

CHAPTER 8 - THE AFTERMATH OF WAR AND THE GROWTH OF  
FRIENDSHIP WITH THE UNITED STATES

a. POST WAR PROBLEMS. For an explanation of the postwar problems in Iran, we must search a little deeper into the economic and social conditions of the Iranian people. Even as late as 1948 there were no reliable statistics bearing on all the important aspects of the life of the country. The state of education could be discerned from the fact that illiteracy was estimated to be as high as 75 per cent of the total population, and the character of the existing schools was far from satisfactory. The instruction in the existing curricula was very poor; and the program of study bore little relationship to the apparent needs of Iranian society. As for agriculture, the methods of cultivation were antiquated and hence the yields were far from adequate, and the system, equivalent to "share-cropping," reduced the income of the peasant to about one-fifth to two-fifths of the total crop. Furthermore, only 16,760,000 hectares were cultivated, at a time when there were 33 million hectares of unused, potentially productive land in a country where, out of an estimated population of about 16 million, 85 per cent were rural, and those engaged in industry, including petroleum, did not exceed 200,000.<sup>1</sup>

In spite of the very strenuous and dictatorial efforts to Reza Shah to industrialize the country, the total number of persons employed in

<sup>1</sup>In 1945 it was estimated that only about 10-15 per cent of the total land area was under cultivation and that another 20-30 per cent could be cultivated if irrigation were available.

modern enterprises in 1950 was only about 120,000. This figure comprised 52,000 directly engaged in the oil industry, 15,000 employed by contractors engaged in construction work for the oil company, 20,000 in government factories, 30,000 in private industry, and 5,000 in mining.

As for the physical condition of the Iranians, the United Nations reported that the average daily calorie content of the food supply available for human consumption for the period of 1934-1938 was 2,010, and for the period 1946-1949 only 1,811.

In 1948 the total number of registered doctors was 1,500; of these about 750 were in Teheran. There were about 4,000,000 cases of malaria annually, as well as large incidences of trachoma, tuberculosis, venereal and intestinal diseases. The infant mortality rate was 500 per 1,000 live births. It was estimated that there were in 1949 about 1,000,000 opium addicts. The country had no adequate insect control program, and cities and towns were without sanitary water supply and sewage systems.

The attitude of the Iranian government to social services was best illustrated by the percentage allotment for such services in the annual government budgets.

#### Social Services

Year	Education	Health	Social Welfare
1939	6%	3%	—
1947	8%	3%	—
1948	7%	3%	—
1949	9%	3%	—
1950	9%	2%	—

These few facts on economic and social conditions suffice to illustrate Iran's general backwardness. To this we must add the fact that the withdrawal

of foreign troops produced unemployment and a general deflationary trend. Business suffered severely and by 1949 Iran experienced an alarming number of bankruptcies. The hard winters of 1948 and 1949 caused catastrophic crop failures, especially in the rich provinces of the northern part of Iran. The cereal and fruit crops were especially affected. The results were a sudden reduction in fruit exports, the slaughtering of cattle by the peasants, and actual famine. Government income from taxes fell to an alarming low. This was made worse by the fact that many unscrupulous land magnates were considerably in arrears on their taxes. The treasury found itself in such a state that the payment of the salaries of public officials had to be delayed for a two-month period. Such circumstances naturally caused unrest, and the government found it necessary to resort to mass arrests of Tudeh members, who step by step rose to the surface after the initial shock of Communist defeat in Azerbaijan. Political assassinations multiplied, and the government was more than once obliged to proclaim martial law in large areas of the country.

These conditions provided ideal grounds for Soviet intrigue. Ever since the rejection of the oil agreement an uneasy tenseness had prevailed in Russo-Iranian relations. Soviet diplomacy alternated between intimidation and blandishments, and Russia used both direct and indirect methods to bring pressure upon Iran. The nonratification of the oil agreement brought forth energetic Soviet notes, accusing Iran of breaking her word and of general hostility toward Russia. Meantime, in another series of notes, the Soviet Union severely castigated Iran for the activities of American military and gendarmerie missions, who were charged with trying to convert Iran into a Western bloc state for anti-Soviet operations. A clandestine radio of

"free Azerbaijan," situated just across the border in Soviet territory, broadcast vituperative propaganda against Iran, promising freedom and justice to the Azerbaijanis and Kurds if they rose against the oppressive rule of the government. The Soviet press published a number of intimidating articles with frequent references to Article 6 of the unfortunate 1921 treaty, which, it will be remembered, permitted Russia under specific circumstances to enter Iranian territory.

