PERIPHERAL CAPITAL ACCUMULATION IN IRAN: 1800-1978

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DECLARATION

Except where otherwise acknowledged, this thesis is my own work.

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This study analyzes the pattern of transition from the precapitalist to the capitalist mode of production in Iran, and the specific character of capitalist development within the period of 1800-1978.

The general theoretical framework around which the empirical and historical evidence from Iran is organized is based on three main theses. The first thesis is that, through the approach of the internationalization of capital, it is possible to cut across the formal distinction between 'circulationism' and 'productionism' and to bring elements of the two perspectives together. The approach of the internationalization of capital is based on the historic periodization of the development of the world market, distinguishing between the three circuits of capital (merchant, money and productive capitals), and specifying the dynamics of the successive internationalization of each circuit. Emphasis is placed on the forms of subsumption of labour by capital (formal and real subsumption of labour) and modes of surplus labour extraction (absolute and relative surplus-value appropriation) in identifying the dynamics of the internationalization of each circuit of capital. This approach allows us to take into account both exchange and production relations. While the sphere of production always plays a determinant role in shaping the centre/periphery relationship, the sphere of exchange is dominant in certain historical conjunctures. This is the second thesis of this study.

The third thesis of this study is that the mechanisms of transition to capitalism in the periphery are fundamentally different from those in the centre. The endogenous model of transition in the centre cannot be transposed to peripheral formations where the transformation of production relations has occurred in the context of incorporation into a world market in which capitalism had already asserted itself. The approach of the internationalization of capital specifies the different trajectory taken in the transition to
Two structural features of the process of transition to capitalism in the periphery are focused upon in order to highlight the specificity of this process. First, drawing upon Marx's distinction between the 'first path' of transition, direct-producer/capitalist, and the 'second path', merchant/capitalist, it is argued that the internationalization of the circuit of merchant capital has blocked the 'first path' of transition to capitalism in the periphery, and has imposed the 'second path'. Second, internationalization of the circuits of money and productive capital in the periphery has not led to the generalization of capitalist wage-labour and the real subsumption of labour by capital. Despite the destruction of precapitalist modes of production in the periphery, non-capitalist 'forms' of production are seen to have survived and are restructured as integral components of the dominant capitalist mode of production.

In relating this approach to the historical experience of capitalist development in Iran, the period under consideration is divided into two main phases. The first phase (1800-1950) is characterized by the internationalization of the circuit of merchant capital, which not only blocked an organic transition to capitalism but also consolidated the precapitalist mode of production and intensified production of commodities for the world market on that basis. At this phase labour processes were formally subsumed by capital, and the sphere of exchange was dominant in establishing the relationship of the Iranian economy with the world market. The second phase (1950-1978) is distinguished by the internationalization of money capital, which led to the capitalist transformation of the economy and real subsumption of labour processes by capital. At this phase, the sphere of production was both dominant and determinant in shaping the relationship of the Iranian economy with the world market. However, the evidence drawn from the Iranian case-study shows that, although capitalism became the dominant mode of production in the 1970s, and
despite the movement towards the internationalization of productive capital, proletarianization and real subsumption of labour by capital were accompanied by the survival and re-structuration of non-capitalist 'forms' of production as integral components of the expanded reproduction of capital in both urban and rural areas. The imposition of the 'second path' of transition by merchant capital, and the survival of non-capitalist 'forms' of production in the present phase of productive capital are seen as the defining features of the peripheral character of capitalism in Iran.

The Iranian case, as an example of peripheral capital accumulation, shows that: (i) the dynamics of transition to capitalism in the periphery are fundamentally different from those of the centre, and there is no justification for extending the 'classical' model of transition into a general theory of capitalist development; and (ii) the centre/periphery relationship cannot be characterized either in terms of perpetual stagnation and underdevelopment or in terms of the development and eventual homogenization of relations of production. A diversified treatment of both capital and precapitalist modes of production, and of the historical periodization of world capital accumulation, provides a synthesis which cuts across these overly simple classifications.
EXPLANATORY NOTES

CITATIONS: The bibliography of works cited, at the end of the text, indicates the editions used; page references are to these editions.

Notes will be found at the end of each Chapter.

CURRENCY: The following exchange rates, being roughly the market rate, will be used for all market transactions:

1956-1970, U.S. $1.00 equals 76.5 rials (R76.5)
1971-1972, U.S. $1.00 equals R75.7
1973-1975, U.S. $1.00 equals R67.5
1976-1978, U.S. $1.00 equals R70.5
LIST OF TABLES

1. Social Composition of the First Parliament ........................................... 179
2. Iranian Profits and British Tax Collections from the AIOC: 1948-1950 ............. 256
3. Participation of Oil Companies in Iranian Oil ........................................... 259
4. Foreign Private Investment in Iranian Manufacturing Industry: 1956-68 ............. 263
5. Foreign Private Investment in Iran Through the Centre for the Attraction and Protection of Foreign Investments by Country of Origin .......... 264
6. Major Sources of Revenue as Percentage of Total Revenues: 1954-56 .................. 279
7. Share of Oil and Gas Sector in Government Revenues, Foreign Exchange Receipts and Gross Domestic Product During Five-Year Plans (Percentage) ........................................ 282
10. Excess of Imports Over Non-Oil Exports .................................................. 293
11. Exports From Iran Excluding Oil, Gas and Minerals ..................................... 294
12. Employment and Output of Large and Small Firms in the Urban Areas: 1964-67 ........ 307
15. Land Distribution Before the Reform ....................................................... 332
16. Land Redistribution: 1962-71 ................................................................. 355
17. Distribution of Land Amongst the Main Categories of Landholding .................... 363
CONTENTS

DECLARATION ........................................... i
ACKNOWLEDGEMENT ....................................... ii
ABSTRACT .............................................. iii
EXPLANATORY NOTES ..................................... vi
LIST OF TABLES .......................................... vii
INTRODUCTION .......................................... 1

CHAPTER 1: GENERAL FRAMEWORK OF THE STUDY ............. 18
A. The Paradigm of Developmentalism ............. 19
B. Neo-Marxism and Two Readings of History ........ 26
C. Mode of Production and Social Formation:
   Delineation of the Basic Concepts ............. 36
D. Social Sciences and the Study of the Middle
   East .......................................... 43

CHAPTER 2: AN ALTERNATIVE APPROACH TO THE PERIPHERY .... 63
A. Internationalization of Capital ............... 64
B. The Circuit of Commodity Capital ............... 72
C. The Circuit of Money Capital ................... 81
D. The Circuit of Productive Capital .............. 91
E. The Circuit of Productive Capital and
   Non-Capitalist forms of Production in the
   Periphery ..................................... 106

CHAPTER 3: INTERNATIONALIZATION OF MERCHANT CAPITAL
 AND THE SOCIO-ECONOMIC PRE-CONDITIONS OF
 THE EMERGENCE OF A NEW POWER BLOC:
1800-1911 .................................. 127
A. Incorporation of Iranian Social formation into
   the Capitalist World Market ................... 128
B. The Constitutional Movement ................... 166
C. The Two Paths of Capitalist Transformation ..... 181

CHAPTER 4: INTERNATIONALIZATION OF MERCHANT CAPITAL AND
GENERALIZATION OF COMMODITY PRODUCTION:
1911-1941 .......................................... 192
A. State in Peripheral Formations .................... 193
B. Socio-Political Fragmentation: 1911-1921 ...... 198
C. Absolutist Peripheral State and Generalization
   of Commodity Relations: 1921-1941 ............. 203
CHAPTER 5: INTERNATIONALIZATION OF MONEY CAPITAL AND
THE DEVELOPMENT OF CAPITALIST PRODUCTION
RELATIONS ........................................ 234

A. Contradictions of the 'Rentier' Peripheral
States ........................................ 235
B. Anglo-American Imperialist Rivalry and
Nationalization of Oil:1941-1953 .............. 249
C. Foreign Capital Investment and the Rise of
Capitalist Industry ........................... 259
D. Oil and Capital Accumulation ................. 277
E. Towards the Internationalization of Productive
Capital ....................................... 296
F. Capitalism and Non-Capitalist forms of
Production .................................... 304

CHAPTER 6: THE LAND REFORM ....................... 328

A. Pre-Reform Rural Class Structure ............... 330
B. The Nature of Agricultural Production
Relations ...................................... 341
C. The Land Reform ................................ 349
D. Post-Reform Class Structure: Development
of Capitalism and Non-Capitalist forms of
Production .................................. 365

CONCLUSION ....................................... 387

BIBLIOGRAPHY OF WORKS CITED ................. 396
INTRODUCTION

The purpose of this study is to analyze the specific pattern of transition from the precapitalist to the capitalist mode of production (CMP) in Iran, and the character of capitalist development, following the incorporation of the Iranian economy into the world market in the period from 1800 to 1978. The first two chapters of this study establish a theoretical context for the subsequent discussion of the Iranian case-study. A number of conceptual propositions are advanced in these chapters, which, it is argued, provide an alternative approach to the study of transition and capitalist development in the periphery. The last four chapters of this study constitute an analysis of the Iranian case-study in the context of this theoretical framework.

The first chapter provides a general background to the approach adopted in this study through an examination of the fields of both development and Middle Eastern studies. This chapter outlines the political and economic context in which the competing paradigms of 'developmentalism' and 'neo-Marxism' were formed. The conceptual procedures of these paradigms, and the major critiques developed against them, are also outlined. A critical discussion of these paradigms demonstrates the major problems which the field of development studies, in both its Marxist and non-Marxist approaches, presents in the study of Middle Eastern societies in general and of Iran in particular. It is shown that the intellectual traditions which have dominated the study of the Middle East and Iran share certain
methodological assumptions with the field of development studies. The identification of these traditions also demonstrates both the specificities of the field of Middle Eastern studies and the alternative interpretation of Iranian history and society presented here.

As part of this alternative interpretation, a distinction is made between two broad currents within the neo-Marxist paradigm. One is the trade-centred 'circulationism' which defines capitalism in terms of production of commodities for market and perceives (peripheral) underdevelopment as rooted in the system of international trade and specialization in primary-export products. According to this approach, the initial incorporation of peripheral areas into the world market through trade has led to their rapid and almost immediate capitalist transformation. The second interpretation, 'productionism', focuses on the sphere of production and considers wage-labour as the defining feature of capitalism. It sees capitalist transformation of peripheral areas to be incomplete, as evidenced by the survival of precapitalist modes of production (PCMsP) in the periphery. Both approaches are found to provide a limited and partial interpretation of the development of the world market and the process of peripheralization.

In Chapter Two the major theses of this study are advanced. My first thesis is that, through the approach of the internationalization of capital it is possible to cut across the formal methodological distinction between 'circulationism' and 'productionism' and bring elements of the two approaches together.
The approach of the internationalization of capital is based on the historical periodization of the world market in terms of the distinction between the three circuits of merchant, money and productive capital. It is argued that the internationalization of each circuit of capital encompasses a specific historical stage in the development of the international division of labour, involves a certain mode of integration of peripheral economies into the world market, a specific form of subsumption of labour by capital, and a certain mode of extraction of surplus labour.

The position of the periphery within the world market is initially determined by the requirements of merchant capital as an 'agent' of expanding competitive capitalism in the centre. Merchant capital acts as an intermediary between systems because, being restricted to the sphere of exchange, it can function in both capitalist and precapitalist environments. Internationalization of merchant capital consolidates PCMsP in the periphery and commoditizes their economies on that basis. In other words, merchant capital initially accommodates itself to the 'natural economies' and redirects the laws of motion of PCMsP on terms favourable to the requirements of central economies. Gradually the expanding sphere of commodity production comes under the dominance of merchant capital and the peripheral structures begin to be established. Merchant capital imposes specialization in the production of agricultural raw materials for export on peripheral economies, and introduces a local market for consumption of manufactured goods. This is the main requirement of competitive capitalism in the centre at this stage. As this mode of integration into the
world market does not necessitate capitalist transformation of the periphery, labour processes are formally subsumed by metropolitan capital.

In the phase of the internationalization of the circuit of money capital, the transition from competitive to monopoly capitalism in the centre makes export of capital to the periphery an imperative of metropolitan capitalism. At this stage direct capital investment in the productive processes breaks down PCMsP and deposes precapitalist ruling classes from power. Following capitalist transformation of peripheral economies, labour processes begin to be subsumed by capital in real terms. Finally, the internationalization of the circuit of productive capital leads to the internationalization of production itself, that is, universalization of the law of value and a world-wide expansion of capitalist production relations. At this phase, the dynamics of commodity and money capital are intensified and subordinated to the requirements of productive capital.

The historic periodization of the formation of the world market, on the basis of the internationalization of the three circuits of capital, shows that the centre/periphery relationship is subject to changes depending on the dynamics of each circuit of capital. Each stage imparts certain significance to both the sphere of exchange and the sphere of production. Rather than suggesting the theoretical primacy of the sphere of production over that of the exchange, or vice-versa, it is argued that while the sphere of production is always determinant, in certain historical conjunctures the sphere of circulation is dominant. It is in
the phase of the internationalization of the circuit of merchant capital that international terms of trade and exchange relations become dominant factors in the process of peripheralization and influence the mode of incorporation of peripheral economies into the world market. However, in the phase of the internationalization of the circuits of money and productive capital, the sphere of production becomes both dominant and determinant. At this stage the sphere of exchange can no longer adequately explain the structure of peripheralization and the centre/periphery relationship. This is the second thesis of this study.

My third thesis is that the mechanisms of transition to capitalism in the periphery are fundamentally different from those in the centre. The approach of the internationalization of capital enables us to distinguish clearly between the endogenous model of capitalist transition in the centre and that in the periphery, where transformation of production relations have occurred in the context of incorporation into a world market in which capitalism had already asserted itself.

