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PROSPECTS FOR IRAN

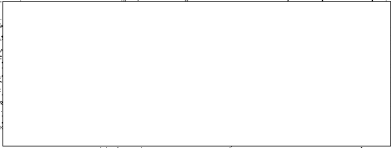
Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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, The Joint Staff, and the National Security Agency.

Concurred in by the
UNITED STATES INTELLIGENCE BOARD

on 28 February 1961. 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 (Intelligence), Department of the Navy; the Assistant Chief of Staff, Intelligence, USAF; the Director for Intelligence, 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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PROSPECTS FOR IRAN

THE PROBLEM

To analyze major developments and trends in Iran and to estimate their consequences in the political, economic, and foreign policy fields.

CONCLUSIONS

1. Authority in Iran is concentrated almost exclusively in the hands of the Shah, whose rule rests primarily on the loyalty of the military and security forces. Despite the attention which has been lavished on the armed forces, their capabilities remain low. The growing political unrest of the urban middle class is being manifested more openly than in previous years against the Shah's blatant rigging of elections for the Majlis (lower house of parliament). Although the Tudeh (Iranian Communist Party) remains neutralized, non-Communist civilian politicians show little promise of effective leadership. (*Paras. 6-15*)
2. While a political upheaval could take place in Iran at any time, on the whole, we believe the odds are against such a development in the next year or so. However, profound political and social change in one form or another is virtually inevitable. The nature of Iranian politics and the character of the Shah make it unlikely that this change will be evolutionary. Possibilities for sudden change lie in a move against the Shah by some of his senior military commanders or an alliance between younger military officers and nationalist civilians. At present, neither eventuality would appear likely to result in improved stability in Iran. (*Paras. 16-21*)
3. Iran's economic prospects for the next year or two are not bright: inflation will probably continue; balance of payments deficits will keep foreign exchange reserves low and force foreign borrowing. Nevertheless the new stabilization program holds some promise for putting Iran's finances in order and for developing responsible and competent economic management. The major determining factor of Iran's long-term economic success probably will be the willingness of the Shah to support those who are seeking to modernize the country's economic institutions and practices. In view of the unpalatable political choices involved, and the Shah's past performances, we believe the Shah is unlikely to take any vigorous action to promote economic reforms. (*Paras. 22-30*)
4. Assuming that the Shah remains in power and continues to enjoy US support, we foresee little change in Iran's international position in the next year

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or so. A continuing problem for the US will probably be how to give the Shah sufficient support to preserve his present pro-Western policy without encouraging excessive demands for aid. (Paras. 32-34)

5. For the short run, we think the odds are against a break in the stalemate in Iran's relations with the USSR which has persisted for the past two years. Over

the longer term, it is possible that Iran and the USSR may achieve some kind of *modus vivendi*, which might eventually be broadened to include Soviet economic and perhaps even military aid for Iran. The chances of such an accommodation would be much greater should the Shah become convinced that the US was withdrawing or significantly reducing its support for him. (Paras. 36-38)

DISCUSSION

I. POLITICAL PROBLEMS AND PROSPECTS

6. In some ways the past year was a good one in Iranian political annals. Law and order prevailed generally throughout the country. Tribal unrest was minimal. While corruption remained widespread in government circles, administration improved moderately and a number of new reform laws were passed. Manucher Egbal, who had been reduced during his three years as Prime Minister to a virtual sycophant of the Shah, was replaced by the more independent-minded Sharif-Emami. For the first time since the Shah's restoration in 1953, a seat in the Majlis (lower house of parliament) was given to a leading nationalist spokesman. Finally, the Shah at long last succeeded in producing a male heir to the Peacock Throne.

7. At the same time, important forces inimical to the *status quo* have become stronger. The growing political unrest of the urban middle class was manifested more openly than in previous years. The first set of elections for the 20th Majlis held in August 1960 were cancelled by the Shah in response to widespread dissatisfaction over the blatant rigging. Despite strong professions of his good intentions in regard to permitting a relatively free second round of elections, the January-February 1961 elections have been as thoroughly controlled by him as those in August. This has resulted in popular demonstrations

in some provincial centers and in Tehran and the arrest of a considerable number of students and some nationalist leaders.