Despite these circumstances, however, the rejection of the oil concession closed a definite chapter in Iran's history, and the last tangible consequence of the war period was eliminated. It seemed that the country was again free to seek its own salvation. But internally, however, the situation was far from reassuring. In fact the new democracy found it a difficult task to solve any major problem. The new system resembled more an oligarchy of a thousand wealthy families than a democracy in the western sense. The Majlis was representative, with a few exceptions, of the rich landowning and merchant class, and as such it reflected conservative and essentially status quo trends. What the country needed was sweeping reform, but the parliament could hardly be expected to serve as an instrument of any radical changes.

There was a marked revival of disturbing political extremism, both on the left and on the right. On the other hand, utterly obscurantist clerical circles whipped up religious fanaticism among the ignorant masses. This movement found its leader and prophet in the person of Mullah Kashani.

Under such circumstances, the one ray of hope in this rather gloomy picture came mainly from young foreign-educated Iranians, and especially the personality of youthful Mohammad Reza Shah Pahlevi, who seemed fully

aware of both the internal and external dangers menacing Iran and who seriously desired the improvement of economic and social conditions.

The Shah had proved that the welfare of his people was his greatest concern. Once addressing a group of deputies he said, "It is neither honor nor privilege to rule over a group of impoverished and ignorant people. My real happiness would be to serve my people and to bring real job to every single family in my realm." His was not an easy task, however. If the Shah pursued the truly democratic policy of following the parliament's wishes, his dreams of reform would be reduced to naught. If he attempted to act on his own, he could easily be accused of dictatorial ambitions. As it was the Shah chose the middle road, conforming to the duties of a constitutional monarch, but at the same time trying to strengthen his own position. Pursuing this line, he brought about an important constitutional change. In a constituent Assembly, called specifically for this purpose, he established a Senate, which had initially been authorized by the constitution of 1907, but which had never been set up. The advantage of this measure was that, out of sixty senators, the Shah was entitled to appoint thirty and thus to gain more voice in parliamentary decisions. The Shah favored also a literacy test for elections. This outwardly undemocratic move was really quite progressive, since such a test would assure greater influence to the more independent urban electorate and would reduce the power of great landowners, whose elections to the Majlis were assured by the masses of illiterate and economically dependent peasantry. The project, however, was defeated in the parliament. In Iran's situation such measures pointed the way to more realistic and effective government; but they depended

too much on one man to offer such guarantees of progress.

At that time an unsuccessful attempt was suddenly made on the life of the Shah, wounding him slightly. The police directed their reprisals not only against the Tudeh Party but also against two other organizations. One of these was the "National Front" led by Dr. Mohammad Mossadegh who, both in 1944 and in 1947, when opposing the Soviet demand for an oil concession in North Iran, had also attacked the existing Anglo-Iranian concession in the south. The other was the Fidaiyan-i Islam (Devotees of Islam) inspired by the religious leader Mulla Kashani, who was among those now arrested. The following day the Tudeh party was officially outlawed. Soon afterward arrests were made among its members, to be followed, on March 2, 1949, by the trial of fourteen prominent Communist leaders. This action did not help the generally tense situation with the Soviet Union and, throughout the spring of 1949, Iran continued to feel the weight of Soviet displeasure. In March official Iranian sources announced three clashes on the Soviet-Iranian border in which Soviet armored divisions made deep forays into Iran. This resulted in the kidnapping of a number of Iranian soldiers. In April the Soviet Ambassador Sadchikov left Iran for Moscow, and his departure was followed by the closing of Soviet consulates in Northern cities. Simultaneously, Russia ordered Iran to close her consulate in Baku.

Iran reacted to this campaign in two ways. First, she attempted to retaliate in kind by reviving an old claim for gold and currency, which

the Soviet Union had owed Iran since 1942.<sup>2</sup> Iran also demanded prompt payment of \$10,000,000 in customs charges and more than \$1,000,000 in railway charges which Russia had failed to pay Iran.