In order to substantiate this thesis, two features of the historical process of peripheralization are emphasized. Firstly, drawing on Marx's distinction between the 'first path' of transition to capitalism (direct-producer/capitalist), and the 'second path' (merchant/capitalist), it is argued that the initial incorporation of peripheral formations into the circuit of merchant capital has blocked the 'first path' of transition to capitalism in the periphery and has imposed the 'second path'. Secondly,
incorporation into the circuits of money and productive capital has not led to the generalization of capitalist wage-labour and the real subsumption of labour by capital. Rather, non-capitalist labour processes are maintained and restructured as integral components of the expanded reproduction of capital.

In developing the latter argument, much of my effort has gone into a conceptual clarification of the character of noncapitalist structures and their relationship with the dominant CMP. I have characterized these labour processes as 'forms' rather than 'modes' of production, following the conceptualization of the mode of production advanced in this study. Mode of production is here defined as a broad, epochal category encompassing both the immediate production processes and the mechanisms of the reproduction of production relations. The theory of 'articulation of modes of production', developed within the 'productionist' approach, is inconsistent with the approach adopted in this study. 'Natural economies' are destroyed at the present phase of the internationalization of productive capital, and their dissolution has followed the process of commoditization under the domination of merchant capital. Non-capitalist labour processes are considered as 'forms' of production in that their reproduction cycles, and thus their integrity as a separate, distinct mode of production, are broken and replaced by the production of exchange-values and the consumption of commodities, although direct producers retain ownership in the means of production and control of the immediate production process. The distinction between formal and real subsumption of labour by capital provides
the theoretical tool of understanding the mechanisms of the appropriation of noncapitalist producers' surplus labour by the circuit of productive capital. These producers, formally subsumed by capital, are exploited by the dominant CMP through production of absolute surplus value which involves devalorization of their labour time.

Within the theoretical framework outlined above, the last four chapters of this study examine a particular example of peripheral capital accumulation: Iranian social formation between 1800 and 1978. It is necessary at this point to make a few remarks on the choice of the period examined in this study.

Iran has been inside the penumbra of European trade since at least the 1600s. It is suggested here, however, that it was not until the early decades of the 19th century when commodity production for external markets began to assume a peripheral character. The slow, difficult and protracted character of the process of commodity production for the world market was determined by both the dynamics of European capitalism and the internal economic trends of the Iranian formation.

The rise and consolidation of the world market in the 16th century brought about increasing commodity production in Iran. All the historical sources show that Iran during the Safavid Empire (1501-1722) witnessed a substantial appropriation of surplus product in the form of raw materials and petty-commodity craft production for export to both European and Far Eastern markets. It was particularly
during the reign of Shah Abbas I (1587-1629) when mercantilist policies in foreign trade were encouraged and a network of state-controlled commerce and petty-commodity production was established. Trade relations with Europe expanded and commercial envoys were sent to Britain, Denmark, France and the Netherlands. Silk was the major export item, and its production and marketing was monopolized by the state. On the whole, trade and craft production was subject to vigorous state control. Merchants and artisan producers, although controlled by and subordinated to the state, prospered and advanced their commercial activities and wealth.

It is open to interpretation as to whether the absolutist, mercantilist Safavid state, with its expanding foreign trade, agrarian surplus and petty-commodity craft production, was evolving towards an indigenous capitalism. However, it is certain that its fall in 1722, primarily due to internal reasons, can be considered as a watershed in Iranian economic history. Following the fall of the Safavids, the Iranian formation descended into eight decades of chaos and civil wars between various nomadic tribes. In the tumultuous decades of the 18th century, particularly the 1720s, 1750s and 1790s, tribal nomadism and the absence of a strong central government revived the 16th century tendencies towards socio-economic fragmentation. Until the rise of the Qajar dynasty just before 1800, the conditions of socio-economic fragmentation and civil wars ensured that surplus product was no longer appropriated and concentrated by a centralized ruling class. The silk trade of the Safavids dried up and artisan production of handicrafts for
export declined. The internal conditions proved difficult and resistant to European capital penetration throughout the 18th century.

With the establishment of the Qajar dynasty in 1792 and the restoration of 'order' in the mid-1800s, commodity production and foreign trade expanded once again. However, the expansion of foreign trade, particularly during the second half of the 19th century, assumed a character different from that of the Safavid Empire when the movement of commodities could be controlled by a strong centralized state and a favourable balance of trade could generally be maintained. Moreover, European capitalism was experiencing its expansionary industrial phase in the 19th century, and was increasingly in search of raw materials and market potentialities. Under the Qajar dynasty, the first patterns of the peripheralization of the Iranian economy were established. Economically backward and relatively isolated, the internationalization of merchant capital brought Iran into the orbit of 19th century European colonial expansion. The military defeats from Russia and Britain, and the imposition of capitulatory treaties by these two competing imperialist powers in the first half of the 19th century, laid the foundation of the peripheralization process. By the second half of the 19th century, Iran had definitely moved into a semi-colonial and peripheral position in the world market.

The Iranian case study is divided into two major historical phases. The period of 1800s-1950s, encompasses the phase of the internationalization of merchant capital, and the period
of 1950-1978 is the phase of the internationalization of money and productive capitals. The beginning of the internationalization of productive capital can be traced back to the mid-1970s. This process, however, remained embryonic and stopped short of completion due to the 1979 Iranian Revolution. An analysis of the economic trends which the Iranian Revolution has established during the past decade, and whether they represent a break with the capitalist world market, is beyond the scope, concern and objective of this study. The Revolution, however, is seen as a turning point in Iranian history, which explains the choice of the period under consideration.

The period of 1800-1950, identified with the internationalization of merchant capital, is considered to constitute a more or less consistent economic trend as the Iranian formation, under the domination of merchant capital, remained basically precapitalist and the mode of its incorporation into the world market was not altered. Chapter Three examines the period of 1800-1911, when the penetration of foreign merchant capital laid the foundation of the peripheralization process. Merchant capital in Iran, characteristically, did not dissolve the PCMP. Rather, by subordinating the laws of motion of the precapitalist economy to the requirements of industrial capitalism in the centre, and through import of manufactured goods to Iran and export of raw materials to the centre, it restructured and consolidated the PCMP and instigated production of commodities on that basis. In contrast to the 'circulationist' proposition, it is shown that the initial incorporation into the world market through trade did not
lead to a capitalist transformation of the Iranian economy. However, the sphere of exchange assumed a particular significance in that it affected the internal structures of production. Merchant capital restructured precapitalist production relations through mechanisms such as the concentration of the means of production (land), introduction and relative consolidation of private property in land, the production of cash crops for the world market, and a limited degree of monetization. It is also shown that the internationalization of merchant capital led to the decline of petty commodity production and, by blocking an organic transformation of petty-commodity to capitalist production, imposed the 'second path' of transition on Iran.

The Constitutional Movement of 1905-11, the hallmark of this period, is examined in relation to economic changes brought about by the internationalization of merchant capital. The Constitutional Movement is seen as the long-run political consequence of precapitalist commoditization of the Iranian economy. It marked the rise of a relatively powerful merchant class which came into contradiction with the indigenous landowning class and the metropolitan bourgeoisie. The attempt of this class to capture state apparatuses and to establish an independent bourgeois state, and the reasons of the failure of the Movement, are examined in Chapter Three.

Chapter Four examines the period of 1911-1941, considered as the phase of the maturation of the internationalization of merchant capital. My interpretation of the period of the 1920s and 1930s constitutes a revision of the dominant view
on this relatively little-studied period. Despite the constitution of a centralized 'nationalist' state, Reza Shah's period is not seen to represent either a break with the precapitalist past, or a period of 'modernization' and capitalist transformation of the economy. Rather, the 'statist' period of the 1930s exhibited an almost exemplary structure of precapitalist commoditization and full integration with the world market. During the depression of the 1930s, political authority found itself in a relatively autonomous position and began to implement its 'statist' policies. Reza Shah's infrastructural investments and administrative reforms aimed at expanding the sphere of commodity production in order to allow merchant capital a greater domain of activity. In contrast to the post-II World War period, it was not money capital whose internationalization constituted a world-wide division of labour. Merchant capital continued to be the dominant circuit of capital which performed this function. Reza Shah's state is also seen as the conjuncture at which the rudimentary separation between political and economic power laid the foundation for the future capitalist transformation of the country.

In the post-II World War period, Iran was no longer tied to the world market through the export of agricultural raw materials and import of manufactured goods. The increasing concentration and centralization of capital in the centre, and the booming world economy, made possible export of capital to Iran, and its investment at the point of production. Capital export from the centre led to the gradual ascendance of capitalist production relations, and
to the emergence of a capitalist home market and a capitalist state. The import-substitution policy that was adopted in the 1960s was similar to the post-1945 experiences of many other peripheral economies. In Chapters Five and Six, these structural changes are analyzed through an examination of the role, functions and policies of the state in both urban and rural areas. The nature and outcome of state policy measures is seen as indicative of the capitalist transformation of the economy as well as of the state representation of class interests. In discussing the post-war industrialization model, traces of the theoretical framework of the 'regulation school' will be discernible. The move from the 'sub-Fordism' of the 1960s to the 'peripheral Fordism' of the 1970s represented the beginning of the internationalization of productive capital. Emphasis is also placed on the role of the oil sector in the capital accumulation process, and the distinct structural attributes which it has imparted to the character of the state and the pattern of class formation.

Important objectives of the last two chapters are to question the assumption that subsistence production is likely to disappear with the development of capitalist production relations in the periphery; and to assess the evidence drawn from the Iranian case for the hypothesis that peripheral capitalism, rather than dissolving non-capitalist forms of production, restructures and perpetuates them. It is shown that although capitalism became the dominant mode of production in Iran by the 1970s, in both rural and urban areas noncapitalist structures survived and were subordinated to the dictates of capitalism. Following the
theoretical proposition advanced earlier, it is argued that these labour processes do not constitute a distinct, separate mode of production. Rather, they are noncapitalist forms of production characterized by formal/partial possession of the means of production, by combined production of exchange-values and use-values, and by the formal subsumption by capital.

I have tried to draw the historical picture in broad outline, while concentrating at some length on theoretical interpretation. It is believed that the history of Iran provides substance to many theoretical issues in the field of development studies. My purpose in this study of a particular case is to contribute to the elaboration of theory in the field of development studies, as well as to present an interpretation of Iranian history which would challenge many assumptions made in the field of Middle Eastern studies. It is necessary at this point to make a few general remarks on the methodology adopted here.

Given the complex and multi-faceted nature of development processes, and the relatively long period of the Iranian history covered by this study, the approach adopted here is necessarily selective. Throughout the following chapters, emphasis has been placed on the identification of economic trends in three major areas of economic activity in the peripheral economy: agriculture, industry and trade. These areas are then investigated to reveal the basic and changing patterns of integration with the world economy. This focus on the determinations acting upon the economic structure has necessarily led to a number of omissions. The character of
the state, formation of classes, the major class struggles of Iranian history and internal and inter-state political relations do not receive a systematic theoretical treatment, and are discussed insofar as they help establish the broader economic trends which are taken to constitute the process of peripheralization. The state, in particular, is dealt with only in that its policies and interventions have influenced the establishment of these economic patterns. The discussions on the peripheral state, at the beginning of Chapters Four and Five, therefore, should not be taken as a systematic theoretical analysis of the evolution of the peripheral state. Rather, they are intended to clarify the underlying themes of these chapters: state policies and the mode of state intervention vary according to the particular phase of capital accumulation. A given level of incorporation into the world market, and the imposition of a certain type of specialization on the peripheral economy, have imposed certain structural limitations on the peripheral state. As will be demonstrated, the mode of intervention of the Iranian state shifted from that of intensifying commodity production on a precapitalist basis in the 19th and early 20th centuries, to active intervention at the point of production from the 1960s onwards. The central theoretical tool for defining the character of state intervention is the nature of the dominant circuit of capital in each phase of capital accumulation. The function of state intervention at each phase is to redefine the relations under which labour is subsumed by capital, and thus to secure the conditions for the reproduction of production relations.
The Iranian case study provides abundant evidence of the role of the state as an agent of structural change, but a lengthier and systematic treatment of the state would require a different theoretical approach necessitating the determination of the political instance in the periphery. By focusing on the appearing patterns of economic activity, I have hoped to avoid falling into the politicist-voluntarist perspectives which largely characterize studies on the periphery.

The historical and economic trends identified here are taken to constitute the basic turning points in the process of peripheralization, not only of Iran, but also of other peripheral areas of the world economy. Within peripheral economies this process has varied considerably as each individual country has accommodated capital penetration in specific ways, depending on its precapitalist mode of production and precapitalist structures. I believe, however, that despite these 'specificities', there are certain regularities in patterns of development to which all contemporary peripheral societies have been and still are subjected. The theoretical framework basic to this thesis could also assist the analysis of other peripheral formations. However, I must emphasize that it is beyond the scope and purpose of this study to make comparisons with other cases of peripheral accumulation; a comparative study of peripheralization would have required a different type of project and it would have been naive to make generalizations at this level of analysis. For example, studies by Clawson (1977-1978-1979) on Egypt and Iraq, Berberoglu (1980) and Keyder (1981-1987) on Turkey, Richards (1977-1982) on Egypt,
Seddon (1982) on Morocco and Stork (1979) on Iraq show both striking similarities and major differences with the case of Iran.

I should also comment on the nature of the sources used in this work. Because of the circumstances of this study, the statistical and historical data employed here are largely drawn from secondary sources. These data, produced by conventional economic and historical studies on Iran, have been reinterpreted in terms of changes in the mode of integration with the world market and in the production relations in order to present an alternative view of Iranian history. Without a prior theoretical framework, this reinterpretation of empirical data would have been impossible.

