Comparative Review of Iran's Economic Development During the Reign of Mohammad Reza Shah Pahlavi (1941-1978)

The International Iranian Economic Association (IIEA)

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Motivation for Review

- Biden took over amidst global pandemic/US chaos
- Took measures to restimulate/redirect US economy; experts argued **American Rescue Plan** pkg too large ➔inflation
- Achieved marked economic results
- Yet, Trump tapped economic/cultural anxieties, urban/rural & inequality, and support of Religious Evangelicals
- Biden left office broken, and blamed by Dems for defeat
- Trump aggressively reversed most Biden policies, importantly "WOKE" (i.e. gender and diversity)

I saw similarities btw Biden presidency and Shah's reign

Purpose of Review

Just as soul-searching re 2024 US elections persists, so do questions re Iran's 1979 Revolution. In both cases, economy and culture said to be decisive and divisive.

Compare Iran vs. peers, under similar settings with focus on:

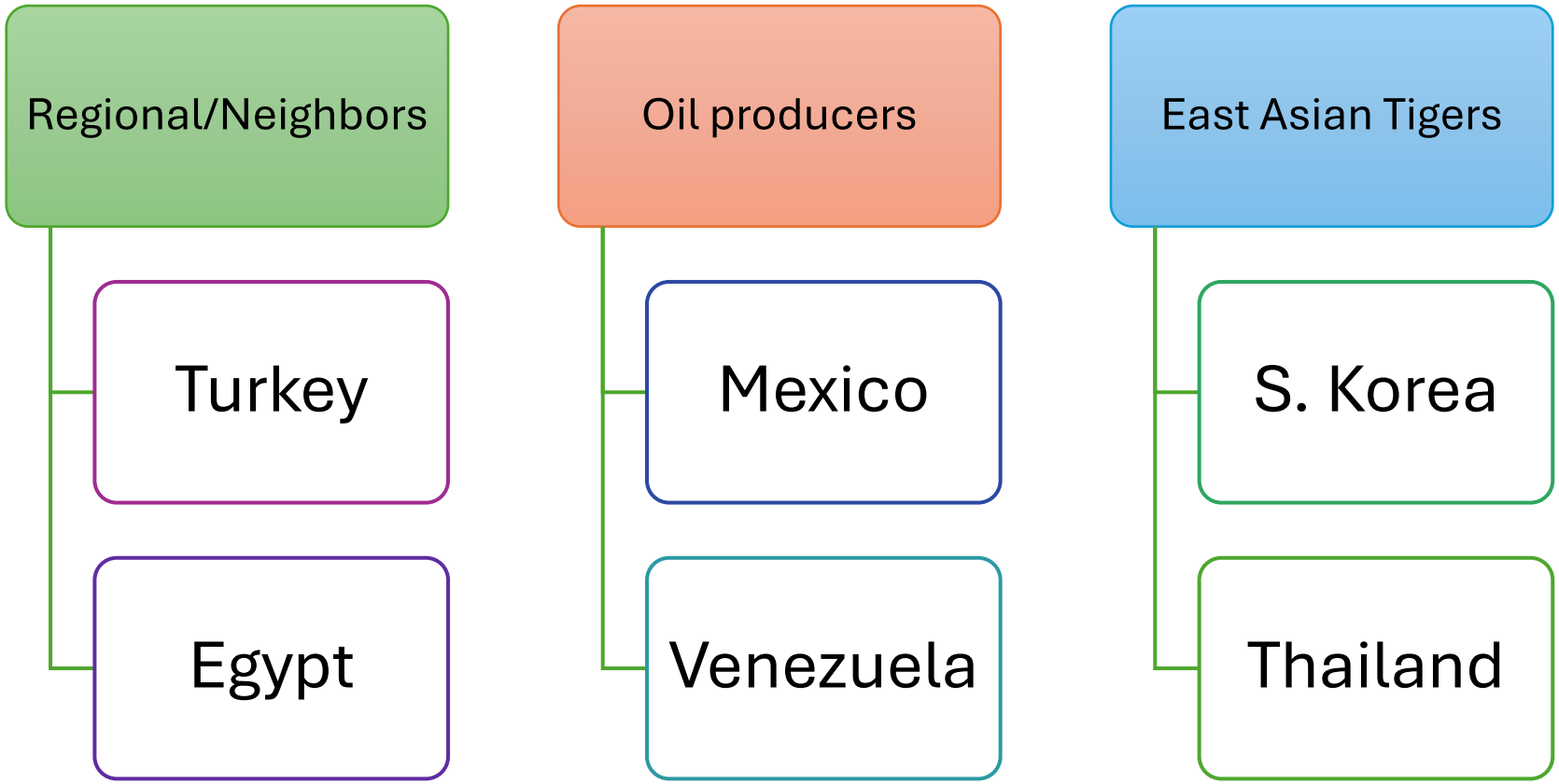
- **Power -- Expansion of economic footprint (% of global GDP)**
- **Prosperity – Rise in GDP/capita**
- **Welfare -- reduction in income inequality (Gini)**

Why Compare?