Second, the Iranian government questioned the validity of the Soviet-Iranian Treaty of 1921. According to some press reports, Iran denounced the treaty in a note to the Soviet Union, but this was not officially confirmed. Anyway, Iranian official circles argued that the United Nations Charter invalidated the controversial Article 6 of the treaty, and it was rumored that Iran might bring the question of Soviet pressure before the Security Council. This did not materialize. Instead, Iran's ambassador in Washington, Hussein Ala, handed over to Secretary of State Dean Acheson a detailed memorandum which contained pertinent documentation and appealed for United States support. On March 23, 1949, Secretary Acheson made a public statement in which he declared that the Soviet charges that Iran was being transformed into an American military base were "altogether false and demonstrably untrue." He added that American interest in the security of the Middle East, particularly in Greece, Turkey and Iran, had in no way been reduced by the negotiation of the North Atlantic Treaty.

b. GROWTH OF FRIENDSHIP WITH THE UNITED STATES. "The United States has no territorial or imperialistic interests in Iran. Its only desire is to assist Iran to become strong enough to maintain its independence and integrity against any one who might have imperialistic aims there. We desire

<sup>2</sup>In 1942, 11.5 tons of gold, \$9,000,000 in American currency, and \$11,000,000 in Iranian currency were deposited by Iran in the Soviet Union. These deposits were not returned by Russia.

to see Iran develop industrially and stand on its own feet. This is the very opposite of imperialism."

These words by George V. Allen, present U. S. Assistant Secretary of State and former U. S. Ambassador to Iran, express American policy toward Iran during this period.

In resisting Soviet pressure Iran frequently looked toward the United States, whose military and economic power filled the Iranian leaders with hopeful expectancy. The Truman Doctrine speech of March 12, 1947, proclaiming the policy of containment of Communism and the pledge of assistance to Greece and Turkey, was greeted in Iran as evidence of American interest in the security of the Middle East. On October 6, 1947, the two countries concluded an agreement extending the life of the American advisory military mission to the Iranian army. It included a clause preventing military experts from other states from advising the Iranian army without the consent of the United States. This was followed, on July 29, 1948, by a grant of \$10,000,000 in American credits for the purchase of surplus military equipment and of \$10,000,000 for repair and shipping costs. The first shipment of these arms arrived in Iran in March 1949 a few days after Secretary Acheson's declaration.

As in most Asian countries, the real key to social and political advance was to be found in measures to overcome deficient communications, backward economic organization, and precarious standards of health, education, and popular welfare. The Iranian government was fully aware of this basic requirement, and in 1947 engaged the engineering firm of Morrison Knudson from Boise, Idaho, to make thorough surveys of Iranian economic conditions. These surveys served as the basis for a subsequent seven-year plan of



development. The plan was approved by the Majlis in February 1949. It provided for an expenditure of \$658 million and was one of the boldest and most comprehensive ventures ever attempted to improve social, educational, economic, and technical conditions. Iran also invited an American Consortium, Overseas Consultants, Inc. (O.C.I.) to prepare detailed blueprints and to act in an advisory capacity. The first O. C. I. team arrived in Iran in January 1949 and was soon enlarged by a number of experts and technicians. Paying \$600,000 to the O, C. I. per year, Iran hopefully counted on American loans, although basically the plan was to be financed from the royalties paid by the Anglo-Iranian oil company.

It seemed, therefore, a good omen when, on October 6, 1949, the United States Congress adopted the Mutual Defense Assistance Act, which in the framework of a general billion-dollar appropriation, contained a special fund of \$27,640,000 for military aid to Iran, the Phillippines and Korea. It was estimated that from this sum Iran would receive about \$10,000,000. This, however, was too small an amount to cope with Iranian military and economic needs. Iran hoped for a \$250,000,000 loan from the International Bank of Reconstruction and Development and for a grant or loan of the same size directly from the United States.