One final note on key theoretical contributions which enabled the development of the theoretical framework of this study: Christian Palloix (1975-1977) has established the preliminary bases of a theory of the internationalization of capital in terms of the distinction between the circuits of capital and historical periodization of the development of the world market. Patrick Clawson (1979), in a lucid and insightful work, has applied this historical periodization to the case of Iran. In this study, however, through a more detailed investigation of the capital accumulation process in Iran, and a focus on the surviving non-capitalist forms of production, I have tried to challenge the view of the homogenized world market advanced by the approach of the internationalization of capital.
CHAPTER ONE

GENERAL FRAMEWORK OF THE STUDY

The field of development studies, as it developed in the post-World War II period, constitutes a large, diverse and interdisciplinary area of academic research. Concerned with development processes in all the comparatively 'poor' countries known as the 'Third World', it covers an enormous geographical area and a large part of the modern history of the world.

The large, diverse and rapidly changing literature of development studies poses problems in situating this field of study within a specific 'discipline'. Given the complex and multi-faceted nature of development processes, it is now conventional wisdom that the study of development does not constitute, and cannot be usefully pursued, within a single 'discipline'. The particular complexity of the subject matter means that the study of development is inevitably interdisciplinary, transcending the boundaries of disciplines such as economics, history, sociology, political economy and human geography.

The field of development studies is not only multidisciplinary, but also, in the sense used by Kuhn (1962), is in a 'pre-paradigm' stage. The concept of paradigm refers to a pre-theoretical entity, a set of assumptions which serves to define the framework of study.
Rather than a 'scientific paradigm', development studies is constituted by a multitude of partial and unsynthesized models and theories. Only in the sense that the existing schools, at the most general level, share certain basic methodological assumptions is it possible to speak loosely of the existence of competing paradigms.¹

The framework and limitations of these paradigms are too numerous to consider in detail, and are fully discussed in the literature on development. This Chapter therefore aims to broadly outline the concepts and conceptual procedures of the competing paradigms, their main methodological assumptions, and the context of their development. The major criticisms of these prevalent paradigms, both in general terms and in relation to the study of the Middle East and Iran, will also be outlined. This discussion should help define and differentiate the materialist approach adopted by this study from conventional approaches to the fields of both development and Middle Eastern studies.

A. The Paradigm of Developmentalism

As a field of academic research, development studies has to be placed in the context of the changing nature of international relations and economic and political realities of the post-World War II period. The post-1945 era was characterized by the political bipolarity of the cold war and the advent of national liberation movements in the Third World. The success of the Chinese Revolution in 1949, and of the Cuban Revolution in 1960, as well as the spread of Soviet influence in Eastern Europe were seen as challenges
to the 'stability' of the 'free world'. Development studies became the focus of concern in Western social sciences, particularly in North America, seeking to exclude 'communism' from the 'free world' and to formulate a path of development for Third World countries which would provide an alternative to the 'totalitarian' and 'forced labour' economies of the socialist bloc. Ultimately, development studies aimed to provide an ideological cover and framework for continuous capitalist expansion in the Third World.

The paradigm of developmentalism, whose best-known and most influential school is 'modernization theory', is the particular product of this socio-political order. It is constituted around the central theme of continuum theory, i.e., the idea that development is a continuous, universal and irreversible progress towards some determinate end-points. The evolutionary concepts of development, social change and progress are adopted from the writings of the founders of sociology: Durkheim, Spencer, Tönnies and Weber. Indeed, modernization theory and various models of modernization constituted the unity of what is also known as the 'sociology of development'.

Talcott Parsons' structuralist/functionalist discourse best represented the approach of the sociology of development. Parsons' theoretical framework is centred around the traditional/modern dichotomy, derived from the key concept of pattern-variable. One side of the pattern-variable shows the 'original state' of 'traditionality', while the other side characterizes the 'end-state' of 'modernity'. The end-point of this dichotomy assumes the methodological
status of 'ideal-type'. Traditionality is characterized by the absence of certain typical characteristics of modern society. Western model of development provides the ideal-type of modernity against which traditional societies are juxtaposed as infant models. 'Modernization' involves a piecemeal and orderly process in which modern elements accumulate and displace traditional ones; it designates a cumulative movement from one state of equilibrium to another. Another example of this evolutionary/functionalist approach is the 'stages of growth' model, as represented by the work of W.W. Rostow. This model depicts traditional societies at a 'lower' stage of the process of development, already completed by Western industrialized societies.

The cumulative concept of development is predicated upon the notion of 'diffusion'. Diffusion occurs through the spread of certain material, technological and cultural patterns from modern to traditional societies. Within each backward nation itself diffusion occurs from modern to traditional sector. This theory thus presupposes a notion of 'dual society', which sees backward countries in terms of the co-existence of two separate sectors of 'modern' (industrial/advanced), and 'traditional' (feudal/archaic), each with its own history, dynamics, labour organization and corresponding 'elites'.

Modernization theory further identifies several levels at which this diffusion occurs. One is the level of social structure, which, following the evolutionary theories of Durkheim and Spencer, conceives of the process of change in terms of increasing societal differentiation. Modernization
at this level is indicated by the emergence of markets, division of labour, bureaucratic rationality, modern state structures and so on. At the cultural level, modernization theory is concerned with the sphere of norms, values and attitudes. Rationalization, a concept derived from Weber, refers to a process whereby an increase in the normative patterns of rationality at the cultural level produces a prerequisite for the attainment of modernity.

An influential variant of cultural diffusionism is psychological or personality theory, whose extreme example is the work of David McClelland. The psychological approach identified certain personality traits as central to economic development. These included the 'need to achieve', 'entrepreneurship', and innovative, market-oriented and acquisitive personality. Economic development is therefore causally linked to the psychological attributes of individuals.

The major events of the 'development decades' of the 1950s and 1960s, however, proved exceedingly anomalous for the paradigm of developmentalism. The main anomaly was constituted by the continuing lack of development in the Third World. Indeed, by the early 1960s the crisis of non-development was acute, indicating that the very discourse of developmentalism had prevented it from explaining, or even recognizing, this crisis.

Despite the professed universality of its claims to a body of neutral, value-free and scientific knowledge, developmentalism came to be increasingly identified with an
ethnocentric and interest-based ideology whose ultimate aim was preservation of economic and foreign policy interests of Western capitalism. To the extent that North American and Western European values and norms in the political and economic spheres were abstracted and projected, without any qualifications, into those of Third World countries, developmentalism reflected Western cultural prejudices and aimed to preserve a given social and political order.

Nothing reveals the ideological character of the sociology of development more than the obsession of cultural diffusion theorists with pluralism, non-disruptive change and conflict-free politics. The best-known proponent of this view was Daniel Bell. In the consensus model of politics which he advanced, societies were depicted as comprising of pressure groups whose respective interests could be accommodated by bargaining and compromise rather than conflict and violence. The fact that the 'end of ideology' thesis was rooted in an anti-Marxist philosophy and the politics of the cold war has been discussed at length elsewhere and does not need to be repeated here.

More fundamentally, modernization theory came under attack for its functionalist and evolutionary concepts of change and structure, and its failure to specify the mechanisms of change from one 'stage' of development to another. In Parsons' model, for instance, functionality is conceptualized in terms of systems of maintenance and adaptation. Adaptation itself is the process which makes transition from one state of equilibrium to another possible. Real change can be explained only in terms of
events exogenous to the model: the emphasis is on
development which maintains the system in equilibrium and
promotes social integration. This functionalist model
explains the preoccupation with stable and non-disruptive
change mentioned above, and a corresponding fixation upon
instability as the main obstacle to development. By
translating functions into values, this model implies that
the destruction of the existing institutions is
'dysfunctional' to the system. Evolution is a progressive
process of differentiation and a parallel process of
reintegration of increasingly more complex structures.
Reintegration occurs through teleological necessity, while
failure to achieve 'development' is envisaged in terms of
'breakdown of modernization'. The system experiences a
'breakdown of modernization' when there is a lag in the
development of agencies of integration relative to those of
differentiation. In this Durkheimian view of social
disorder, therefore, all types of socio-political upheavals
are seen as pathological deviations from the orderly and
cumulative process of development.

Modernization theory was also ahistorical in that it failed
to problematize the central object of its analysis:
'development'. 'Development' was seen as non-problematic as
it has already been realized in the West. This conception of
development failed to recognize that the historical
experience of Western Europe was only one variant of the
process of transition to 'modernity'. Neither did it see as
problematic the application of this model to an extremely
heterogenous geographical area, lumped together under the
guise of 'traditional societies'. The ahistorical and
evolutionary character of this discourse prevented it from recognizing the fact that the origins and nature of European capitalism were different from those of the countries of Latin America, Asia and Africa which, for centuries, have been subordinate components of a structured whole: the capitalist world market. Reliance on abstract and ideal-type models led modernization theorists to neglect this crucial historical relationship.

Personality theory and other variants of cultural diffusion thesis were the crudest examples of the ahistoricity of the sociology of development. Based on the 19th century liberal economic model of free enterprise, this particular approach divorced social institutions and psychological attributes of individuals from their historical and structural roots. No link was established between the emergence of economic individuality and changes within economic structures such as the formation of a capitalist market which provides a basis for the conditions of rationality and entrepreneurship. This approach conflated different types of economic transformation and resorted to a psychological reductionism which explained structural change in terms of psychological variables.7

Although developmentalism remains in a pre-paradigm stage, it is possible, on the basis of the broad outline presented above, to identify its basic methodological assumptions: that development is a unilinear, cumulative and universal process; that it does not involve irreconcilable conflicts of interests between 'traditional' and 'modern' societies, but rather an orderly, non-ideological, non-violent process
of 'diffusion' and 'differentiation'; that there is no historical and structural connection between the ideal-types of 'traditionality' and 'modernity'; and that transition from the former to the latter state means 'traditional' societies becoming a mirror image of already 'modern' ones.

These methodological assumptions formed the site of the main critique of modernization theory. Known in broad terms as 'neo-Marxist', this alternative perspective developed as an extended critique of the paradigm of developmentalism and was concerned with the continuing massive discrepancy of accumulated capital and power between advanced and backward parts of the world. In discussing the neo-Marxist literature on development, two broad approaches can be identified. The first is the various formulations of dependency theory; and the second approach is that of the 'modes of production'. The former approach is usually identified with 'circulationism', following its concentration on exchange relations and international terms of trade in analyzing the processes of transition and underdevelopment; while the latter approach, known as 'productionism', focuses on production relations and various forms of labour exploitation. This distinction is over-simplified, yet it highlights, in broad terms, how different methodologies have led to different readings of the history of the world market.

B. Neo-Marxism and Two Readings of History

As an extended critique of the paradigm of developmentalism, theories of dependency developed in, and contributed to, the
milieu of what may be termed Third Worldist Marxism of the 1960s and 1970s.

The formation of Third Worldism, both in theory and practice, was promoted not only by the crisis of non-development in the Third World, but also by a series of events which characterized the decade of the 1960s. Countries which had been classified as 'stable' and 'democratic', and placed in leadership roles for the 'modernization' efforts of their 'elites', experienced breakdowns of governments, populist upheavals, revolutions and violent coups. Third Worldism was particularly associated with the success of the Cuban Revolution in Latin America, which was followed by a series of guerrilla movements in Venezuela, Brazil, Colombia, Guatemala and Argentina. In Asia, Third Worldism was associated with the Vietnam war, especially after direct US military intervention in South Vietnam in 1965. There the defeat of the most technologically and militarily advanced country by an army of peasant guerrillas embodied the very model of Third World revolutions and proved the limits of American hegemony. In Africa, Third Worldism was associated with the triumph of the Algerian war of independence in 1962, armed struggle in Angola in 1961, in Guinea Bissau in 1963, and in Mozambique in 1964. The emergence of the Palestine Liberation Organization brought Third Worldist politics to the Middle East in a major way, particularly after the defeat of its military wing by the Hashemite monarchy in Jordan in 1970."
In North America, the citadel of developmentalist ideology, these events, particularly the Cuban Revolution and the war in Vietnam, had far-reaching repercussions for the established orthodoxy. Developmentalism as a mode of analysis had retained credibility because it had rationalized and justified the status-quo in the post-war period. But, in the face of these events, it seemed difficult to salvage the paradigm. It was against this background that developmentalism suffered a major setback, and the Third World emerged, in Foster-Carter's words, as 'an actor in its own right' (1974:85). The 'New Left' in Western Europe and North America came to identify itself with the national liberation movements and anti-imperialist wars in the Third World. Theories of dependency were both a response to, and a product of, this milieu. They turned many of the concepts and conclusions of developmentalism on their head and replaced them with the concepts of 'exploitation' and 'repression'. The language, assumptions and conclusions of dependency theory played, and continue to play, an influential role in the politics of the left in the Third World. However, as we shall see, its radicalism advanced little our understanding of the history and contradictions of Third World societies.