8. Convocation of the new Majlis will enable the Shah to proceed constitutionally with important governmental measures (most immediately, the budget) which have been pending for some time. It will also enable him to present a facade of representative government both to critics within Iran and to the outside world. (He appears eager to convince the new administration in the US that his regime is not a dictatorship.) Membership in the Majlis, with accompanying immunity from arrest, will provide a nationalist leader, Allayar Saleh, with a more effective platform for criticism than the opposition has had in the past. Saleh, however, will not be able to influence the conduct of parliamentary affairs, and the Majlis will almost certainly remain subservient to the Shah, regardless of whether Sharif-Emami remains as Prime Minister or gives way to some other member of the Shah's inner circle.

9. The Shah, the focal point of Iranian politics, is a highly complex personality—a mixture of oriental and Western traits. He is intelligent, but often moody and erratic. Like his father, the Shah is convinced that he must keep the reins of power firmly in his own hands—a fact which makes it easy for his opponents to place the blame for the regime's failures on him personally. Unlike his

father, he is not a strong and ruthless ruler and many of his actions and attitudes appear to reflect a deep-seated sense of insecurity. Through education in Europe, he absorbed many modern ideas and is attracted by the concept of progress. At the same time, he feels that his own position and power are dependent on the highly conservative elements which still dominate Iran's social order. He is also obsessed with the idea that he must have a large, well equipped military force as the major bulwark for his throne. Although it has cost him some domestic support, he abandoned Iran's longstanding policy of playing off one large power against another and aligned Iran with the West. He is constantly haunted by the fear that the US might abandon him for one reason or another and continually seeks further reassurances from the US.

10. Certain changes in the structure of his ruling machinery appear to be taking place. The elections demonstrated beyond any doubt the artificiality of the two party system which the Shah arbitrarily set up a few years ago, and even he appears to have paid little attention to the system in rigging the second round of elections. Minister of the Interior Lt. Gen. Alavi-Mogadam and Gen. Haji Ali Kia, the Joint Staff Intelligence Chief, have become more prominent at court in recent months. Mogadam played a major role in rigging the second round of elections and would like to succeed Sharif-Emami as Prime Minister. However, the nature of Iranian politics is such that he might be dismissed from the cabinet as a scapegoat instead. Lt. Gen. Taimur Bakhtiar, Chief of the National Intelligence and Security Organization (SAVAK), has moved into the background, probably in part at least to avoid being associated with the elections. However, he retains a wide circle of contacts in the armed services and appears to continue to have the confidence of the Shah.

The Role of the Military

11. The role of the military and security services remains a key factor in the Iranian situation, and the Shah's rule rests primarily on

their loyalty. For this reason and also because of his personal predilection for things military, the Shah has devoted a large share of time and money on the development of the services. Consequently, the upper echelons (probably including many colonels) have acquired a vested interest in the *status quo* and, unless they become convinced the present regime can no longer survive, will probably remain loyal to it. Many of the lower level officers and practically all the enlisted men (most of the latter are peasant conscripts) are primarily interested in the conditions of their service; they are at least passively loyal to the Shah. A growing number of the younger officers, however, share the discontent of the civilian middle class from which they come.

12. Despite the attention that has been lavished on the military, the army has not acquired great prestige in the eyes of the Iranian people. In order to reduce the possibility that it could become a threat to his position, the Shah has encouraged factionalism, competing intelligence services, and conflicting chains of command. To a considerable degree, the military hierarchy is corrupt, venal, and inefficient. The capabilities of the armed forces are generally low. They could defend Iran against any purely Iraqi or Afghan aggression, but are unlikely in the foreseeable future to have any significant capability against Soviet military action.¹

Civilian Political Activity

13. The civilian leaders active in political life are in general an unpromising lot. The politicians who are acceptable to the Shah appear primarily concerned with maneuvering for advantage within the narrow artificial sphere approved by the Shah. None of them have shown much evidence of being capable of vigorous and effective leadership even if the Shah were to give them the opportunity to exercise it. Most members of the influential landowning and old line business

¹ Internal security is normally the responsibility of the National Police and the Gendarmerie, whose capabilities have improved significantly in the past few years. The army can be called upon to supplement them in exceptional circumstances.