In the meantime, Soviet-Iranian relations were deteriorating, and Iran felt an urgent need of some reassuring decisions. In order to seek such increased military and economic aid the Shah made a trip to the United States. Arriving on November 16, 1949, he paid a state visit to official Washington, addressed the United Nations at Lake Success, and made a six-week good will tour through the country. The personable young ruler outlined his country's problems with both frankness and tact. While

carefully avoiding criticism of the U. S. S. R. - relations with that country, he intimated more than once, could be "a little better" - he left his hearers convinced of the importance Iran attached to American help in steering the difficult course ahead of it.

Both economic and military assistance were required, said the Shah, to ensure Iran's survival as an independent nation. Outlining his proposed course of action under the Seven-Year Plan, he spoke of the need to eradicate corruption among Iranian officials and exert pressure against large landowners, and of the opportunities of finding \$250 million from foreign sources in order to carry out the entire project. But, he said, the wisest plans for developing the country's human and material resources "cannot be pursued with vigor and effectiveness if the threat of aggression, in whatever form or wherever arising, is to divert Iran from her pressing domestic tasks." At present, because of "inadequate defensive means," Iran lacked "assurance of survival." Pointing out that the possession of modern defensive equipment threatened no one and was a universal aim of all governments, he expressed an earnest hope for broadened Iranian-American collaboration "in national defense, in economic development, in the achievement of social progress based upon increased production and a higher standard of living."

Those utterances brought no immediate, concrete results. It became obvious that there was no way of increasing the modest \$27,640,000 that was to be shared by Iran, Korea, and the Philippines under the Mutual Defense Assistance Act. Yet the intangible results of the royal visit, in terms of broadened understanding and solidarity, were considerable. Prior to his departure on December 30, the Shah and the President issued

a joint statement in which Truman, recalling the Three Power Declaration of Teheran on December 1, 1943, confirmed American interest in and desire for the maintenance of the independence and territorial integrity of Iran, declared U. S. support of international bank loans for Iran, expressed readiness "to facilitate Iranian economic development through the provisions of point 4," and offered on the basis of the existing congressional authorization "certain military assistance essential to enable Iran . . . .to develop effective measures for its self-defense."

These declarations committed neither the United States nor Iran to anything new; did not contain any definite military commitment, nor did they mention any concrete loan. From the military and economic point of view, the visit was a failure, and the Iranians did not conceal their disappointment. The importance of the declarations lay in the recognition of Iran and its territory, more explicit than at any previous time.

The reasons for American reticence were not hard to discover. The year 1949 was the year of Chiang Kai-Shek's collapse in China, and the official attitude of the U. S. State Department was that his "reactionary" government had wasted American aid it had received. A firm conviction was forming in Washington, primarily in the State Department, that while aid to Western Europe was put to good use, financial aid to the corrupt governments of Asia was just "money poured down the rat-hole."<sup>3</sup> This meant that unless Iran adopted measures of reform and purged her government of undesirable elements, she could not expect much from the United States.

<sup>3</sup>In the fall of 1949 and the spring of 1950, conferences of American envoys to the Middle East countries were held in Istanbul and Cairo, respectively. The reports of the participants on the internal situations in their respective countries were far from reassuring, and the reports on Iran were said to be particularly gloomy.

This was, in fact, what the American ambassador, John Wiley (1948-1949), conveyed to Iranian leaders.

c. ATTEMPT AT REFORM. The major problem in Iran after World War II, as everywhere else in the world, resulted from rivalry between two different ideologies, not from conflicting national interests. One of these ideologies, supported by Soviet Russia, promised the hungry peasants and workers of Iran a Utopia under Communism. The other, supported by the United States offered an opportunity for gradual improvement under democracy. While democracy offers continued respect for individual liberty, the Soviet spokesmen speak of "true democracy" in a classless society without landlords.

The common man in Iran was bewildered by these conflicting appeals. Which would prove more persuasive to him was not yet certain. The principal allies of the Soviets in Iran were poverty, disease, and an ineffective governmental structure in Teheran.

It was quite obvious that, without American support, Iran would have no chance of permanently resisting Russian encroachments as it had managed to do since World War II. This point had been strongly brought out by the Shah himself on his visit to the United States.

He had hoped that the United States would help Iran stabilize her economy and raise her miserable standard of living under the realization of the Seven Year Plan.