Using comparators helps identify:

- What **alternative policy paths** were available to Iran?
- Did **geopolitics** and global economic circumstances shaped development strategies (e.g. **oil wealth vs. manufacturing/export orientation)**?
- Would **governance models** have made a difference in economic outcomes?

Comparator Countries in this Review



Key Comparative Themes

Theme	Iran	Others
Oil dependency	High	High in Venezuela, moderate in Mexico
State-led industrialization	Yes	Common (Turkey, Egypt, Mexico, Venezuela) Also Korea, Thailand but export-led
Authoritarian governance	Yes	S. Korea (dictatorship), Egypt, Mexico (soft authoritarian), Thailand (absolute monarchy), Turkey turbulent democracy
Inequality & urban-rural divide	High	Common across all
Cold War pressures	U.S. ally	All were influenced by Cold War geopolitics
Outcomes in late70s/early 80s	Crisis/revolution	Varied (economic crises, political crises, some reforms, democratic transitions)

Sources

Qualitative:

- World Bank (WB) archive: country economic reports: (First ever country economic/risk assessment, periodic updates, select project appraisals up to late 1970s/early 1980s)
- Global economic circumstances (eg US economy, global growth and inflation, socio-economic indicators)
- Secondary literature from historians and economists

Quantitative:

- World Bank Development Indicators
- Maddison Project Database
- World Inequality Database
- IMF and UN statistical yearbooks

Methodology for Review (1945–1980)

- Uses descriptive data comparisons and trends, but no empirical analysis due to data limitations.

- Employs a **comparative historical analysis** (e.g. most different systems design (MDSD)) to examine how countries with diverse political, geographic, and institutional settings experienced similar or divergent economic development trajectories in the post-WWII period. The goal is to identify **patterns, causal mechanisms, and critical divergences** in developmental outcomes.

Conclusion

What is Shah's economic legacy?

- Inherited a destitute Iran that deteriorated further over 15 years
- Revived phenomenally between 1957-1973
- Oil windfall was double-edge sword
- 25-year economic/political stability despite many challenges
- **Most importantly, prevented Iran from becoming communist**
- **But were the Shah's plans impossible? GCC countries implemented them with great success?**

Assessment of erstwhile opponents of the Shah fairly positive!

Outline

- Phases of Shah’s reign
- Dominant development thinking over time
- Iran vs. peers
- Global economy late 1970s and impact
- Take-aways

Phases of Shah's reign

- Ascendance to throne at age 21 during occupation by Allied Forces (1941-45)
- Post-WWII Azerbaijan crisis 1946/1947, start of cold war, then 2-yr draught and 2-yr business recession – unstable governments
- Oil nationalization (1951-1953) – Mossadegh era – political polarization thereafter
- Resolution of oil crisis and restart 1954 onwards
- 1963 – White Revolution – political unrest
- 1974 – Oil Price Increase – Windfall
- 1978 – Unrest leading to Revolution

Early Years

Early Stage – Tehran Conference → two Important Promises Obtained

The young Shah pressed for:

- Commitment to **Iran's territorial integrity**: removal of all troops within 6 months of war's end.
- Recognition of destruction due to occupation: **promise of financial aid for reconstruction**

1944 Bretton Woods Conference

- Shah sent a competent delegation led by Abolhassan Ebtehaj, economist/banker

- Iran 23rd signatory of WB/IMF on Dec 29 '45

- Iran subscribed to $4.54m of IBRD capital; 490 votes (0.54%)

- Oct '46, application for $250m to support 7-yr-Plan, costing $470 (later $650m)

- However, 12 year (1957) for first WB Loan

Economic Assessment (1947)

- "Iran is a country with **an oil economy superimposed upon a primitive, and almost biblical, economy.**" **"…in desperate need of economic development" "…eventual absorption of the country into the Soviet sphere is a probability"… "ripe for communism…."**

- **"…limited number of Persians with experience and qualification necessary to handle the administrative and supervisory problems of a program of the sort contemplated."**

- **"No external and internal debt…" "…limitations of internal financing constitute an important difficulty…"**

ESTIMATED PER CAPITA INCOME IN SELECTED EUROPEAN AND MIDDLE EASTERN COUNTRIES, 1948 OR 1949

Country	U. S. Dollars
Denmark	689
France	482
Italy	235
Greece	128
Turkey	128
Lebanon	125
Egypt	100
Iran	85

Sources: All countries but Turkey: United Nations Statistical Papers, Series E, No. 1, October 1950; Turkey: the Mission.

