO allies, the Soviets intensified their propaganda attack. More recently, the Shah has been discussing with the USSR the possibility of an Iranian pledge to ban foreign missile bases in Iran. His offer has not so far proved satisfactory to the USSR, which is insisting that all foreign military facilities be banned.

29. Soviet pressure on Iran is likely to continue to be more intense than on its CENTO allies, Turkey and Pakistan—chiefly because Iran appears to be more vulnerable to such pressure. Under these circumstances, the Shah will probably attempt to appease the USSR and at the same time to obtain a stronger guarantee of his security from the US. He will almost certainly continue to press for large-scale US aid to support a greater economic and military development program than can be maintained by the country's own resources.

30. There will almost certainly be difficult periods in Iran's relations with the US in the future, as there have been in the past. The Shah will react strongly to any US actions or statements (even by private sources) which he interprets as reflecting anything less than complete US confidence in, and commitment to, him personally. In addition, the US, as the main foreign presence in Iran, will probably be increasingly associated in the mind of the public with the deficiencies of the Shah's government. While the Shah will limit the

expression of anti-US sentiment, he may permit some criticism, both to support his demands for more aid and to try to prevent discontent from centering entirely on himself.

31. Assuming that the Shah remains dominant, however, we believe that the odds are against any significant change in Iran's basic Western orientation. Soviet pressure on Iran, though it has caused the Shah intense anxiety, has as yet produced relatively few concrete results. The Shah has been extremely wary in his dealings with the Soviet Union and has carefully avoided doing anything which would seriously compromise his alliance with the West. We believe he will continue to follow this policy because, in our view, he is well aware that in the last analysis Western, especially US, support is essential to his continuance in power.

32. Nevertheless, in view of the Shah's acute sensitivity to Soviet pressures and his probable realization that he cannot stall the Soviet Union indefinitely without provoking new outbursts of hostile pressure, certain accommodations may be made. Iran may become more receptive to Soviet aid offers and display more cordiality in its diplomatic dealings with the USSR. The Shah will almost certainly keep the US informed of the state of his relations with the USSR, but he may be less than frank on the details of his negotiations. The possibility cannot be excluded that something may eventually come out of negotiations with the USSR which might impair Iranian ties with the West, even though this would not be the Shah's intent.

33. The Shah has shown considerable concern over the danger of aggression from Iraq and Afghanistan. Iraq will probably continue to be of first interest in Iranian regional policy. The Shah will remain highly apprehensive about Communist influence in Qassim's government and its antimonarchical character. In addition, Iran's quarrel with Iraq over the Shatt al Arab could flare up again. This could seriously affect the operations of the Abadan refinery, the flow of Iran's imports, and the naval base at Khorramshahr. However, we believe that full-scale war or pro-

major feature of the river is unlikely in the near future.

36. The Shah will continue to be apprehensive about Soviet influence in Afghanistan and will continue to seek US support to counter it. To some degree, however, he is probably prepared to rely on his CENTO ally, Pakistan, to cope with Afghanistan.

37. In order to build prestige for his government both at home and abroad, the Shah is likely to continue to pursue a fairly active policy elsewhere in the area. Attempts to extend Iranian influence in the Persian Gulf will continue and may be intensified. He will also engage in opportunistic maneuvers, such as his recent overtures to Nasser which may prove difficult, especially with moves toward closer ties with Israel. Such contradictory approaches could involve Iran in considerable embarrassment and perhaps get it entangled in longstanding area disputes and antagonisms.

#### V. INTERNATIONAL POSITION OF IRAN WITHOUT THE SHAH

38. It is possible that a political upheaval in Iran, which resulted in the removal of the Shah, would lead to an anti-Western foreign policy. The US is widely associated with the Shah's unpopular regime. Resentment against "exploitation" by the oil consortium is growing again. Some younger army officers and civilian intellectuals tend toward radical political ideas and there is still considerable sympathy and respect for Mossadegh and his ideas. The Tudeh Party retains considerable assets (mostly outside Iran), and Soviet support might be able in a time

of instability to achieve great influence fairly rapidly. There is little unity of purpose among non-Communist political elements. Consequently, in a period of turmoil, as radical a change could take place in Iran's international position as occurred in Iraq after the July 1958 revolution.

39. We believe, however, that it is more probable that the removal of the Shah would not precipitate a dramatic change in Iran's foreign policies. For one thing, the attitude of almost any new regime in Iran will be affected by its need to maintain Western markets for Iranian oil. Moreover, Western economic and military aid would still be important to the maintenance of the military establishment and the buttressing of the economy. In addition, most top military leaders, as well as many of the moderate opposition civilian elements, are basically oriented toward the West and fearful of Soviet designs on Iran. If they were to come to power, most of them would almost certainly look to the West, and particularly to the US, as a major source of protection.

40. Yet most of Iran's pro-Western elements would be inclined, if in control, to take a less outspokenly pro-West stand than has the Shah. They would probably seek, in line with Iran's historic foreign policies, to combine friendly relations with the West with some form of accommodation with the USSR, seeking maximum benefits from both sides. As part of an accommodation with the USSR, they might, for example, show less interest in CENTO. Should an upheaval put power in the hands of junior officers or of less conservative civilians, this tendency would be the more pronounced.