Dependency theory is particularly associated with the writings of Andre Gunder Frank. Though rooted in the structuralism of the economists of the United Nations' Economic Commission for Latin America (ELCA), Frank's early writings (1967-1969) represented an attack on the concept of dualism predominant both in bourgeois development theory and in the programmes of orthodox Latin American communist
parties. Against the dualist theories Frank argued that Latin America is wholly capitalist because it has been involved in the production of commodities for the world market since the 16th century colonial conquest. This argument was further developed through a rejection of the linear evolutionism of bourgeois models. Frank argued that backwardness is not a residual or original state, but a phenomenon resulting from a particular historical experience. Contemporary Third World societies were never undeveloped, but actively underdeveloped in the process of emergence and consolidation of capitalism as a world system. Capitalist penetration from the 'metropoles' has promoted, and continues to promote, the process of underdevelopment in the 'satellites' through the 'drain' of indigenously-produced 'economic surplus'. Bourgeois development theory, therefore, has failed to recognize that Third World countries have been underdeveloped in order to develop capitalism in the metropolitan countries, and that their position is in no way comparable to that of precapitalist Europe. Given that subordination to, and dependence on, the capitalist world market has universally pre-empted and 'blocked' development in the Third World, the only way of achieving development is to 'disengage' from the system, through a socialist transformation.12

Theories of dependency, in broad terms, were a response to the ethnocentrism of bourgeois development models. They showed that the process of socio-economic change is not essentially indigenous, and that the 'classical' model of capitalist transformation derived from the experience of Western Europe was clearly inadmissible for Third World
countries where incorporation into the world market occurred through direct and indirect European colonial rule. Dependency perspective, therefore, rightly placed the question of development in its international context and shifted the emphasis from the normative sphere to the structural and external determinants of development. Dependency school, however, was submitted to severe criticisms for its failure to break with the underlying epistemological assumptions of orthodox bourgeois models: the failure to problematize and theorize its central concepts (development, underdevelopment, capitalism), an ahistorical, circular and teleological mode of reasoning which neglected national histories in favour of global explanations, and a nationalist and utopian critique of capitalism which simply replicated the basic categories of developmentalism. Underdevelopment, i.e., the state of a 'disarticulated', 'dependent' and externally-oriented economy is juxtaposed against the 'ideal-type' and 'normal' model of self-centred and autarchic capitalism of W. Europe. To its critics, dependency theory's idealist and teleological reasoning was simply a mirror image of bourgeois development theory.13

For the purposes of this study, the most significant critique of theories of dependency is their conception of capitalism. Capitalism is conceived as a basically static system of exploitation in existence since the 16th century and characterised not by specific class relations but by production of commodities for profits on the world market. Production relations are not specific to a certain mode of production, and various forms of labour organization, such
as sharecropping and slavery are, therefore, compatible with capitalism. If the world economy is basically capitalist, then the incorporation of peripheral export economies into the world market means that the relations of production in these economies are also capitalist.

This interpretation is derived from defining a mode of production at the level of exchange and adopting the world economy as the unit of analysis. Within the capitalist world market, peripheral societies are seen as exploited by the 'drain' of 'economic surplus' through 'unequal exchange' or through monopolistic control over trade. Underdevelopment is primarily externally determined, resulting from the imposition of a particular pattern of specialization on the periphery. By giving an almost total external determination to the history of peripheral formations, 'circulationism' fails to employ a historically-specific notion of capitalism, to analyze the development of classes, and to identify the roots of class struggle. The contradictions of the development of capitalism are located in the international system of exchange rather than in the production systems of different social formations. By locating class struggle in the exploitation of the periphery by the centre, the antagonistic contradiction between labour and capital is transferred to a contradiction between 'proletarian' and 'bourgeois' nations.³⁴

The attempt to counteract circulationist tendencies of theories of dependency has led to a 'return to Marx', as represented by the modes of production approach. Under the considerable influence of structuralist Marxism of Louis
Althusser and the attendant school of 'Marxist economic anthropology', this approach was consolidated by the 1970s.\textsuperscript{15}

Althusser's Marxism was principally concerned with issues of epistemology and methodology, and advanced a view of historical materialism as a general science of all social formations. This general science was based on the hypothesis of determinate in the last instance by the economy, and the distinction between dominance and determination.\textsuperscript{16} Influenced by Althusser's specific reading of Capital, 'Marxist economic anthropology' expressed the conviction that the encounter between Marxism and anthropology was necessary and useful both theoretically and politically. The school was unified on the assumption that a Marxist anthropology is one which applies Marx's insights into capitalism to other (precapitalist) modes of production. This position followed Althusser's reading of Capital which contends that it is possible to deduce a theory of precapitalist societies from Marx's analysis. In other words, although Capital is about the CMP it also contains the science of historical materialism whose concepts and categories can be used as a basis for a general theory of all modes of production, all historical epochs, including contemporary Third World societies and the present international division of labour.

In the general field of development studies, the influence of Althusser's structuralist Marxism, and of 'Marxist economic anthropology', was most clearly represented by the 'productionist' approach which became a serious contender
for hegemony in a period when no single paradigm in the field has been able to become dominant. In general terms, productionism should be seen as a reaction to the theoretical and methodological assumptions of the dependency school; and as a rejection of the conceptualization of history as a universal process. In contrast to the exchange-oriented theories, productionism has placed major emphasis on the concept of the mode of production, the form of surplus extraction and internal structures of peripheral formations. These issues, as well as the process of transition, the destruction of 'natural economies', and the development of capitalism in agriculture are ignored in the trade-centred theories of dependency. For the critics of circulationism, notably Brenner (1977) and Laclau (1971), capitalism can be conceptualized at the level of production relations only; and its defining feature is commodity labour power.

Within this perspective, various formulations have sought to explain backwardness of Third World societies in terms of the persistence and articulation of PCMsP with capitalism. According to these formulations, the incomplete transition in the periphery takes the form of the co-existence of two or more modes of production, one of which is capitalist, dominant, and expanding, while the other (or others) is precapitalist and subordinate. In this context, 'articulation' has become the key concept because it is used to identify different forms of co-existence between precapitalist and CMP. In contrast to the circulationist approach, the blocked transition and underdevelopment are explained in terms of factors primarily 'internal' to social
formations, i.e., the persistence of PCMsP, precapitalist class structure and precapitalist modes of exploitation. The development of each country is determined by its dominant mode of production. Capitalism generates economic development while other modes of production do not. Capitalism is seen in dynamic terms, and the class relations and particular forms of labour organization are determinant factors in a successful or failed transition to capitalism. Underdevelopment is caused by a certain class structure and organization of production.

The approach of modes of production does represent an advance on theories of dependency. In contrast to the trade-centred theories of dependency, the emphasis on the concept of the mode of production points to where the main dimension of development and underdevelopment lies: forces and relations of production, and the economy in general. The mode of production concept also leads to a considerable narrowing of analytical focus, given the high level of generality of the theories of dependency. Rather than explaining everything by reference to the imperatives of the system as a whole, productionism brings internal structures of production into focus. For example, the emphasis on the production sphere has enabled Marxist economic anthropologists to deconstruct the evolutionist categories of the 'liberal' tradition of Anglo-American anthropology, and to show that 'primitive societies' are not homogeneous but there exists in these societies a variety of economic systems.
Despite its contributions, productionism, like circulationism, has raised as many problems as it has solved. Structural determinism of the mode of production approach has been submitted to criticisms which, paradoxically, are reminiscent of the earlier arguments against the dependency perspective. It is argued that Althusser's structuralism has denied the possibility of any autonomous collective action and has therefore led the school to an ahistorical analysis. In an almost Durkheimian fashion, the analysis begins from structures or systems to practices. Classes as relatively autonomous agents of social transformation disappear from the scene and become the mere 'bearers' of structures. This static conception of class brought Althusser's Marxism perilously close to Parsonian functionalism, rendering it incapable of dealing with the question of social change. Moreover, the disturbing tendency to see capitalist development in the core countries as homogeneous compared to that in the Third World reappears in this approach, implying that the process of transition from feudalism to capitalism in Western Europe will be replicated in the Third World. This assumption is reminiscent of the universal stages of national development, as postulated by modernization theory.

The prevailing and competing paradigms of development in the Third World, as represented by poles of bourgeois developmentalism and neo-Marxist approach, have been submitted to substantial empirical and theoretical critique. Although it can be said that in no other area of social sciences Marxism has been more influential than in the field of development studies, and that various Marxist approaches
have substantially challenged conventional development theory, the field of development studies remains in a state of impasse. This situation is partly understandable: no paradigm completely replaces another, and the evidence for paradigm change is never conclusive. However, there does not seem to be a professional consensus even on the most central question of this field, i.e., why has there existed, historically, and continues to exist, such asymmetries of accumulated capital and power in the contemporary world?

Despite the present state of disarray in the theoretical field of development, it is certain that, within a Marxist tradition, the concept of the mode of production remains indispensable to the analysis of any concrete situation; it is not possible to proceed without it. In the following section I shall specify the concept of the mode of production employed in this study in the context of a brief critique of productionism, and then consider its implications for the analysis of a concrete historical situation.

C. Mode of Production and Social Formation: Delineation of the Basic Concepts

It may be an obvious point that a great deal of confusion and disagreement over the concept of the mode of production stems from the fact that it has been conceptualized at various levels of theoretical abstraction. Specifically, there are two points of divergence in defining the concept of the mode of production. First is the question of the links between the economic 'base' of a mode of production
and the class structure and the corresponding political institutions; second is the question of the unit of analysis at which the reproduction of this social totality should be analyzed (Goodman and Redclift, 1981).

Depending on the level of theoretical abstraction, for some writers the definition of a mode of production is exhausted by concentrating at the regional level or the level of individual enterprises. This level of abstraction results in the conceptualization of several modes of production within a social formation. For others, a mode of production is what might be called a 'social totality', or a 'structured whole', which embodies the class structure and political institutions. Here mode of production is conceptualized at the level of social formation and constitutes a unit with it.18

Within the productionist approach, much of the debate on the concept of the mode of production has focused on the distinction between production and reproduction spheres (Friedmann 1976; Hindess and Hirst 1977; Meillassoux 1972-1981; Terray 1972; Wolpe 1972-1980). This distinction has enabled articulation theorists to argue that determinate combination of forces and relations of production do constitute distinct, separate modes of production, though they are subordinated to capitalism. In other words, precapitalist modes of production are not necessarily and inevitably destroyed by capitalism and cannot be simply reduced to the status of different forms of capitalism.19
The question of the theoretical status of the existing PCMsP constitutes the site of the main critique developed against the articulation approach. The critics of this approach, notably, Alavi (1983), Banaji (1977) and Bernstein (1977-1979a), have argued that the concept of articulation is the outcome of a functionalist logic and an empiricist reading of relations of production. For this group of writers, generally concerned with the development of capitalism in agriculture and the subsumption of peasant production under capital, the control of capital over the production and exchange of subsistence producers means that these producers, although not fully dispossessed, are not located within a distinct mode of production and are best seen within the sphere of capitalist production relations. Central to an understanding of this approach is the level of theoretical abstraction employed in defining the concept of the mode of production, which necessarily leads to a rejection of the concept of articulation.

The question of the level of abstraction is most clearly discussed by Banaji (1977), who argues that a low and formal level of abstraction has led articulation theorists to confuse 'forms of exploitation' with 'relations of production'. Wage-labour, defined as dispossessed labour, is only one 'form' of subjugation of labour by capital, and, like market and commodity production, is only a 'simple category' common to several 'epochs of production'. On its own, it cannot define the CMP.

In defining modes of production, Banaji argues, the laws regulating the movements of different epochs of history, or
the 'historically-determinate laws specific to each epoch', should first be identified. In the case of capitalism, although emergence of commodity labour power is the necessary basis, in specifically bourgeois relations of production, wage-labour is 'capital-positing, capital-creating labour'. Capitalist relations of production are value-producing relations and should not be confused with modes of surplus extraction. Banaji therefore defines a mode of production in broad epochal terms, as a 'definite totality of historical laws of motion'.

It then follows that all other elements of an epoch are subordinated to the laws of motion of a single mode of production; they are nothing other than forms of existence of that single mode. Therefore, the concepts of mode of production and social formation, although of quite different levels of theoretical abstraction, coincide, and exclude the possibility of articulation of modes of production except in a transitional, antagonistic manner.

Alavi (1983) employs the same level of theoretical abstraction in defining and distinguishing his concepts, and therefore draws rather similar conclusions. According to him:

A mode of production defines the structure of social relations of production; it is an analytical concept. The concept of social formation, on the other hand, is a descriptive term. It denotes an actual and specific societal entity, with all its peculiarities, products of past developments, and structuration and restructuration, results of accident and design, and all historical legacies of the past and potentialities for the future. As such it refers to a particular geographically bounded and historically given societal entity with given resources and given forms of economic and
political organization and cultural features (Alavi, 1983:178, emphasis in original).

A version of the formulation developed by Banaji (1977) and Alavi (1983), and as we shall see by Bernstein (1977-1979a), has been adopted in this study. In order to explain why this 'epochal' concept of the mode of production has been employed, it is necessary to specify it in more detail.

In Capital, Marx employed the concept of the mode of production as an idealized and hence formal-abstract object which can be used to analyze a concrete reality. Mode of production refers to the economic level of society, not 'economic' in the narrow sense but in the sense of the production of material values and the set of social relations. It is a theoretical construct which defines a set of historically determined relations of production and appropriation in a concrete social formation. While forces and relations of production are considered to be the two essential aspects of every mode of production, the production process cannot be understood simply in terms of the techniques of production and the organization and ownership of the means of production. Production must be considered within the social totality, which also includes legal and state structures, the dominant ideology and the political structure. To be more precise, a mode of production specifies what has variously been described as a 'social totality' or a 'structured whole'. This is to argue that in conceptualizing a mode of production it is essential to define the conditions of reproduction, and this requires that the class and political structures instrumental in maintaining the relations of production be specified.
The concept of the mode of production as a 'social totality' adopted in this study emphasizes the analytical unity of production and reproduction spheres. Though never specifically defined in Capital, Marx's concept of the mode of production was by no means restricted to the definition of forces and relations of production, given that production and reproduction constitute a unitary social process:

> whatever the form of the process of production in a society, it must be a continuous process, must continue to go periodically through the same phases. A society can no more cease to produce than it can cease to consume. When viewed, therefore, as a connected whole, as flowing with incessant renewal, every social process of production is, at the same time, a process of reproduction (Marx, Capital, Vol.I:566).

The analytical unity of production and reproduction spheres is indicative of the methodological errors of the articulation theory: an empiricist interpretation of production relations and a functionalist mode of argumentation. The empiricist reading of relations of production does not grasp the methodological distinction between empirical and analytical space and, therefore, identifies the immediate sphere of production with capitalism. All non-wage forms of labour are located within PCMsP and articulation with them is seen as 'necessary' for capitalism. This 'necessity' is then explained either in terms of some notion of profitability or as an effect of the 'needs' of the expended reproduction of capital. Bradby (1975) has argued that articulation to secure external markets, raw materials, and labour supplies is not a permanent or universal condition for the reproduction of capital. The 'needs' of capital are not related to capital
as a homogeneous whole "but to individual capitals or branches of capital at a particular time" (Bradby, 1975:149). Moreover, as Clarke (1977) has persuasively argued, a notion of capitalism which embodies the existence or bringing into existence of its own conditions of reproduction, or which states that something is necessary and assumes that the conditions of its existence also exist, involves an 'essentialist' and 'voluntarist' conception of capitalism.