Source: World Bank Turkey 1950 Economic Report: pp 25

Impediments were on Iranian Side

- Program too vague; projects ill prepared
- Short-lived governments, ever changing priorities
- Intra-agency fighting and rivalries
- Weak cross-ministerial coordination and implementation
- Catch-22: Bank support <--> Parliamentary budget approval
- Iran-UK Monetary Agreement

restricting convertibility of forex reserves.

Creditworthiness in question for the Lender of Last Resort

I R A N

Memorandum on the Financing of Development

A. Present Creditworthiness of Government of Iran

1. Iran is an oil economy. Compared with oil, none of Iran's other resources has any significance at present.

6. In 1949-1950 Iran had a current account balance of payments deficit which on a reduced scale is continuing in 1950-1951. These deficits are being met out of foreign exchange reserves.

7. The capacity of the Government of Iran to service loans (whether internal or external) depends in the first place on the budgetary position. Under existing conditions, as set out above, the Government of Iran cannot be considered creditworthy from the point of view of capacity to repay.

Source: World Bank Internal Memo

Oil Nationalization Consequential and Turbulent

Economic Deterioration

When Mossadegh took over May/1/51 ex-rate 2.7Tomans/$; whe he left on Aug/18/53 it was 11T/$

➔**Implicit annual devaluation: 82.2% per year**

To put in perspective:

When Shah left Jan/16/79, ex-rate 7T/$; (5/14/25) to 83,300T/$

➔ **implicit annual depreciation: 23.2% per year.**

Financial Impact of Oil Nationalization on Iranian Economy (1951-53)

The loss in revenue to the Iranian Government as a result of the two and one-half years of nationalization may be put at at least $450 million in government income and probably considerably more than $600 million in foreign exchange income, assuming, of course, a normal development of the industry. These are losses which can never be fully recouped. In addition, as will be mentioned later, the Iranian oil industry has lost its outlets and can not possibly hope to regain them easily or overnight.

Source: Walter Levy – International Oil Expert,
Middle East Institute, December 12, 1953

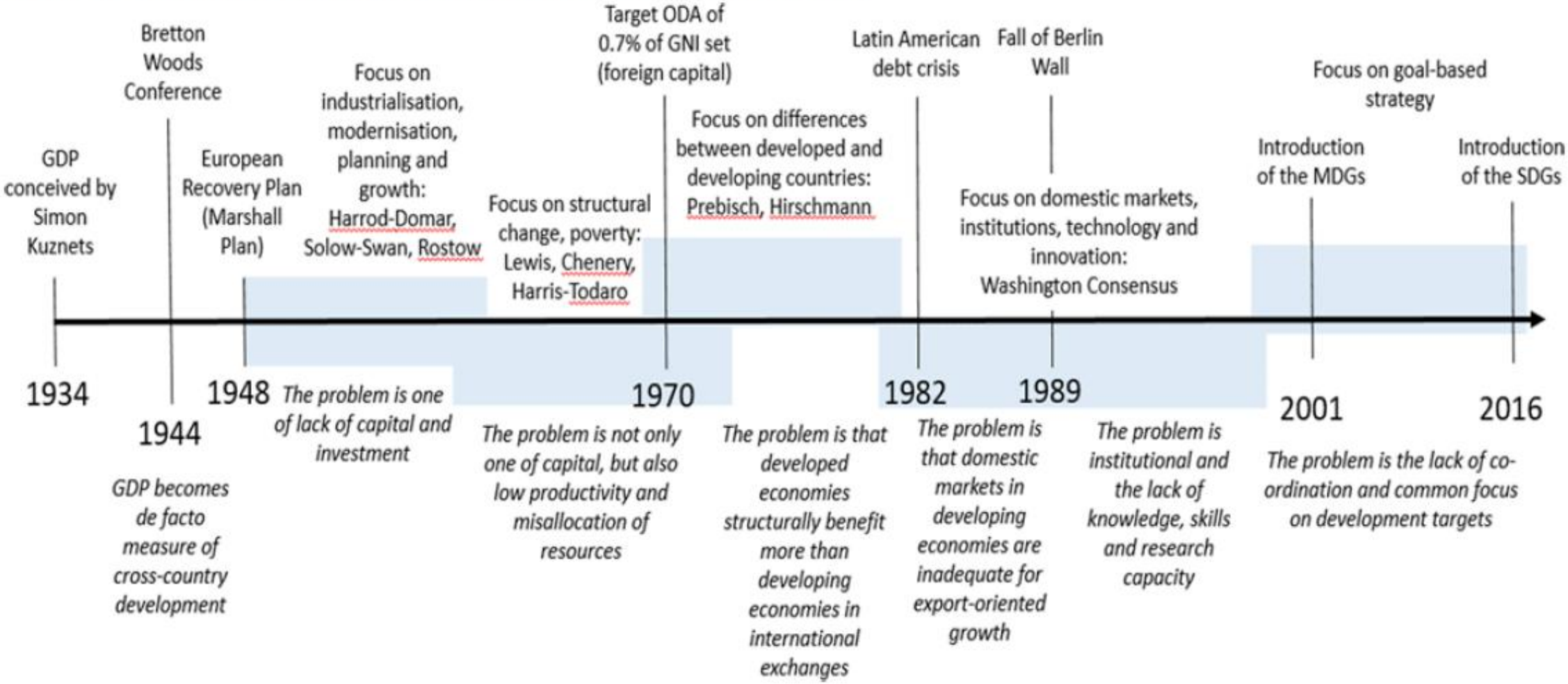
Evolution of Global Development Thinking