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classes appear to prefer personal intrigue with the palace and with existing political elements to the responsibilities that would accompany their own assumption of popular political leadership.

14. The nationalist groups, into which category we put the National Front (the remnants of Ex-Premier Mossadegh's organization), the associated National Resistance Movement, and Dr. Muzaffar Baqai's "Guardians of Freedom," are generally more popular among the growing urban middle class than the two official parties. The nationalists too, however, are split into small followings gathered around individual leaders and lack a unifying issue and effective national organization. Neither do they have, as far as can be seen at the present, any effective leader capable of resolving their problems and focusing their influence. By and large, most of them are probably no more prepared to cooperate with the Shah in trying to establish a solid political structure in Iran than he is prepared to give them the opportunity to do so.

15. The Iranian Communist Party (the Tudeh) remains neutralized under the constant surveillance and harassment of SAVAK. Practically all its leaders are in jail or in exile. In these circumstances, Moscow is apparently relying more on direct propaganda and political pressure to promote its objectives in Iran than on the internal activities of the Tudeh. We do not believe that for some time to come the Tudeh will be able to exert much influence on the Iranian scene. The possibility will remain that it may over the longer term be able to manipulate nationalist groups. In the event of a sustained political disturbance, the party probably would be able to reconstitute itself.

The Outlook

16. As of now, it appears that the Shah will be able to ride out the present agitation over the elections and afterwards he may even enjoy a brief respite until some other issue arises on which the general dissatisfaction can be focused. No capable leader with nationwide appeal has arisen among the civilian nationalists, and the Shah, despite his limita-

tions, continues to be shrewd and active in political maneuver. While a political upheaval could take place at any time, on the whole, we believe the odds are against such a development in the next year or so.

17. We do not believe, however, that the question of stability in Iran should be dismissed with such a narrow estimate. Iran is still largely traditionalist in its social and political structure, with authority concentrated almost exclusively in the hands of the Shah, who relies for support on the army, the security forces, the large landowners, tribal chieftains, the old line leaders of commerce and finance, and the senior bureaucracy. The "establishment" and many of its policies are unpopular with most intellectuals and with much of the growing middle class. It is out-of-step with the dynamic political ideas and movements which are afoot in other parts of Asia and Africa. The nationalist forces remain unwilling to cooperate to any significant degree with the present "establishment" but as yet lack the power to supplant it and probably even the ability to run the country in its stead.

18. Under these circumstances, profound political and social change in one form or another is virtually inevitable; this, we believe, is the most important estimate to stress in regard to Iran. It is possible that the change will be evolutionary with the Shah making concessions to the urban groups and bringing some of the more moderate nationalists into the governmental and administrative apparatus. The nature of Iranian politics and the personal characteristics of the Shah, however, appear to make gradual evolution unlikely.

19. The most moderate, and as far as we can see, the most likely form of sudden political change, would be a move against the Shah by some of his senior military commanders. This would probably occur should the top generals become convinced that the Shah is incapable of dealing with the political problems of Iran or that his policies were undermining their own position. Rather than replacing the Shah entirely, the generals might prefer to reduce him to a figurehead while ruling through a strong Prime Minister from their

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own number. This would probably be unacceptable to the Shah, however, and we believe he would be likely to leave the country if he thought he had no chance of recovering his authority.

20. We believe the odds would be against such a military junta being able to establish and maintain a very stable government in Iran. The generals, in view of their longstanding factionalism, might easily fall to quarreling among themselves; they would probably be less effective than the Shah in preserving unity and cooperation among the various elements of the conservative establishment; and they would probably be even less satisfactory to the nationalists than the Shah. Initially, the generals would probably avoid any basic change in Iran's present foreign policy. However, they would be under considerable pressure to retreat from the Shah's extreme pro-Western commitments and to adopt a more neutralist position. Such a position would be more in keeping with Iran's traditions and might enable Iran to obtain benefits from both East and West.