It was admitted in advance that a loan of \$250 million from the International Bank was one of the objectives of the Shah in visiting the United States. But when the State Department had considered that conditions in Iran were undesirable and that such aid would be conditional on the

establishment in Teheran of a government pledged to reform the administration, the Shah returned to Iran-obviously impressed by the Chinese debacle and by American admonishments, firmly determined to purge his administration and to institute the much-needed reforms. In February the Shah transferred his royal estates to the Imperial Organization for Social Welfare, to be parceled out on convenient terms on the poor peasants. Soon afterward the government shook up the administration of the vulnerable province of Azerbaijan. Five governors, nine prefects, six chiefs of police, and seven high grain-office officials were suspected. These measures, taken in conjunction with the previously mentioned steps to strengthen the Shah's constitutional authority, testified to the young ruler's earnest desire to pull his country out of the morass and imbue it with a new spirit.

Determined to form a cabinet that would fully support him in his reformist plans, the Shah in June 1950 appointed General Ali Razmara, the chief of the General Staff, prime minister. This appointment of an honest and energetic man met with warm approval of the West. Razmara's task was to clamp down on corruption, carry out the reforms under the seven-year plan, and prove by his actions that Iran was following a new path. His appointment coincided with that of Henry F. Grady as United States Ambassador to Iran. Mr. Grady had gained renown as the official "watchdog" of American Aid to Greece and was viewed by many as an "operating" ambassador, who would supervise the hoped-for economic aid to Iran. In fact, he brought with him three State Department economists, whose presence was an encouraging sign of active American interest.

A plan for regional councils, prepared by Razmara, provided for increased provincial self-government and for a curb on centralistic bureaucracy.

In the early fall a new purge in the administration resulted in the dismissal of 400 officials, and soon afterward, in the midst of an uproar in the Majlis, the Imperial Anticorruption Commission presented a list of 500 names of high officials unfit to hold public office. These measures were popular with the masses, but they met with strong criticism in influential political circles and threatened to bring on a cabinet crisis. Yet both the Shah and Razmara pursued their course with determination.

Under these circumstances, the announcement in September (officially confirmed on October 10) of a mere \$25,000,000 loan from the Export-Import Bank of Washington came as a severe shock to the Iranians.

For reasons not yet fully explained, the quest for more substantial loans was refused both by the World Bank and by the American government. The United States was apparently not prepared to go beyond this sum and beyond the token appropriation of a half-million dollars made additionally under the Point Four Programs.<sup>4</sup>

Iranians were disappointed and angered. In several interviews with American correspondents, the Shah made public his deep disappointment and wondered why the United States had given generous help to former Axis countries, while refusing more extensive aid to an ally, Iran. There was an angry anti-American outburst on October 4 in the Majlis, when one of the deputies asked why Iran "bothered" with the United States. The deputy questioned the expensive activities of Overseas Consultants, Inc. and asked whether or not the United States had paid Iran for the use of

<sup>4</sup>On October 19, 1950, the U. S. and Iran announced that a fund of \$500,000 was made available for the Joint Iranian-American Commission for Rural Improvement.

her railway during wartime. Growth of a pronouncedly anti-American feeling was strongly felt throughout the country. In mid-November the generally pro-western Razmara cancelled the relaying facilities of the Voice of America and BBC and allowed the publication of Soviet Tass dispatches in the Iranian press. Ambassador Grady's position became embarrassing inasmuch as, despite his reputation as a "watchdog", he had nothing to watch over and in November he went to Washington for consultation.

The Seven-Year Plan suffered a severe setback due to the lack of expected funds, a setback intensified by a quarrel between Overseas Consultants and the Iranian directorate under M. Nakhai. The American experts prepared to depart and their contract was not extended.