Shifts in Global Development Paradigm

- **Late 1940s**: **Post-war reconstruction**, state-led capital investment, and infrastructure. (**John Maynard Keynes**)
- **1950s**: **Modernization theory**—economic growth as a linear process of industrialization and adoption of Western-style capitalism. (**Walt Rostow**)
- **1960s**: **Structuralism** (self-sustaining growth, import substitution), state-led development through large-scale infrastructure and industrialization. (**Raúl Prebisch**)
- **1970s**: **Basic Needs Approach**, focus on **poverty alleviation**, **equity**, and **human development**—moving beyond GDP growth to focus on **human welfare**. **(Mahbub ul Haq, Amartya Sen)**
- **No specific theories yet of how to deal with windfalls – when finance is no longer a development constraint**
- **1980s:** Macro-economic stability (neoliberal, **Washington Consensus**)
- **2000s-present:** Goal based development (**MDGs, SDGs**)

➔ World Bank's **development focus** evolved from post-war reconstruction to more **human-centered approach** in the 1970s, reflecting global shifts in development thinking.

Figure 4.2. Development thinking, viewed by source of the problem



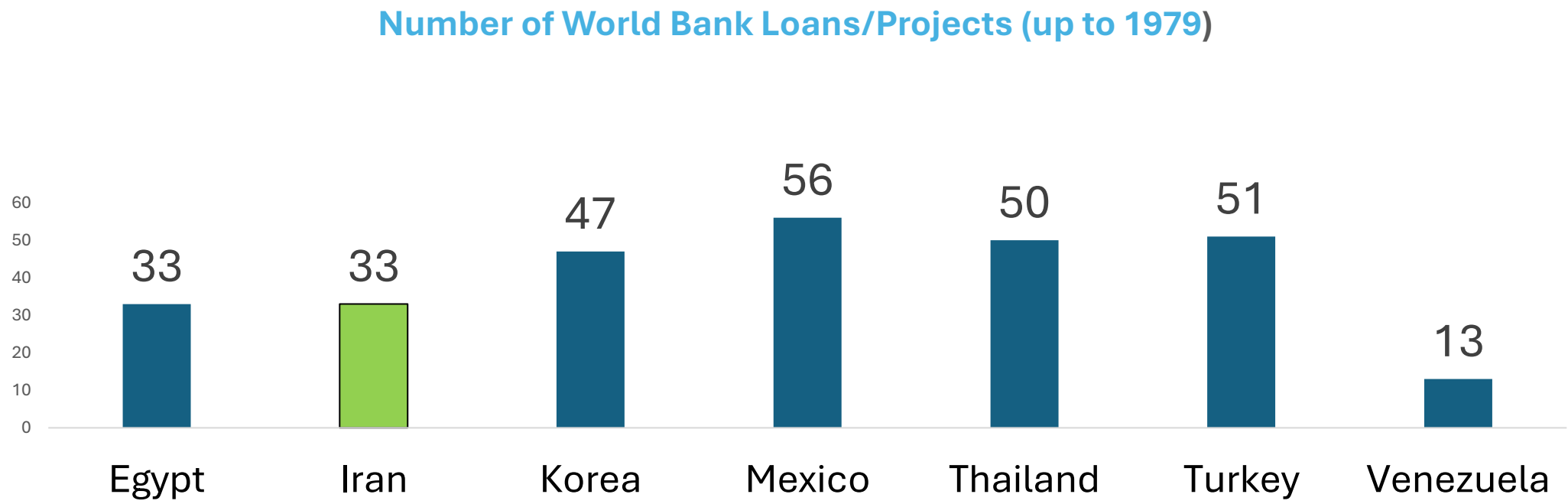
Shah's thinking shaped by

- **Development models**
- **Harvard's economic advisors**
- **IMF/World Bank**
- **Western-educated Iranian technocrats**
- **Dialogue with world leaders and state visits**
- **Geopolitical considerations, and**
- **Strong desire for see an industrial Iran**

Iran's development approach mirrored global thinking, at times becoming best practice and showcase. Still, Shah filtered such advice in pursuit of his vision of **rapid** economic development -- too much, too quickly for Iranians