These criticisms do not imply that noncapitalist producers do not exist, but that the 'uncomfortable notion of existential necessity' can hardly account for the reasons of their existence. Rather than developing arguments based on the concepts of 'existential necessity', we should look at the particular conditions within certain industries or sections of capitalist production which depend on the output of noncapitalist producers. This is to say, the absorption, preservation or even creation of noncapitalist structures depend on conditions which can not be identified in advance. Each case of capitalist/noncapitalist relationship has to be theorized separately and should not be related to some 'needs' of the expanded reproduction of capital.

To reiterate, a mode of production cannot be identified by observing immediate production processes; rather, it should be defined in broad epochal terms, by incorporating into this concept the mechanisms of reproduction, the state, and political and ideological institutions. Production and reproduction constitute a unitary process rather than functionally distinct spheres. This epochal concept of the
mode of production excludes the possibility of the existence of more than one mode of production in a social formation. It however leaves unanswered the important question of the characterization of production processes organized on a non-capitalist basis in the periphery.

Before addressing this question, it is necessary at this point to establish the relevance of the concept of the mode of production specified here to the study of Iranian social formation. For this purpose, the following discussion first identifies the conventional approaches to the study of the Middle East and outlines the problems they present. This discussion would establish how and why a materialist approach based on the concept of the mode of production is both necessary and useful for the study of Iran. Throughout the discussion I have found it necessary to refer to the study of the Middle East and Iran interchangeably, as almost all problems presented in the study of Iran are derived from the larger field of Middle Eastern studies.

D. Social Sciences and the Study of the Middle East

Most studies on the Middle East are descriptive and characterized by a relative absence of the contemporary debates found in the study of other regions of the Third World. This is primarily due to the fact that the tradition of Western scholarship on the study of the Middle East is constituted by three closely intertwined approaches: sociology of development, functional anthropology and Orientalism (Seddon, 1986). Despite their different historical and intellectual roots, these three traditions
share certain basic epistemological assumptions and concerns which have largely formed the framework for the study of the Middle East.

Both functional anthropological ethnography, as exemplified in British and North American anthropology of the first half of the 20th century, and the post-war sociology of development characterized Middle Eastern societies as self-contained organisms maintaining an internal equilibrium and lacking historical dimension. These approaches shared the assumption that in the Middle East economic and social prerequisites for dynamic change were absent, and focused on the normative and cultural spheres, particularly the institutions of religion and family, to explain resistance to change and the persistence of backwardness. As discussed above, these intellectual traditions systematically ignored the internal dynamics of change and failed to confront the determinants of externally-introduced change, namely, the relations of exploitation and domination that characterized the colonial and imperialist structures within which the Middle East was incorporated. Neither the 'external' nor the 'internal' determinants of structural transformations were identified as appropriate problems for analysis.21

While the traditions of the sociology of development and functional anthropology also dominate the study of other regions of the Third World, in the case of the Middle East the problem is compounded by the tradition of Orientalism. Since the publication of Edward Said's Orientalism in 1978, a large corpus of literature has arisen in response to this tradition, either in an attempt to salvage it, or to further
deconstruct its main categories. However, despite the extensive critique it has been subjected to, the tradition of Orientalism continues to dominate the study of the Middle East.

Classical Orientalism can be traced back to the first historic Christian experience of Islam, beginning in the Middle Ages until the 18th century. During this period, capitalist Europe gradually emerged out of feudal Christendom, the last of the Arabs were expelled from Spain, and aggressive Ottoman Empire helped much to fashion the image of the 'cruel' Islamic polity. Classical Orientalists were mainly the medieval Christian polemicists who sought to defend the values of Christendom against the threat of aggressive Islam (Asad, 1973a).

Modern Orientalism is historically distinct; it is rooted in the rise of European colonial empires and the imperial expansion of Europe in the Middle East in the 19th century. Its method, assumptions and preoccupations articulate the deep contradictions of that 'unequal historic encounter'. In Said's view (1978) modern Orientalism is more than a field of study; it forms a discourse constituted by a set of generalizations, abstractions, relationships, structures and texts which define the Orient and the Orientals for the West. Through this discourse the West has sought to find clues to its own rationality and humanity, as compared with the alleged irrationality and repressiveness of Islamic polity and society. Orientalism is therefore constituted around the central assumption that there is an ontological distinction between the 'Orient' and the 'Occident': an
absolute and systematic difference separates the rational, developed and humane West from the apparent, decadent and inferior East. This alleged ontological difference also entails an epistemological one which holds that the conceptual instruments, scientific categories and political descriptions employed to understand Western societies are, in principle, irrelevant and inapplicable to the Eastern ones.

Central to an understanding of the ontological distinction between the 'Orient' and the 'Occident' is the characterization of the former in terms of a 'series of absences' (Turner, 1984:158). The most significant 'absence' in the Orient is that of private property rights in land, which has resulted in the institutionalization of a particular form of political rule: 'Oriental despotism'.

The absence of private property rights gave the Orient its stagnant and despotic conditions. In a situation where the state, instead of individual citizens, was the real landlord and property could be confiscated arbitrarily by the ruler, autonomous cities with a legal character and internal coherence never fully developed; no urban bourgeoisie could prosper; and no autonomous institutions which could intervene between the whimsical and illegitimate demands of the despot and the mass of the population could come into existence. Consequently, social classes, and a clearly defined class structure, did not develop in the Orient, which therefore lacks the dynamism of class struggle. Instead of classes, Oriental society was constituted by a complex mosaic of 'tribes', ethnic groups, communities and
religious sects. The mosaic diversity of the social structure enabled the despotic overlord to divide and rule, and to own and confiscate landed property without fear of coherent and organized opposition.\textsuperscript{23}

Despotism and the absence of private property rights are therefore the key features of Islamic polity and society. In this connection, Asad (1973a) makes the interesting point that while the tradition of functional anthropology, which largely dominated the study of African societies, stressed consent and legitimacy as the central elements in the integrated political systems of African countries, the Orientalist image of Islamic society was very different. Here the defining feature was force; the Islamic society was viewed as fragmented and the Orientalist focused on the element of repression in the institutionalized relationship between rulers and ruled.

Orientalist scholarship also emphasized the attitude of resignation and submission to the ruler on the part of the ruled. This attitude was explained in terms of the religious essence of 'Islam'. Islam was portrayed as a monolithic, unchanging worldview outside history, yet one which paradoxically determines all other aspects of Oriental society. The whole 1,300 years of Islamic history and its various epochs, the 'Golden Age of Islam' (9th to 12th centuries), the 'Islamic Dark Ages' (13th to 18th centuries) and European colonial expansion in the Middle East (19th century), were subsumed under the general rubric of 'stagnation', 'decay' and 'continuity' (Hammami et al., 1988). Islamic history was seen as free from conflict and
turmoil, and Islam as fostering fatalism and resignation, which in turn characterized 'Muslim psychology'. Islamic counter-cultures such as Sufism, which provided critiques of hierarchy and exploitation, and the populist tradition in Muslim societies as expressed in the repeated popular revolts, never formed the object of Orientalist's analysis.24 An essentialist conception of Islam as a totalizing force and consciousness, together with the absence of private property rights and the predominance of despotism, defined the ethos of the Orient: fatalistic, quiescent and stagnant. The progressive, rational and democratic values of the West could not develop in the Orient.

Based on an essentialist and idealistic epistemology, and through a series of stereotypes and abstractions, Orientalism transformed the Orient into an image, and represented it as an eternal and uniform entity incapable of defining itself. Perhaps Iran more than any other Middle Eastern country has conformed to the Orientalist image of an unchanging, stagnant and remote land. With the increasing incorporation of the Iranian economy into the world market and its rapid peripheralization in the 19th century, the first Orientalist images of 'Persia' and 'Persians' began to take shape.25 These images first appeared in the popular genre of the 19th century: 'books of travel'.26 The travelogue descriptions of Iran presented the image of an exotic, remote and tranquil land inhabited by backward, childlike people and despotic, capricious kings, where, for thousands of years, nothing had happened and nothing had changed. Backwardness was explained by reference to the
despotic and corrupt court of the Qajars, forces of Islam, general ignorance and the particular character and temperament of the 'Persians'. These early Orientalist images of Iran clearly conveyed the disparagement and disdain of the West of 'other' cultures. For these Western 'observers', Persia typified the backward, idle, exotic and sensual Orient, and, yet, a curiously attractive land which provided them with an outlet for their escapist fantasies and romantic nostalgia.

Although Orientalism was initially a European phenomenon, particularly as it was institutionalized in 19th century Britain and France, with the decline of European formal empires, the advent of decolonization movements and the rise of informal American empire in the post-1945 period, the 'old world' scholarship on the Middle East shifted to the new terrain of American 'area studies'. As discussed earlier, 'political modernization', 'economic development' and 'national character' studies proliferated rapidly in post-war America in order to rationalize the new imperial order and to enable the US to compete favourably with the Soviet Union in the cold war. In the field of Middle Eastern studies, however, developmentalism incorporated, adopted and echoed the Orientalist discourse, albeit modifying it to accommodate the new American hegemony over the Middle East. For instance, in the case of Iran, although modernization theory transformed the 'despotic king' into a 'modernizing monarch', the basic characteristics of Iranian society and economy were depicted as essentially the same. Iranian society continued to be seen as an inherently disintegrated and fragmentated entity, with all groups and institutions
dissolved in order for the monarch to achieve and maintain the absolute subordination of his subjects.

Throughout the 1950s and 1960s Iran provided an ideal-type for modernization theory in North America. The psychological/personality approach of modernization theory was particularly influential in the study of Iran. Generally speaking, the inherently unchanging social structure and the particular form of political rule were seen as impeding socio-economic development in Iran. Insecurity, fatalism, individualism, cynicism, aloofness, irrationality, and subjectivity characterized Iranian 'psyche' and formed 'obstacles to modernization'. The two most prominent advocates of psychologism and cultural diffusion model, Lerner (1958) and McClelland (1963) studied 'political attitudes' and 'psychological orientations' of Iranians. While Lerner discovered that 'extremism' characterized Iranian 'national character', and established a direct link between this psychological attribute and the particular ecology of the country, McClelland explained the low rates of economic development in the 1920-1950 period in terms of the weakness or lack of 'achievement orientation' among Iranians, as evidenced by the insufficient occurrence of achievement-related themes in Iranian children's stories.

But it was the works of Zonis (1971) and Bill (1972a) on Iran which typified the broader trends of Middle Eastern studies in North America, and provided a vivid example of the fusion of developmentalism and Orientalist discourse. Zonis' work is an examination of political conflict and political development in Iran through the psychological and
biographical study of three hundred individuals he calls the 'political elite'. Based on 'scientific' methods such as questionnaires, computer-based data and psychological tests, he arrives at the conclusion that the 'insecurity' of the 'political elite' provides a valid guide to understanding political processes of Iran. Bill, on the other hand, is concerned with the rise of the 'new middle class', which he terms 'professional-bureaucratic intelligentsia', and seeks to explain the 'alienation' experienced by this class in the face of the 'challenge of modernization'.

It goes without saying that these works reflect, in characteristic ways, the fundamental assumptions of the sociology of development. Lack of adequate conceptual basis, mechanical scientism, abstracted empiricism, confused positivistic notions and an anti-historical and anti-materialist approach characterize these studies. The past, a frozen, undifferentiated and static entity, is conceptually separated from the present, and the phenomenon under study bears no relationship with its social and material context (de Groot, 1978). Thus Zonis (1971:127) contends that for the past 2,000 years the patterns of political mobility in Iran have remained basically the same; and Bill (1972a:2) argues that class relations in Iran have persisted unchanged for nearly 1,400 years. It is therefore not surprising that relevant analysis of the historical and structural determinants of 'insecurity' and 'alienation' allegedly experienced by the members of the 'political elite' and the 'intelligentsia' in Iran is never produced. The sweeping generalizations, the vacuous attitude to time, and the total denial of internal dynamics of change, all
characteristics of modernization theory, are reinforced in these studies by the tradition of Orientalism and its image of the timeless Orient.  

However, despite the psychological and normative obstacles to 'development', Iran was also depicted as the arch-model of modernization. Iran's rates of economic growth, urbanization, development of infrastructure and industrialization were cited as evidence of a successful 'take-off' to 'modernity' and a promising model of growth. The context of this generally positive and progressive image of Iran under the Shah, as propagated by cold war scholars such as Bill (1972a), Binder (1962), Lerner (1958), McClelland (1963), Savory (1973) and Zonis (1971), was obviously US-Iranian relationship in the three post-war decades and the pressing need to discredit and dismiss its critics. Edward Said (1978) has shown us how 19th century Orientalists served the interests of the formal empire. The blunt ideological character of post-war US-Middle Eastern studies, compared to the tradition of Orientalism, reflects the informal structures of American empire, its declining tendencies, its insecure foundations and the challenges it faces today almost everywhere - least of all in the Middle East.