Russia was not slow to take advantage of this situation, and instead of intimidation, she adopted a policy consisting, in part, of blandishments. On November 5 she concluded with Iran a \$20,000,000 trade agreement, implementing the treaty of 1940, and thus considerably eased Iran's economic position. She also offered to negotiate such outstanding questions as the aforementioned Iranian gold, and the release of Soviet-held Iranian border guards. Soviet-Iranian negotiations were proceeding very well, and in mid-December it was revealed that ten important Tudeh leaders, previously sentenced, had been released from prison by some Iranian officers in what was described as a "kidnaping" operation.

d. ALI RAZMARA'S LAST ATTEMPT AND THE OIL CRISIS. The failure to obtain financial aid from the United States and the impending Iranian seven-year development plan, spurred both Razmara and the Majlis to press for a radical revision of the Anglo-Iranian oil concession. Negotiations had already dragged on for some time; during the adjustment following

World War II, it became obvious both to the Iranian Government and the Anglo-Iranian Oil Company that some modification would have to be made in the terms of the 1933 oil agreement.<sup>5</sup> This was not only because of the change in general political and economic world conditions, and of the terms of oil exploitation in the neighboring Middle Eastern countries, but also because of the company's policy of limiting the distribution of dividends and building up its general reserve. This affected the Iranian Government adversely, since its royalties were based on the distribution of dividends as well as on tonnage production. The company therefore offered, early in 1948, to discuss with the Government methods of adjusting its royalty income. The Government on its part raised three issues: increase in tonnage royalties; progressive reduction of the number of non-Iranian employees of the Company in Iran and basic prices for oil products sold for consumption in Iran. Discussions were carried on during the latter part of 1948 and the early part of 1949.

On May 14, 1949, it was officially announced in Teheran that a basis of agreement on all matters of mutual interest had been reached. Two months later a supplemental agreement to the 1933 concession was signed in Teheran by representatives of the company and the Iranian Government.

In accordance with constitutional requirements, the Iranian Government submitted the agreement to the Majlis for ratification. On July 28, 1949, however, the Majlis was dissolved; when the new Majlis convened the

<sup>5</sup>Chapter 4



agreement met with considerable opposition, and in January 1950 the Government proposed that before the agreement was considered by the Majlis as a whole, it be submitted to a special committee for careful examination. A committee of eighteen members was appointed, under the chairmanship of Dr. Mohammed Mossadegh. In December, the Committee reported against the agreement on the ground that it did not safeguard Iranian rights and interests, and at the end of the month the Government withdrew the agreement. On January 11, 1951, the Majlis approved the report of the committee and charged it with preparing a report on the course which the Government should take in the question of the Anglo-Iranian Oil Company.

These developments must be viewed in the light of events in other Middle Eastern countries. It was known then that negotiations were being conducted between the Saudi Arabian Government and Aramco and between the Iraqi Government and the Iraq Petroleum Company, for revisions in their contracts. Indeed, reports appeared in the press that Aramco and Saudi Arabia had agreed on a 50-50 profit - sharing plan, as of December 31, 1950. Also the Iraq Petroleum Company, in which the Anglo-Iranian is a one-quarter shareholder, had granted in November 1950 the same two shillings per ton royalty increase that it had offered Iran, but the government of Iraq had been dissatisfied with the increase and was agitating for better terms.

It was at the time that the news of the Aramco-Saudi Arabian agreement had been made public, that the attitude of the Iranian Majlis and Razmara stiffened. Simultaneously, Dr. Mossadogh's National Front in the Majlis began clamoring for the nationalization of the oil industry and on

February 19, 1951 Dr. Mossadegh proposed to the oil committee that the industry be nationalized. The committee asked Premier Razmara whether nationalization was practicable.

Under such circumstances, the Anglo-Iranian Company lost no time in communicating to Premier Razmara. On 23rd February 1951 a note was sent from British Ambassador Sir Francis Shepherd at Teheran to the Iranian Prime Minister, which have expressed the company willingness to examine an arrangement on a 50-50 basis, comparable with that recently reached in Saudia Arabia.

But the British willingness to that matter, as usual were to late, and although the note from Sir Francis Shepherd, and the advice of Iranian Cabinet Counsellors, encouraged Prime Minister Razmara to declare on March 3, that Iran was not sufficiently mature by modern standards to proceed with the nationalization proposals, but this was not a popular attitude, and he became a special target of the fanatical Islamic brotherhood Fadayan Islam which preached liberation of Iran from foreign influences and advocated immediate nationalization of the oil industry. So, four days after his rejection of nationalization as impracticable, Razmara was assassinated. He was shot on March 7, 1951, by followers of the Fadayan Islam, while he was attending a religious service in one of the mosques.