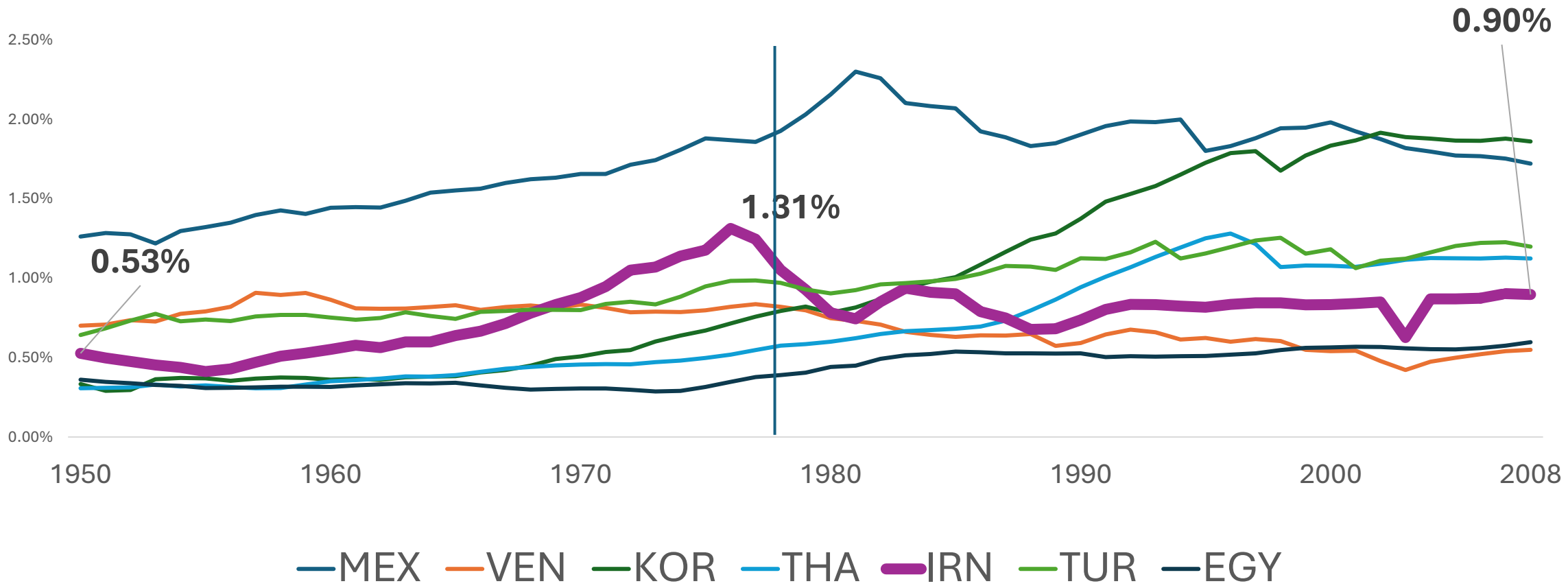
The Next 25 years Development Trajectory

- Iran obtains finally its first-ever loan from the World Bank – Economic Development loan for US$75 million – followed by 32 more loans until 1973.