In the late 1960s and 1970s a different interpretation of Iranian history and society came to the fore. Influenced by theories of dependency, the Cuban Revolution and Maoist teachings, the alternative interpretation saw Iran as an arch-model of dependent capitalist development, and the American support for the Shah as an evidence of the
existence of a neo-colonial 'puppet' regime promoting a 'lumpendevelopment' through the agency of a corrupt and 'comprador' bourgeoisie. Much of the writings of this period reflects the particular orthodoxy of the left which has earlier been described as Third Worldist Marxism. Characteristically, the major constituent elements of this orthodoxy were radical nationalism, populism, economism, lack of concern with theory and a narrow conception of political practice (Arman, 1986). The Third Worldist interpretation saw the major contradiction of Iranian society as an external one and argued that the main task of progressive forces was an anti-imperialist struggle. A populist and romantic conception of revolution defined it as a broad-based, anti-imperialist struggle whose aim was to overthrow a 'puppet' regime and change the direction of development from a 'dependent' to an 'autarchic' one. For the Iranian Third Worldist writers, dependency theory provided a moral critique of capitalism by reference to a utopia free from exploitation and inequality. The Marxist concern with the totality of social relations of production and the internal contradictions of Iranian society were reduced to a struggle between the oppressor (US imperialism) and the victim (Iranian masses). Therefore, while class analysis in the orthodox Orientalist and developmentalist traditions were either wholly absent or based on confused sub-Weberian categories, in the Third Worldist literature it appears, only to be reduced to a subjectivist sociological problematic of inequality, injustice and deprivation.

Although Third Worldist interpretation subjected the central assumptions of orthodox approaches to Iran to extensive
critique, it proved to have almost equally oppressive implications for both theory and practice. By ignoring the Marxist concepts of class and contradiction in favour of a popular struggle against foreign dominance, by emphasizing a return to 'national values' and 'native culture', and by an equally essentialist distinction between the 'West' and the 'East', the left's Third Worldism predictably played into the hand of its enemy. Hammami and Rieker (1988) have described Third Worldist analysis as reflecting the 'epistemological privilege of the oppressed'; and al-Azm (1984) has called it 'Orientalism in reverse', having in mind Arab nationalism and Islamic revival movements. It is this type of Third Worldist analysis which has reproduced the ethnocentrism of conventional approaches to the Middle East.

Despite the general deconstruction of categories derived from Orientalism, functional anthropology and sociology of development, the field of Middle Eastern studies has hardly progressed beyond its colonial heritage. It seems that even radical and Marxist scholars on Iran find it difficult to break completely from the Orientalist categories of Middle Eastern 'despotism', 'timelessness' and 'continuity', which have plagued this field of study for so long. More fundamentally, these problems are rooted in the theoretical weaknesses of these works, itself derived from the overall lack of concern with social theory and the assumption that 'Western' concepts of class and politics are inapplicable to the study of the Middle East. These assumptions remain enduring and resilient, despite works produced by scholars such as Asad, Clawson, Glavanis, Halliday, Keyder, Owen,
Richards, Said, Seddon and Turner, which have done much to 'decolonize' the field. 33

However, to challenge the established intellectual traditions also involves suggesting an alternative approach. It is suggested here that the starting point for the analysis of Iranian society and history begins with the deconstruction of the analytical categories of the fields of both Middle Eastern and development studies at large. Static and essentialist categories such as 'Islam' and 'Orient', ideal-types such as 'traditional' and 'modern', and reductionist constructs such as 'dependent development' are dismissed as obscuring contradictions internal and external to Iranian society. Although dismissing the assumptions of these intellectual traditions, this study emphasizes the significance of 'Western' concepts of class and politics, and argues that they should establish the point of reference of the analysis of Iran. The Chapters on Iran challenge the persistent idea of 'Middle Eastern exceptionalism' and show that basic Marxist concepts such as mode of production, property relations, class and exploitation are as relevant to the study of the Middle East as they are to the rest of the world.

The approach adopted here is based on historical and materialist concept of Iranian society and economy. It emphasizes the dynamics of the changing involvement of the Iranian economy in the world market during the past two centuries and the impact of this involvement on property relations, class configuration and the structure of the state. Only within this framework is it possible to
deconstruct categories derived from both Orientalism/developmentalism and the more recent Third Worldism.

It has not been possible for me here to unfold all the basic ontological, epistemological and other underlying assumptions constituting the Marxist paradigm. I have, however, highlighted those essential aspects of the Marxist method which are relevant for explaining the type of transformations this study proposes to analyze. It is my conviction that historical materialism is distinguished by its emphasis on the most basic and primary human activity: social production and reproduction. This emphasis reveals how human beings, in developing a way of producing, alter the material conditions of their existence as well as their way of thinking and ideas. In the final analysis, for Marxism, what defines and determines the specificity of any society and any historical epoch is the property system and production relations. All the crucial characteristics of human society, means of production, techno-economic division of labour, social relations of production, etc. are analyzed through the general, abstract concept of the mode of production discussed in this Chapter.

This work should be seen as part of a broader reconceptualization in the fields of both development and Middle Eastern studies, and as an attempt to establish that a Marxist study of Iran is both relevant and necessary.
NOTES TO CHAPTER ONE

1. For more detailed discussions of the questions of paradigm and discipline in the field of development studies see: Bodenheimer (1970) and Foster-Carter (1976).


6. For detailed discussions of this point see: Bernstein (1971) and Bodenheimer (1970).


8. For the approach of circulationism, see the following works in the bibliography: Amin (1974-1976); Emmanuel (1972); Frank (1967-1969); and Wallerstein (1974-1979). The modes of production approach is represented in the works of Bettelheim (1972); Laclau (1971); Meillassoux (1972-1981); Rey (1982); Terray (1972); and Wolpe (1972-1980).

10. For an attempt to salvage the paradigm of developmentalism, see: S. Huntington, 'The Change to Change', *Comparative Politics*, April 1971, and Colin Leys' (1983) interesting discussion of it.

11. Frank's early writings and their relationship with both ELCA's structuralism and the position of Latin American communist parties are fully discussed by Booth (1975), O'Brien (1975) and Roxborough (1979).

12. Due to the lack of space, I have only outlined the main constituent elements of dependency perspective. The ideas outlined here are shared by a number of writers, amongst whom Frank is perhaps the most well-known one. Baran's (1957) pioneering work has been the major source of inspiration for dependency writers, who have drawn heavily on the notions of 'economic surplus' and 'surplus drain'. Wallerstein's 'world system' analysis is a logical extension of Frank's thesis; its distinguishing features being the choice of the unit of analysis, i.e., the world level; and his concern with the genesis, growth and functioning of the world system since the 16th century. Amin also shares the same concerns in his attempts at writing the whole history of the capitalist world market and formulating a 'general model' of underdevelopment. Amin is particularly known for his idea of 'delinking', a persistent and major theme of Third Worldism since Baran. Emmanuel's (1972) 'unequal exchange' is the clearest example of circulationism; it is the main source of the proposition that core regions 'exploit' peripheral areas through exchange relations, and has been used extensively by both Amin and Wallerstein as the basis of their theories of imperialism. According to this theory, 'poor' countries are exploited by 'rich' countries because the labour content of their commodities exceeds that of commodities produced in the 'rich' countries. Exploitation is conceptualized in terms of the surplus value produced in the periphery because of its lower organic composition of capital which is then expropriated by the capitalists in the centre through international exchange relations. This thesis has been extensively criticised for its Ricardian rather than Marxist notion of value. For a critique of Frank's early writings, see references in note number 11; for a detailed criticism of 'world system' analysis, see: Brewer (1980). Unequal exchange has been criticised by Bettleheim (1972), Kay (1975) and Pilling (1973). For discussions of Amin's work, see: Barone (1980), Brewer (1980), Schiffer (1981) and Smith (1980-1982-1983). References to a general critique of Third Worldism are listed in note 13.


14. Emmanuel (1972) is the main adherent of the view that the division between centre and periphery should be assimilated to a division between 'bourgeois' and 'proletarian' nations; and that class struggle now takes
place in the form of nation against nation. The crudest version of this view is put forward by Wallerstein (1974-1979-1980), who argues that while in the core areas national, class conscious struggles do occur, in peripheral areas class struggle takes the form of national liberation movements in which the local bourgeoisie will always be allied with international capital. This view, as we shall see, makes it quite impossible to understand recent Iranian history: the immense struggles within the power bloc in the 1905-11 Constitutional Movement, and outside the power bloc in 1979 Revolution, as well as the class conflicts of the late 1940s and early 1950s.

15. For detailed discussions of Marxist economic anthropology, see: Kahn and Llobera (1980) and Clammer (1975).


17. The best example is the work of Rey (1982). See also Dupre and Rey (1973) and Meillassoux (1972-1981).

18. Two extreme examples would be the formulations of Roxborough (1979) and of Wallerstein (1974). For the former, a mode of production should be defined at the regional level, within a social formation. Modes of production can, therefore, exist in various parts of a social formation. For Wallerstein, on the other hand, there is one single mode of production, the CMP, and that must be conceptualized at the world level. There are only ‘economies’. Finally, in another approach, the concepts of mode of production and social formation are considered as redundant, and abandoned in favour of a theory of reproduction (Friedman 1976), or the concept of the mode of production is replaced by a social formation which is an indeterminate or plural structure constituted by a variety of relations of production and their conditions of existence (Hindess and Hirst 1977).

19. See, for example, Bettleheim (1972), Dupre and Rey (1973), Meillassoux (1972-1981), Poulantzas (1973) and Wolpe (1980) for various formulations of this thesis in terms of ‘dominant’ and ‘subordinate’ modes of production co-existing in a paradoxical relationship of ‘conservation/dissolution’.

20. The elements of a mode of production — labour power, the non-labourer, and the means of production — are constituted through the material appropriation and property relations. Material appropriation refers to the organization of the production process and focuses on the relationship between the division of labour and the means (e.g. tools) and the object (e.g. land) of labour. The property relation (‘property’ here is not used in the juridical sense of ‘private property’ but as a more abstract concept whose nature can be understood only within the social relations of production in which it is produced) describes the way in which surplus labour is appropriated from the direct
producer by non-producers. Relations of production are the relations between producers and non-producers. This relationship constitutes the basis of class differentiation in a mode of production. The relationship between relationships, that is, the relationship between forces and relations of production, together with the conditions of their reproduction, determine the nature of a mode of production.


23. A detailed discussion and critique of Orientalism can be found in references cited in note number 21. Said (1978) remains the most comprehensive source on Orientalism although the distinction between classical and modern Orientalism is at times blurred in his work. Marxism shares most of the assumptions of Orientalism, as the notion of the Asiatic mode of production clearly indicates. The relationship between Marxism and Orientalism is a complex and controversial issue which cannot be discussed here. Marx's Orientalism has more to do with his relationship with Hegel than with the 19th century colonial discipline of Orientalism. Turner (1978-1984) has interesting discussions of the relationship between the two discourses.

24. For a different interpretation of Islamic history, which contradicts the ideas of 'continuity' and 'timelessness', and establishes the compatibility of Islamic history with both class analysis and the development of capitalism, see: Rodinson (1979) and Gran (1975-1979). 'The Idea of an Anthropology of Islam' represents an excellent attempt by Asad (1986) to provide a Marxist analysis of Islamic history and practices.

25. The first Orientalist images of Iran, of course, predate the 19th century. For a broad review of the ways in which Iran has been portrayed in the West from the 5th to the middle of the 18th centuries, see: L.Lockhart, 'Persia


28. Both Joanna de Groot (1978) and Stuart Schaar (1979) provide detailed critiques of Bill and Zonis, and the larger issues of post-war US/Middle-Eastern studies. See also Johnson and Tucker (1975) and Winder (1987) for the political and strategic context of US/Middle Eastern studies.


30. Most of the Third Worldist literature on Iran was produced by the activists of the major leftist groups and organizations in the 1960s and 1970s. Examples are: M. Ahmadzadeh, Armed Struggle: Both as Strategy and Tactic, Tehran: 1979; M. Safa'i-Farahani, What a Revolutionary Should Know, Tehran, 1979. See also Jazani (1980) and Nirumand (1964) for a similar type of analysis. In 'Iranian Intellectuals and Dependency Theory', Arman (1986) discusses the impact of Third Worldism on the political analyses and activities of the major leftist groups in Iran in the 1960s and 1970s.
31. I am referring to 1979 Iranian Revolution and the defeat suffered by the left, partly due to its Third Worldist analyses and practices. This complex issue, however, should form the subject of a separate study.

32. More influential than developmentalism, Orientalist discourse continues to dominate the study of Iran. For example, Ervand Abrahamian (1974-1975-1982) and Ahmad Ashraf (1970-1980), despite their impressive and insightful historical and empirical works, continue to resort to formulations derived from Orientalism. Katouzian (1981), Mehrain (1979) and Moghadam (1986-1988a-1988b) also provide good examples of Orientalist interpretations of Iran. These works share the central assumptions of Orientalism: the 'absence' or 'insecurity' of landed private property, an emphasis on the element of repression as the defining feature of political domination, and on the fragmentary character of the social structure as exemplified by a fixation upon 'tribes'. The general trend, sometimes thinly disguised, is a refusal to accept that fundamental structural changes have occurred in Iran. See, for instance, the section 'The persistence of despotism' in Moghadam (1988b) and her conclusion that '... private property continues to be weak and subject to arbitrariness. This suggests that once the process of historic transition is completed, the outcome is unlikely to be capitalist' (ibid., p.416).