21. Another potential threat to the Shah is the younger military officers, some of whom share the discontents of the urban civilian elements. While the odds are against their moving on their own, they might refuse to suppress or might even join any large-scale popular agitation, thereby undermining or shattering the effectiveness of the military as the main instrument of the Shah's power. The results in such a case would probably be confused and perhaps chaotic, although eventually, as in Iraq, some unsteady coalition of military and civilian elements which could run the country would probably be worked out. In any event, many of the most important policies of the present regime would probably undergo major change, and a swing toward radical social and economic measures at home and neutralism in foreign policy would be virtually certain.

II. ECONOMIC SITUATION AND OUTLOOK

22. Iran is in the midst of a financial crisis stemming from the rapid and simultaneous expansion of public and private investment,

the armed forces, and social services. Beginning in 1954 rising oil revenues, large foreign loans, and good harvests enabled Iran to make considerable economic progress. Gross national product (GNP) increased by about 5 percent annually, and investment rose to about 18 percent of GNP.³ The number of banks and factories doubled, and a start was made on modernizing the government's economic institutions and practices. During the last two years, however, inflationary financing, rising foreign debt repayments, and a slower rise in oil revenues have increased the difficulties of carrying out such an ambitious—and uncoordinated—effort. Prices rose by 13 percent in 1959 and by nearly 10 percent in 1960, and Iran's foreign exchange reserves declined sharply.

The Stabilization Program

23. In an effort to deal with the crisis, Iran in September 1960 adopted a rigorous stabilization program worked out in cooperation with the International Monetary Fund (IMF). This program is designed to control inflationary forces and end the balance of payments deficit by September 1962, when the Seven-Year Plan ends. It calls for increased duties on imports, reduced government spending, increased tax collections to provide a budget surplus, and control of the supply of credit to the private sector.

24. The long-range promise of the stabilization program is far broader than its immediate goals. The Iranian authors of this program are a group of trained economists, concentrated in the Plan Organization but with supporters in other parts of the government, who are aware of the need for fundamental changes in economic management. The present crisis gave this group, which had encountered little appreciation and much outright hostility from most high Iranian officials, the opportunity to convince the Shah

³ Private investment accounts for somewhat over one-third of total Iranian investment. The Plan Organization accounts for another one-third, with the remainder representing uncoordinated investment by Iranian ministries and other government organizations.

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of the need for a stabilization program. The group's long-range aim is essentially the substitution of responsible, technically informed economic management for the generally chaotic and uncoordinated policy forays that have formed the past approach to economic problems. This group, though still small in proportion to the mass of the bureaucracy, has been able to gain increased authority for the Plan Organization in guiding public investment, and is preparing the Five-Year Plan which is to begin in September 1962. However, the Shah's recent appointment of Ahmad Aramesh, the corrupt and xenophobic brother-in-law of Prime Minister Sharif-Emami, as head of the Plan Organization, has had a strongly adverse effect on the morale of the modernizers, and appears likely to reduce their influence and effectiveness in the future.

25. The stabilization program calls for austerity and sacrifice and therefore has, not surprisingly, been resisted by powerful economic and political vested interests and has also been unpopular with the urban middle class. As a result, achievements to date have fallen somewhat short of the initial goals, although considerable progress—measured in Iranian terms—has been made. Import duties have been raised, tax collections are being improved, and these, together with greater than anticipated government revenues, are hopeful signs. On the other hand, it now appears highly unlikely that government spending will be reduced as much as scheduled, and so the outlook for the stabilization program remains uncertain. On balance, we believe that Iran will significantly reduce—but definitely not eliminate—inflationary pressures and the balance of payments deficit by late in 1962, and carry out most of the remaining projects in the Seven-Year Plan.