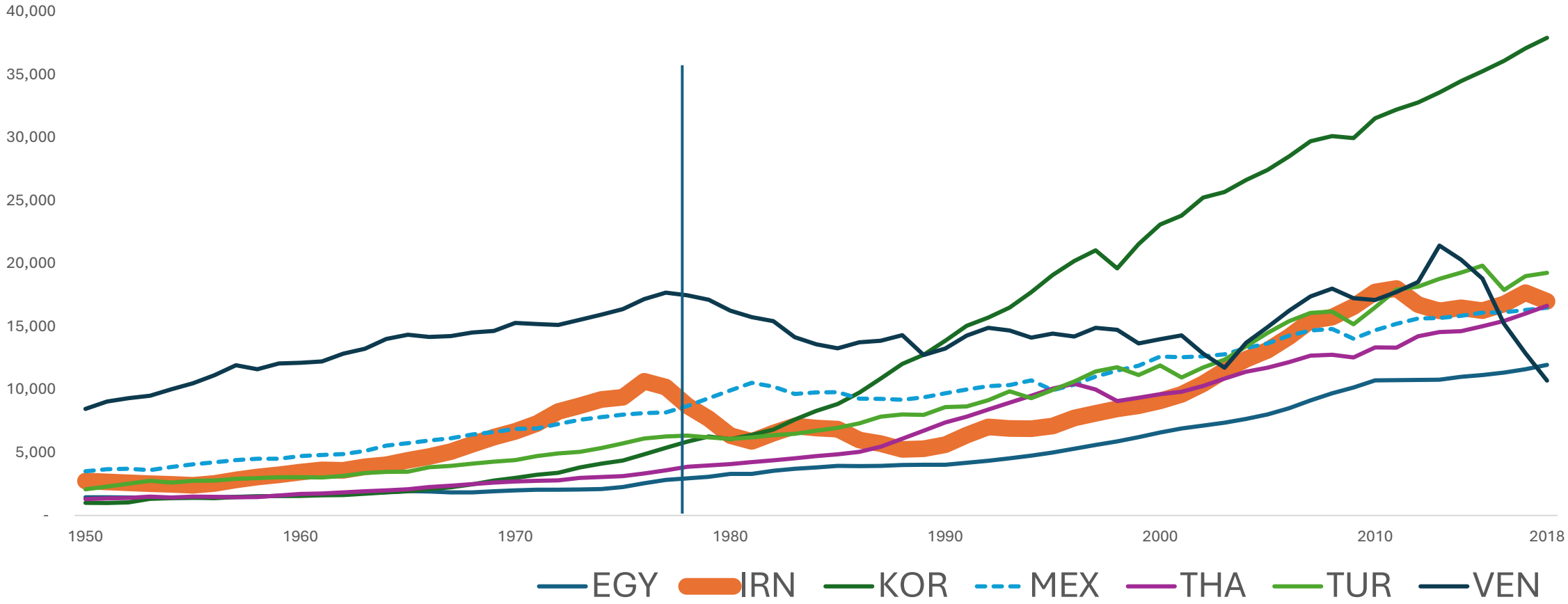
Comparison with Peers

Power: Global Economic Footprint
= % of Global GDP (PPP)(1990 Int. GK$)



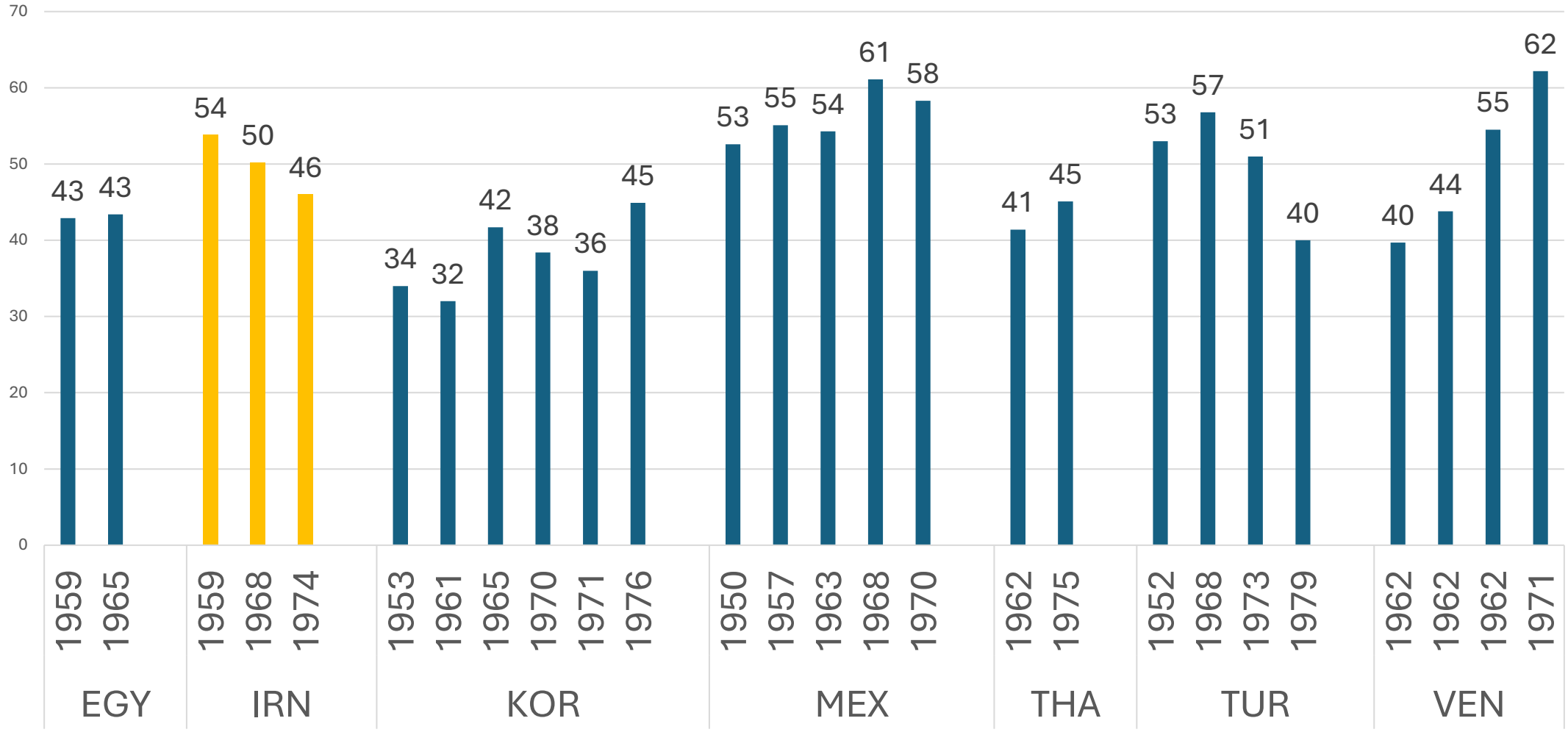
Source: Maddison Project Database (University of Groningen) and IMF