33. See the bibliography for the works of these authors.
CHAPTER TWO

AN ALTERNATIVE APPROACH TO THE PERIPHERY

The distinction between 'circulationism' and 'productionism' is, at best, an oversimplified classification but it does express, in broad terms, two different readings of the history of the world market. In the previous Chapter, I have briefly discussed these two interpretations and have argued that neither an exchange-oriented approach nor an exclusive emphasis on the production processes provides an adequate basis for a Marxist analysis of the development of the capitalist world market and the present international division of labour. As both approaches present a partial and misleading interpretation of the history of the formation of the world market, it is far from sufficient to replace one with another. A more promising theoretical starting point is to provide a synthesis which cuts across the formal distinction between the 'internalist' and 'externalist' readings of history. I believe that it is possible to develop this 'synthesis', and bring elements of the two interpretations together, through the approach of the internationalization of capital. As we shall see, the approach of the internationalization of capital also enables us to distinguish between the dynamics of transition to capitalism in the centre and in the periphery and therefore dismiss the unilinear sense in which the term transition is often employed.
A. Internationalization of Capital

The distinction between 'circulationists' and 'productionists' is somewhat reminiscent of the distinction between 'neo-Ricardians' and 'Fundamentalists'. Fine and Harris (1976-1979) argue that there has been an irreconcilable split between 'neo-Ricardians', for whom all analysis of the capitalist economy takes place in the sphere of exchange and distribution, and the 'Fundamentalists', for whom the sphere of production is determinant. 'Neo-Ricardians' examine the spheres of exchange and distribution in isolation from the sphere of production, and they therefore draw their conclusion in terms of categories, such as prices of production and market prices, which exist at a relatively low level of abstraction. They conclude that economic crises are to be explained solely in terms of class struggle over distribution in the sphere of exchange. 'Fundamentalists', on the other hand, emphasize the significance of the labour theory of value and locate the source of economic crises in the sphere of production; the fundamental contradiction of the system lies in the tendency of the rate of profit to fall. Fine and Harris (1976-1979) argue that it would be erroneous to think that the two approaches, one operating on the surface of society and the other piercing that surface and reaching the hidden forces, can be reconciled or considered as complementary. They argue that a more promising theoretical starting point is to be found in Marx's own analysis of the circuits of capital which emphasizes the unity of production, distribution and exchange. In *Capital*, Volume II (Chapters 1, 2 and 3, and especially pp.103-118) Marx repeatedly uses the concept of
the circuit of capital to characterize the structure of the capitalist economy. He divides the circuit of capital into three spheres of production, exchange, and distribution. The relation between these three spheres is complex; and Marx emphasizes that this relationship can only be understood as a unity. The specific feature of this unity is that surplus value is only produced in the sphere of production, while its distribution encompasses the two spheres of exchange and distribution. Marx states in the *Gundrisse* (1973) that the distinction between the three spheres should not lead to the conclusion that production, distribution, exchange and consumption are identical, but that they all form the members of a totality, distinctions within a unity. Production predominates not only over itself...but over the other moments as well .... That exchange and consumption cannot be predominant is self-evident.... A definite production thus determines a definite consumption, distribution and exchange, as well as definite relations between these different moments. Admittedly, however, in its one-sided form, production is itself determined by the other moments. For example, if the market, i.e., the sphere of exchange, expands, then production grows in quantity and the divisions between its different branches become deeper. A change in distribution changes production, e.g., concentration of capital, different distribution of population between town and country, etc. Finally, the needs of consumption determine production. Mutual interaction takes place between the different moments. This is the case with every organic whole (Marx, 1973:99-100, emphasis in original).

Fine and Harris (1976) argue that rather than concentrating on one moment of the circuit of capital, a Marxist analysis must embrace all three moments, while always giving priority to the sphere of production. They conclude that "production is determinant in the last instance, but the other spheres have a relative autonomy and each sphere has an effect on each other" (ibid:142).
While Fine and Harris adopt the approach of the circuits of capital as a basis for the analysis of the theory of capitalist crisis, this approach has also been used for the analysis of the development of the world market. Christian Palloix (1975-1977), whose work lays the basis of the following three sections of this Chapter, is particularly known for developing this approach. He bases his work on Marx’s specification (Capital, Vol.II) of the ‘three functional forms’ which capital takes in the process of its expanded reproduction: commodity capital, money capital and productive capital. The capital which encompasses all these three forms in their entirety is industrial capital:

The circuit of industrial capital in its continuity is therefore not alone the unity of the processes of circulation and production but also the unity of all its three circuits. But it can be such a unity if all the different parts of capital can go through the successive stages of the circuit, can pass from one phase, from one functional form to another, so that the industrial capital, being the whole of all these parts, exists simultaneously in its various phases and functions and thus describes all three circuits at the same time (Marx, Capital, Vol.II:106).

Only productive capital pertains at the level of production; the other two circuits exist in the sphere of exchange. Like the three spheres of production, circulation and distribution, the three circuits are dependent on each other. For a social formation to be dominated by the CMP, the interlocked existence of the three circuits of capital is a necessary condition.

Palloix (1975-1977) employs Marx’s distinction between the circuits of capital to analyze the historical formation of the capitalist world market. The objective of Capital was
not an analysis of the breakdown of PCMsP but the discovery of the laws of motion of capitalism as a closed and homogeneous system. The internationalization of capital perspective seeks to extend the method and categories of Capital to an analysis of how capital has been transformed into a world system, or to an analysis of capitalist expansion into precapitalist formations. Obviously, there is nothing novel about this objective. Most 'circulationist' writers, particularly Amin (1974-1976) and Wallerstein (1974-1979), have set themselves to the same task. The difference, however, is that the perspective of the internationalization of capital does not restrict itself to the extraction of 'economic surplus' from the periphery to the core via the sphere of circulation, but examines how labour is exploited on a world level in the process of production itself. Since the circuits of capital are different aspects of a single process of internationalization, it can be seen that both 'circulationism' and 'productionism' focus on only one aspect of the internationalization of capital, and thus give a partial picture of the development of the international division of labour.

Palloix's analysis of the internationalization of capital is conducted at two levels: the successive internationalization of individual circuits of capital and the internationalization of social capital. The circuit of social capital is equivalent to the concept of industrial capital discussed by Marx in the previous quotation. It denotes the unity of the three specific circuits of capital and the expansion of capitalist social relations of
production in the most abstract and general sense. The following diagram shows the circuit of social capital:

I is the circuit of money capital (M...M').
II is the circuit of productive capital (P'...P').
III is the circuit of commodity capital (C'...C').

The total circulation process (Tc) is expressed by C' - M' - C', the starting point of the circuit of commodity capital.

M = money capital; C = productive process; c = surplus value in commodity form; m = surplus value in money form; L = labour power; MP = means of production. M' > M; C' > C; P' > P.

Source: Palloix, 1975:65

As can be seen from the above diagram, each of the circuits of social capital is successively internationalized. First is the internationalization of commodity capital (development of international trade); then of money capital (export of capital); and finally of productive capital (the 'internationalization of production'). In the last stage the three circuits in their entirety enforce the laws of motion of capital at world level; which is thus the only adequate level of analysis.
In the following three sections of this Chapter the various periods of the development of the capitalist world market are analyzed on the basis of the distinction between the three circuits of capital, and the changing patterns of centre/periphery relationship are examined in terms of the successive internationalization of each circuit. It is shown that the internationalization of each of the three circuits of capital has produced dynamics of its own, and has transformed precapitalist formations in specific ways. The purpose of the following sections is to pinpoint the dynamics specific to each circuit and the corresponding changes they have brought about in the precapitalist areas of the world economy. In Section B it is shown that under the 'imperialism of free trade', the circuit of commodity capital (trade) has become internationalized. At this stage, central formations dominated by the CMP are linked, via exchange on the world market, to the peripheral formations dominated by PCMsP. This link fails to dissolve PCMsP; indeed it perpetuates and strengthens them. Development of productive forces and transformation of production relations in the periphery are thwarted at this stage due to the specific character of merchant capital.

In Section C it will be argued that development of capitalist production relations does occur in the phase of the internationalization of money capital. This is the phase of classical imperialism in the Leninist sense, when export of capital from the centre leads to the disintegration of precapitalist production relations in the periphery. In Section D the internationalization of productive capital is examined following the increase in foreign capital
investment in the production spheres of peripheral economies. At this stage, particularly under the domination of multinational corporations (MNCs), production itself becomes an international process, leading to the emergence of a number of industrial centres in the periphery and to the formation of the so-called 'new international division of labour'.

Following Fine and Harris (1976), I have argued that, while the sphere of production is always determinant in the course of the development of the world market, at certain conjunctures the sphere of circulation tends to be dominant. In the phase of the internationalization of merchant (commodity) capital, the dominance of the sphere of circulation acts as a barrier to an organic transformation of the periphery and leads to distortion and 'underdevelopment'. But metropolitan capitalism is not always an agent of backwardness and anachronism, as the phase of the internationalization of money capital shows. The approach of the internationalization of capital enables us to identify at what stage world capital accumulation tends to transform, and at what stage it preserves or consolidates PCMsP in the periphery. The central emphasis of this approach is on the gaps, lapses, pace and periods of capitalist transformation in the periphery. In this way, my approach seeks to transcend the level of descriptive generality and the stagnationist character generally associated with dependency and world system analyses on the one hand, and, on the other, the 'internal' determination of history in the mode of production discourse which almost dissociates itself from the phenomenon of imperialism.
Here I should briefly explain the basis of the periodization of the development of the world market presented in this Chapter. It is argued that the internationalization of each circuit of capital covers a certain period of the development of the world market. This historical periodization is, at best, approximate. Internationalization of the circuits of capital does not manifest itself in all societies at the same time; the process is uneven across time and space, given the unevenness of capitalist development. Moreover, internationalization of each circuit does not replace the internationalization of the preceding one; rather, it reinforces and subordinates the dynamics of the previous phase. The periodization presented here is primarily in terms of theoretical time rather than historical time and therefore should not be read as an evolutionist interpretation of history. It is in this sense that it has been argued that internationalization of the three circuits of capital has proceeded in an ordered form.

One final question which arises in relation to the internationalization of capital approach is whether the successive stages of internationalization of capital lead to the homogenization of the world market, and, by implication, to the disappearance of the centre/periphery gap. This question is addressed in the last two Sections of this Chapter where the thesis of the 'new international division of labour' and the question of the persistence of precapitalist forms of production in the present stage of the internationalization of production are examined.
B. The Circuit of Commodity Capital

The circuit of commodity capital is represented by the formula: \( C \rightarrow M \rightarrow C \rightarrow P \rightarrow C' \) (Marx, *Capital*, Vol.II, Chapter III). This circuit presupposes the act of circulation (\( C\rightarrow M\rightarrow C' \)), the external existence of commodities, and the world market. It was therefore the first circuit to be internationalized through international exchange relations (Palloix, 1975).

From the outset it is essential to distinguish between pre-industrial and post-industrial trade. My concern here is with the latter category only. Pre-industrial trade is associated with the phase of mercantilism in Europe during the period between 1500 to 1800, and was ended by the rise of the CMP in the early 19th century. In terms of the historical periodization of the world market, this is the 'prehistory' of capitalism or the phase of primitive accumulation. Almost all goods traded during these three centuries of mercantilism in Europe were slaves and 'luxuries': sugar, spices, tobacco and precious metals. The composition of trade changed gradually within the decades around 1800 which marked a turning point in the history of the world market: mercantilism was separated from the epoch of classical capitalism. The domination of the periphery by merchant capital in the phase of competitive capitalism, therefore, covers the period between 1800 to the end of the 19th century, terminated by the rise of monopoly capitalism at the centre. This period of nearly one century is the heyday of competitive capitalism, beginning with England's industrial revolution.
Britain's laissez-faire and free trade policy ensured British capital's continued paramountcy which had been gained in the earlier phase over the old mercantilist powers of the Mediterranean and the Low Countries. Throughout this phase, Britain controlled the markets of the world; a vital advantage since the most important raw material, cotton, could not grow favourably in Britain and had to be imported. By the 1850s, production processes were subordinated to capital (although cottage industry, atomized work process and low division of labour survived well beyond the second half of the 19th century). The central reason for the push into precapitalist markets was competitive capitalism's need for raw materials, especially since certain raw materials could not be produced in the centre because of climatic and geological reasons (Clawson, 1979). Trade in luxuries and slaves was replaced by a new pattern of trade: export of manufactured goods from the centre and import of foodstuffs and raw materials from the periphery. The division of the world into 'developed' and 'underdeveloped' parts came into existence at this point and the basic patterns of the international division of labour were established.

The industrial revolution was merchant capital's 'historic defeat'. In an extended discussion of merchant capital, Kay (1975) argues that after the rise of competitive capitalism in the centre, merchant capital took 'two historical forms': one as an independent form of capital (pre-industrial merchant capital of the Middle Ages), the other as an 'agent' of industrial capital. During the Middle Ages merchant capital existed throughout the world solely in its first form; hence the absence of any international division
of labour. The industrial revolution marked the crisis and decline of merchant capital in the centre. In the rest of the world, however, merchant capital survived and continued to operate as an 'agent' of industrial capital. According to Kay, it is this form of merchant capital which penetrated precapitalist formations and is the principal cause of 'underdevelopment' today. While industrial competitive capital came to dominate the centre, in the 'underdeveloped world' merchant capital became dominant in the form that had existed in medieval Europe. In other words, the initial penetration of capital into precapitalist formations began with the rise of competitive capitalism in the centre. Penetration of commodity capital in the periphery coincided with the phase of fully developed industrial capital in the centre, which drew peripheral formations into the world market in ways radically different from those of the centre: (i) merchant capital dominated peripheral economies from the outside; its rise was not the result of contradictions internal to these economies, nor did its decline leave these economies with the same impact and consequences; (ii) merchant capital dominated peripheral economies at a time when it had already exhausted itself in the centre (Kay 1975). The difference in timing here is of fundamental importance.

What are the characteristic features of merchant capital? Merchant capital is involved in the simple act of buying commodities cheaply and selling them expensively. All that is necessary for its existence, therefore, is the external existence of commodities. Here money becomes the object of exchange and commodities are produced not for the purpose of
consumption but for sale on the market. As production processes are left intact, no value is produced and no surplus value is extracted. Merchant capital’s profits are derived from price differences in space. In a chapter entitled ‘Historical Facts About Merchant’s Capital’, Marx (Capital, Vol.III) characterizes merchant capital as a conservative/revolutionary force. This contradictory character lies in the fact that merchant capital, by being restricted to the sphere of exchange and by accumulating at that level only, withdraws value from the sphere of production, yet it simultaneously tends to undermine the PCMsP by encouraging commoditization of the economy. Consequently, merchant capital is unable by itself to effect the transition to capitalist commodity production.