26. One cause of the failure completely to achieve the initial goals of the stabilization program has been the Shah's unwillingness to reduce military spending. The maintenance and modernization of Iran's defense establishment is a heavy burden on the country's available resources. Defense expenditures have, for several years, accounted for

about 25 percent of the national budget. It is likely that at least this share will continue to be devoted to the armed forces since they receive top priority from the Shah. The failure to reduce military expenditures as provided in the stabilization program will make it more difficult to carry out other planned reductions in the budget and thus jeopardize Iran's economic development prospects.

The Outlook

27. Iran's economic prospects for the next year or two are not bright. Inflation is likely to continue, although at a slower rate. Iran's balance of payments deficit probably will amount to about \$140-150 million during the current fiscal year, and is unlikely to be much below \$100 million next year. In view of the low level of foreign exchange reserves, Iran will be heavily dependent on hand-to-mouth foreign borrowing to close this gap. This will almost certainly cause the Shah to apply renewed pressure to the oil consortium to step up Iran oil revenues.

28. The stabilization program will require sacrifices on the part of important elements of the population, both within and outside the government. Restrictions on foreign exchange will limit the financial activities of the moneyed classes who have invested heavily in the business boom of the past few years. Higher prices for imported consumer goods will hurt the politically conscious middle class and other urban elements. On the other hand, any success that is achieved in reducing inflation would benefit them. In general, we do not believe that foreseeable economic difficulties are likely to become serious enough to precipitate a political upheaval.

29. Iran's long-term economic potential is good. It is in a much better position than most Asian countries to carry out an economic development program. It has adequate natural resources and is able to save and invest at relatively high levels. Iran has already begun to realize the benefits of the development program and the private investment boom, and within a few years the investments made in recent years probably will result in major gains in output. Even so, the problem

of achieving an equitable distribution of the gains will be a major one requiring considerable political courage on the part of the government; e.g., a reform of the tax structure.

30. The major determining factor of Iran's long-term economic success probably will be the willingness of the Shah to support those who are seeking to modernize the country's economic institutions and practices. The Shah has shown some willingness to institute and support economic reforms so long as they do not impinge adversely upon the military establishment. The group behind the stabilization program hopes to use Iran's dependence on the IMF, the International Bank for Reconstruction and Development (IBRD), and the US for foreign aid to force the government to adhere to sound economic policies lest it be denied the loans it needs.

31. Such policies would require the substitution of rational and coordinated economic planning and management for the present system which through nepotism and favoritism benefits the conservative elements who are presently a major source of the Shah's support. In addition, the long-term investment and the use of foreign advisers and technicians involved in a rational development program is unlikely to win the support of the nationalistic urban middle class which is impatient for visible progress. On the basis of the Shah's past performance, including his recent appointment of Aramesh to head the Plan Organization, we believe that he is unlikely to resist the pressures of those with a vested interest in the chaotic and corrupt system and probably will not take any vigorous action to promote economic reforms.

III. IRAN'S INTERNATIONAL POSITION

32. There has been no significant change in Iran's international position during the past year. The Shah's regime has remained under heavy political and propaganda pressure from the USSR and has continued cautious negotiations aimed at relieving this pressure. At the same time, the Shah has continued to support the West openly on most important international issues, has continued to pledge his allegiance to the Central Treaty Organization

(CENTO), and has maintained close relations with the US.

Relations with the US

33. Assuming that the Shah remains in power and continues to enjoy US support, we foresee little change in Iran's international position in the next year or so. The Shah and many influential Iranians are generally well disposed toward the West and are deeply suspicious of the USSR's intentions. The Shah knows that he would be unable to resist Soviet pressure without US support. He probably realizes that under present circumstances US support is important, if not essential, to his maintenance of power at home, inasmuch as it deters coup moves against him and provides the military aid which helps keep his army in hand.

34. Nevertheless, there will remain important problems in US-Iranian relations. The Shah is uneasy over the new US administration's attitude toward his regime and he is likely to remain suspicious that US policy is shifting toward support of neutralist states, particularly in the underdeveloped areas, at the expense of allies such as Iran. He will persist in his dissatisfaction with the level of US aid and his misgivings over the degree of US support for CENTO. This will probably be expressed particularly strongly in the weeks immediately ahead, prior to approval of the Iranian budget and the CENTO Ministerial Council Meeting in April.