Prosperity: GDP Per Capita (1950-2018) (in 2011 prices)



Source: Maddison Project Database (University of Groningen) World Bank and Database

Gini Coefficient up to 1980

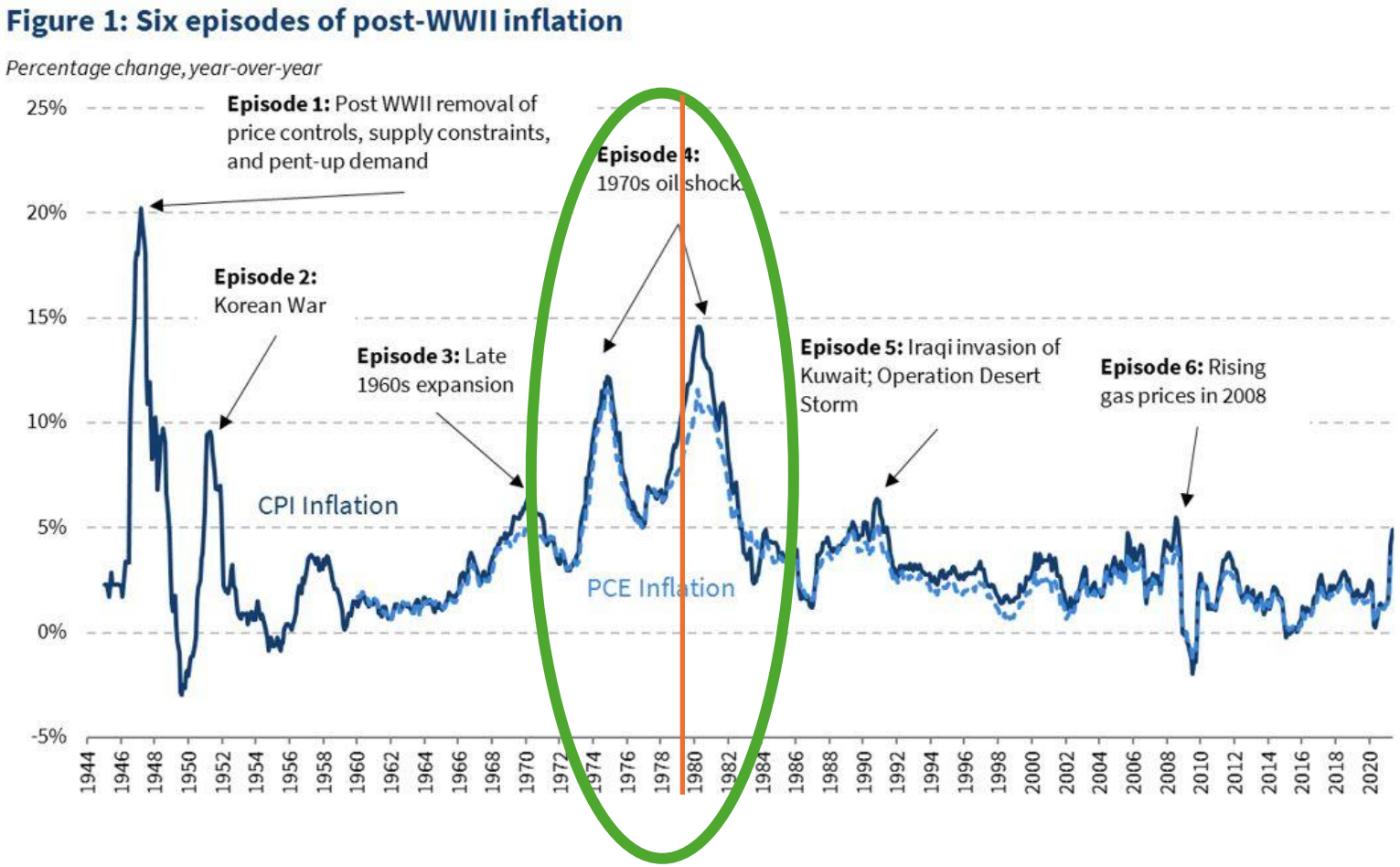


Source: World Inequality Database

Late 1970s

Global economy faced in **late 1970s and early 1980s** severe turbulence and transition, with high inflation, oil shocks, monetary tightening, and shift in global financial dynamics

➔ **Volcker Shock (U.S. Monetary Tightening) – 1979–1982**



Inflation Comparison: Global, U.S., and Iran (1960s vs. 1970s)

Decade	Global Average	U.S. Inflation	Iran Inflation
1960s	~2–3%	~1.3%–4.7% (avg ~2.3%)	~1.5%–4.5% (avg ~2–3%)
1970s	~6–12% (varied)	~5.8%–13.5% (avg ~7.1%)	~5%–20%+ (avg ~15%, highly volatile)

Summary Inflation Trends

Year	U.S. (%)	Iran (%) (est.)	Notes
1965	1.6%	~2.5%	Stable global prices
1973	6.2%	~7–10%	First oil shock, U.S. exits Bretton Woods
1976	5.7%	~15%	Iran's oil spending boom
1979	11.3%	20%+	Iranian Revolution + second oil shock
1980	13.5%	~25%	Inflation peaks globally

Inflation Rates (1970–1980)

Note: Some figures are approximate due to data limitations

Country	1970	1973	1974	1975	1979	1980
Iran	~5%	~10%	~15%	~20%	**~25%**	~30%
Turkey	7.92%	13.94%	23.90%	21.23%	**63.54%**	94.26%
Venezuela	~7%	~10%	~12%	~15%	**~20%**	~25%
Mexico	~5%	~8%	~10%	~12%	**~18%**	~20%
Egypt	~4%	~6%	~8%	~10%	**~15%**	~18%
Thailand	-0.09%	15.51%	24.31%	5.33%	**9.90%**	19.70%
South Korea	14.42%	8.49%	26.45%	26.45%	**21.20%**	32.20%

Global vs. Domestic Inflation Influence (1970s)

Country	Global Influence	Domestic Influence	Key Global Factors
Iran	Moderate (2)	Significantly high (4)	Indirect (booming exports), rising imports
Turkey	Significantly high (4)	Significantly high (4)	Oil, commodities, dollar shocks
Mexico	Significant (3)	Significantly high (4)	Food, oil, U.S. dollar link
Venezuela	Moderate (2)	Significantly high (4)	Limited; oil exporter
Egypt	Significantly high (4)	Significant (3)	Food/oil import dependence
Korea	Significantly high (4)	Significant (3)	Open economy, imported inflation
Thailand	Significantly high (4)	Significant (3)	Oil shocks, global prices

Outcome of Comparative Strategies (1945–80)

Country	Strategy Type	Key Policies/Institutions	Role of the State	Foreign Trade Orientation	Outcome by 1980
Iran	Import Substitution (ISI)	State-owned heavy industries; infrastructure via oil rents	Dominant (central planning)	Inward (high import dependence)	Industrial growth, inflation, limited diversification
Turkey	ISI → Gradual Liberalization	State Economic Enterprises (SEEs); Five-Year Plans	Strong but pragmatic	Mixed	Modest industrial base; growing private sector
Egypt	State Socialism (Nasser era)	Nationalization of industry; central planning	Very strong (centralized)	Inward	Initial growth, then stagnation and inefficiency
Mexico	ISI with Export Diversification	PEMEX; public investment in transport, energy, and autos	Semi-authoritarian interventionism	Mostly inward	Growing industry, rising debt, inflation risks
Venezuela	Resource-led ISI	Oil-funded SOEs; infrastructure & subsidies	Strong but poorly managed	Inward (oil export-dependent)	Inefficient industry, rent-seeking behavior
S. Korea	Export-Oriented Industrialization (EOI)	Chaebol system; government-directed exports	Strong, strategic	Outward (aggressive export drive)	Rapid industrialization, tech upgrading, rising exports
Thailand	Hybrid ISI–EOI (from 1970s)	BOI incentives, foreign investment, limited planning	Moderate	Outward (especially in 1970s)	Steady industrial growth, textiles, electronics boom

Financial Crises and IMF Assistance

	Crisis (Late 70s–Early 80s)	IMF Assistance
Turkey	Yes	Yes
Egypt	Yes	Yes
Mexico	Yes – cycle of debt crises	Yes
Venezuela	Yes	Yes
South Korea	No – barely	No
Thailand	No – barely	No

Conclusions

- Shah inherited a poor, backward, militarily occupied Iran at the height WWII -- massive problems in a geopolitically complex region, balancing cold war rivalry
- Shah steadily sought prevailing good practice advice from external and internal sources, but adjusted them to his vision for a relevant and powerful Iran
- Up to oil price hike, Iran's development model showed significant successes
- Iran's oil windfall allowed Shah to pursue ambitious projects, particularly in infrastructure, education, health, and industrialization that were consistent with WB recommendations – but resulting overspending, overheating, and inflation
- Obviously, mistakes were made – as is the case in any country
- Yet late-70s also a most turbulent era in post WWII global economy; navigation proved difficult for advanced and emerging countries. Iran's peers no better despite different economic/political systems

Overall, Shah left Iran in much better shape than inherited -- particularly in comparison to Iran's peers, and to the Shah's successor over last 46 years

➔Assessment of erstwhile opponents of the Shah fairly positive!

Thank you