35. In these circumstances, a continuing problem for the US will be how to give the Shah sufficient support to preserve his present pro-Western policy without encouraging excessive demands for aid. It is difficult to say what the minimum requirement for this purpose is, but in view of the Shah's preoccupation with his armed forces, it undoubtedly includes some military aid. While he would find it acceptable to have this in the context of increasing the importance of CENTO, with himself in a prominent position, he would almost certainly be willing, if CENTO were to recede into the background, to rely primarily on bilateral arrangements with the US, provided he felt such arrangements ensured him a con-

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siderable amount of military, as well as economic and political, support.

Relations with the USSR

36. A stalemate in Soviet-Iranian relations has persisted during the two years since the Shah broke off negotiations for a nonaggression pact with the USSR. This stalemate grows out of the essentially contradictory objectives and attitudes of the two parties. The Shah's concept of improved relations is limited to the cessation of hostile Soviet propaganda, modest expansion of trade, and the settlement of a few minor commercial and border matters. The Soviet objective, on the other hand, is to force Iran out of its alliance with the West. We believe the odds are against a break in this stalemate for some time to come. There may be ups and downs in the degree of active tension between the Soviets and Iran, but basic incompatibilities will probably prevent any real rapprochement in the short run.

37. It is possible that over the longer run, the Shah and the USSR may achieve some kind of *modus vivendi*. The Shah is deeply worried about the pressure which is being brought against him by the Soviet Union, and no amount of rational argument or moral support from the West is likely to be completely successful in reassuring him. A general reduction in tension with the USSR would probably be popular with most of the nationalist elements in Iran and would receive support from many conservatives who remain devoted to the traditional Iranian policy of neutrality. Thus, we believe that the Shah will continue to seek to relieve Soviet pressure by such measures as his often-repeated offers to ban foreign missile bases from Iran and the sending of a good will mission to Moscow now scheduled for this spring.

38. Should the Shah become convinced that the US was withdrawing or significantly reducing its support for him, the chances of his working out an accommodation with the USSR would be much greater. Such an accommodation could lead to a broadening of Iranian relations with the Soviet Union to include substantial economic aid, and conceivably even military aid.

Regional Relations

39. During 1959 and early 1960 the Shah was very worried about the danger of aggression from Iraq and Afghanistan, but he has become less concerned about such dangers in recent months. The Shah will continue to fear the antimonarchical character of the Iraqi revolution. Iran's recurrent quarrel with Iraq over navigation on the Shatt al Arab probably will remain potentially explosive and no settlement is likely. A new flare up could affect the operations of the oil complex at Abadan and the flow of foreign trade through the port of Khorramshar.

40. There has been some improvement in Iranian-Afghan relations during the past year. Iran has undertaken to supply Afghanistan with substantial quantities of oil and eventually to develop special facilities at a Persian Gulf port for Afghan imports and exports. These measures, if implemented, will tend to reduce Afghan dependence both on Pakistan and the USSR. Nevertheless, the Shah will remain apprehensive about Afghanistan as long as the flow of Soviet aid—particularly military equipment—continues. If Iranian-Afghan relations deteriorate, he will seek US support. Although both Iran and Afghanistan appear to have adopted somewhat more flexible positions on the Helmand River waters dispute, they remain far apart and no settlement is likely in the near future.

41. Iran will probably continue to seek to extend its influence in the Arab areas of the Persian Gulf. The Iranians will continue to regard Nasser's pan-Arab nationalism as a serious threat to Iran and relations between the UAR and Iran are likely to continue strained. On the other hand, the present cordial relations with Jordan will probably be maintained. Iran's membership in the recently formed Organization of Petroleum Exporting Countries (OPEC) was probably designed more to protect its interests against fellow members than to cooperate with them against the Western oil companies. Cooperation with Israel will probably continue, although in a cautious manner designed to minimize Arab reaction of the kind which caused the UAR to break relations in July 1960 when the Shah publicly repeated his "de facto" recognition of the Jewish state.