Interaction of merchant capital with precapitalist producers (the latter group is generally shown in the circuit of simple commodity production: C-M-C’) involves a primary division of labour. In other words, simple commodity producers have to increasingly rely on merchant capital to handle market transactions for them. Merchant capital, therefore, plays an intermediary role and provides a link between C-M and M-C (Kay, 1975). By mediating between C-M and M-C, it is obvious that merchant capital’s profits cannot arise from the extraction of surplus value, as mentioned above. Simple commodity production is a precapitalist ‘form’ of production and is not subordinated to the law of value.

Domination of precapitalist producers by merchant capital means the domination of the economy by relations of
circulation. The economy, in other words, is commoditized without labour processes being subsumed by capital in real terms. It is therefore incorrect to argue that simple commodity producers are exploited through 'unequal exchange', since the category of social costs of production which determines prices is absent in non-capitalist production. Merchant capital does make a profit through differences in prices of different commodities in different parts of the world, but these differences are not determined by the law of value, and the equality or inequality of exchange cannot be determined in this situation (Brewer, 1980).

Marx (Capital, Vol.III, Chapter 20) is emphatic that, since merchant capital is capital in trade connected with noncapitalist production, its profits come from circulation alone. Merchant capital's profits come from 'cheating' and 'outbargaining' through monopolization of non-capitalist markets. According to Marx:

So long as merchant’s capital promotes the exchange of products between undeveloped societies, commercial profit not only appears as outbargaining and cheating, but also largely originates from them .... (Marx, Capital, Vol.III:330).

And again:

Merchant capital, when it holds a position of dominance, stands everywhere for a system of robbery, so that development among the trading nations of old and modern times is always directly connected with plundering, piracy, kidnapping slaves, and colonial conquests .... (ibid.:331).

In the above passage, Marx seems to be discussing the merchant capital of the feudal empires of the 15th and 16th centuries (Portuguese and Spanish empires). Although
pre-industrial merchant capital is distinguished from merchant capital as an 'agent' of industrial competitive capital, the origins of profits are basically the same. No other mechanisms of exploitation can be specified when capital operates in the sphere of exchange only, and when direct producers remain in full possession and control of the means of production.

The first contact with merchant capital, as the 'agent' of industrial capitalism from the centre, initiated the formation of the international division of labour in which advanced countries produced manufactured goods and the rest of the world produced raw materials and foodstuffs for export. Concomitantly, merchant capital's domination of the periphery blocked what Marx called the 'first path' of transformation to capitalism in these societies, and imposed the 'second path' of transition. Marx (Capital, Vol.III), in analysing the transition from precapitalist to the capitalist mode of production, distinguished 'two paths' of transformation:

The transition from feudal mode of production is twofold. The producer becomes merchant and capitalist, in contrast to the natural agricultural economy and the guild-bound handicrafts of medieval urban industries. This is the really revolutionary path. Or else, the merchant establishes direct sway over production. However much this serves as a stepping stone ... it cannot by itself contribute to the overthrow of the old mode of production, but tends to preserve and retain it as its precondition (Marx, Capital, Vol.III:334).

The first path, producer-capitalist, was the historical pattern of primitive accumulation in the West, primarily Britain. Here the industrial bourgeoisie emerged from the
ranks of petty-commodity producers in urban and rural areas: "This is the really revolutionary path". In the 'second path', merchants became capitalists; this is the non-revolutionary path of transformation which, by itself, cannot transform the PCMP and, indeed, tends to consolidate it. With regard to colonial and semi-colonial experience, the very dynamics of the first path of transformation at the centre laid the basis for the emergence of the second path in the periphery. In other words, the industrial revolution marked the beginning of a global commodity production based on an international division of labour. This process created barriers to an organic transition from PCMsP to capitalism in the periphery.

It is plausible to argue that most of today's Third World countries experienced the second path of capitalist transformation. Merchant capital dominated peripheral economies without any substantial need for reorganization of production and restructured them according to the requirements of external markets. While in some areas of the world market, wage-labour did appear, as in plantation and mine extraction economies, this should be differentiated from capitalist wage-labour. Obviously, the question as to how one interprets this phase of the development of the world market depends very much on one's methodological position. For Frank and Wallerstein this is 'capitalism': the initial incorporation of peripheral economies into the capitalist world market implies their rapid transition to capitalism. For articulation theorists, who err in reading the character of the dominant mode of production from the immediate labour processes, this would signify the
articulation of precapitalist ‘petty-commodity mode of production’ with the dominant CMP.

To recall the definition of a mode of production developed in Chapter One, it is not only production processes but also reproduction sphere that define a mode of production. Therefore, in order for capitalism to become the dominant mode of production, in addition to wage-labour and commodity production, capital must be directed towards production of value; or the end and objective of production must be further accumulation of capital. This is to say, three conditions must be met in order for capitalism to become dominant: (i) commodity production; (ii) wage-labour; and (iii) production for self-expansion of value and further accumulation.

It is, however, incorrect to argue that merchant capital has no impact on the production processes. According to Marx:

The development of commerce and merchant’s capital gives rise everywhere to the tendency towards production for exchange, increases its value, multiplies it, makes it cosmopolitan, and develops money into world-money. Commerce, therefore, has a more or less dissolving influence everywhere on the producing organization .... To what extent it brings about a dissolution of the mode of production depends on its solidity and internal structure. And whither this process of dissolution will lead, in other words, what new mode of production will replace the old, does not depend on commerce but on the old mode of production itself (Marx, Capital, Vol.III:331-2).

This in not to suggest that the level of circulation defines the production processes. Production, circulation and exchange form an organic unity, but, as I have argued above, it is possible for circulation to be dominant in certain
conjunctures, while production is, in the last analysis, always determinant. This 'certain conjuncture' for us would be approximately the period of one and a half centuries when merchant capital, in its 'two historic forms', dominated peripheral economies and subordinated their production processes. The end result was certain changes in the structure of the economy and in class formation. These changes established the precondition for the CMP, while they simultaneously prolonged and consolidated the hold of precapitalist ruling classes (and exploitation). For Kay (1975), this is the heart of 'underdevelopment'; the historical interweaving of merchant capital and petty-commodity production subordinated the peripheral economies to the needs of industry in the centre for raw materials, and made transition from precapitalist to the CMP difficult and distorted.

By 'certain changes in the structure of the economy' I primarily mean commoditization of both means of production (land) and labour power [or what Marx (Capital, Vol.II:327) calls the increasing production of exchange value on the basis of the old mode of production]. The introduction of property rights, ground rent and sharecropping are all results of commoditization. Commoditization also introduces changes in the structure of the ruling class; it creates new fractions within the landowning class and consolidates the hold of the indigenous merchant class, both classes being subordinated to the metropolitan industrial capital. This process also creates a local market for the consumption of manufactured goods from the centre and accelerates the export of raw materials to external markets. It slows down
the process of proletarianization and strengthens the hold of precapitalist methods of exploitation. No necessity exists for revolutionizing forces and relations of production, and nascent industry is stifled by the lower prices and higher qualities of imported manufactured goods. In short, merchant capital as an agent of industrial capital from the centre blocks an organic transition to capitalism, while it simultaneously spreads commodity production on the basis of the old mode of production. It is in this sense that merchant capital takes its 'two historic forms' in this phase: from the perspective of advanced capitalist countries it is subordinated to the needs of industrial capital; from the point of view of peripheral economies, it is merchant capital in its 'pure' form (Kay, 1975).

By the 1870s centralization and concentration of capital had increased considerably in the centre, marked by the rise of monopolies. The 'Age of Imperialism', in the Leninist sense, was well underway by 1890-1900.

C. The Circuit of Money Capital

The circuit of money capital is shown by the formula: 
\[ M - C \ldots P \ldots C' - M' \] (Marx, *Capital*, Vol.II, Chapter I). It corresponds with the stage of imperialism in the Leninist sense, and implies the shift from competitive to monopoly capitalism (Palloix, 1975). The decades between 1870 to 1900 mark this shift, when finance capital became the dominant form of capital in the advanced capitalist countries.
The notions of monopoly capitalism and finance capital require a close examination here. Within the tradition of 'classical' Marxism, Hilferding (1981) is the most important writer to provide a comprehensive analysis of this phase. Hilferding singles out two major characteristics to define the structural changes of the capitalist system which gave rise to finance capital in the decades around the turn of the century: (i) suppression of free competition as a result of the formation of cartels and trusts; and (ii) the development of a close relationship between financial (bank) and industrial capital. These trends are directly related to, and are the outcome of, the processes of concentration and centralization of capital. In Capital, Vol.II, Marx defines these processes as the inevitable outcome of competitive struggle; the former refers to a situation whereby each unit of capital accumulation grows larger and larger, following technical changes; and the latter is a process whereby smaller firms are swallowed by the larger companies in the course of competition.

Monopoly capitalism is the passage of capitalism from its earlier stage of free competition to one in which giant firms, trusts and cartels dominate the market. Competition is not eliminated but shifted to another terrain. The political developments of the turn of the century, inter-imperialist rivalries and re-division of the world market into colonial empires and spheres of influence, all reflected the contradictions of monopoly capital between the development of productive forces, private appropriation of surplus value and the nation-state.
Finance capital denotes the fusion of industrial and financial capital which means that both joint-stock companies and banks can assemble large capitals from many sources, and that the banks are effectively involved in direct investment in production.

Central to an understanding of the circuit of finance capital is the form and function credit takes in this phase. According to Hussain (1976), it is not the size or the organizational form of the firm but the variations in credit forms, as the underlying basis of the relationship between financial and industrial capital, which constitute the criteria for understanding the shift from industrial to monopoly capitalism, and thus for periodizing capitalism.

In order to develop a theoretical criterion for delineating the shift from competitive to monopoly capitalism, the notion of credit should be clarified first. As opposed to the limited definition of finance capital as 'banking' capital, present in Bukharin (1973), Hilferding (1981), Lenin (1978) and particularly in Sweezy (1942), finance capital is not limited to any particular organizational form, such as banks, but involves any financial transaction that follows the circuit of $M - M'$. Such a conception of finance capital, in terms of financial transactions, allows for the inclusion of the firm's profits, shares, etc. as a type of 'credit' form, where their changing roles in the determination of social capital are the product of the relationship between finance and industrial capital as well (Hussain, 1976).
Credit simply involves the act of lending money to producers (capitalist or precapitalist) and earning interest on the money loaned. This is the circuit of usurer's capital which, like merchant's capital, acts independently of the relations of production and makes a profit by exploiting price differences in time. In this general sense, credit has always existed under both precapitalist and capitalist modes of production. Credit, however, takes different forms in different phases of capitalist development. Variations in the form of credit are determined by the temporality and the type of financial obligation they entail. The question of the temporality of credit is important because of the way in which it affects the relationship between finance and industrial capital. In the early (competitive) period of capitalism, credit was 'short-termed'. Its function was a simple one: it acted as interest-bearing capital and as an auxiliary to the circulation of commodities. It was strongly restricted to the distribution of social capital, and therefore, the constitution of firms. This required a large volume of capital, and entailed a long period of turnover and high ratios of fixed capital vs. circulating capital. Marx's analysis of credit (Capital, Vol.III) is largely connected with this type of commercial credit under competitive capitalism, demonstrating how the concentration and centralization of capital has led to the rise of money as credit. Formation of oligopolies and monopolies, which mobilized vast sums of money capital for investment, is related to the emergence of a different form of credit. While under competitive capitalism there existed a necessary restriction on the term of credit, in that it was subordinated to the circulation of commodities and was
therefore short-termed, with the rise of finance capital this restriction is lifted and credit takes an exhaustive or infinite form (redeemable credit or shares). It is this form of credit which signifies the generalization and domination of finance capital. Specialized financial institutions separated the two spheres of production and circulation; they undermined and eventually eradicated trade associated with merchant's and usurer's capital. Firms then developed in their present, large-scale, capital-intensive and monopolistic forms.

It is this phase of the domination of finance capital, when an enormous variety of credit forms arises, which qualitatively distinguishes monopoly capitalism from the earlier phase of capitalist development. Financial organizations, through the fusion of individual capitals and the mobilization of idle money, intensify concentration of money capital and further extend the network of credit. Increased concentration of capital through credit facilitates the export of money capital from the advanced capitalist countries to precapitalist markets. Monopoly capitalism is thus distinguished by the export of capital, that is, mobilization of capital both as sums of money and as capitalist production relations. Export of capital from the centre, augmenting rather than replacing trade in commodities, first takes the form of 'portfolio' investment in the periphery (grants, loans, infrastructural investment), and then it increasingly takes the form of direct investment in production processes.
The crucial question in this context is why the export of capital is 'necessary' for, and associated with, the onset of monopoly capitalism. Almost all Marxist theories of imperialism are built upon either the tendency for the rate of profit to fall, or one of the variants of 'underconsumption theory': 'surplus capital' and/or 'realization crisis' theses. Both types of explanation have been criticised extensively and the criticisms need not be repeated here in detail. It has been argued that the falling rate of profit tendency does not explain the export of capital because monopolies disrupt the tendency for the equalization of the rate of profit (Sweezy, 1942). It is therefore untenable to speak of an 'average' rate of profit in the era of monopolies; rather, it is the individual 'marginal' rates of profit which should be compared. This is to say that the rate of profit in the periphery does not have to be higher than in the centre for capital investment to take place; investment decisions are based on 'marginal' profitability (Magdoff, 1972). It has also been argued, against various theories of underconsumption, that excess capacity to produce in relation to the purchasing power and the consequent failure to realise surplus value, or the over-production of capital due to the insufficient aggregate demand, are not the logical or absolute necessities of the system (Bleaney, 1976; Brewer, 1980).

No general explanation of capitalism's assault on precapitalist markets can be given. It is essential to distinguish the nature of the dominant circuit of capital, and the specific period under consideration, in order to identify the reasons why capitalism expands into
precapitalist markets. Under monopoly capitalism, the requirements of markets and raw materials no longer govern capitalist expansionism. Rather than the falling rate of profit tendency or underconsumption, the export of capital must be explained in terms of the imperatives of monopoly capital, brought about by concentration and centralization of capital (Magdoff, 1972). By investing directly in industry, money capital seeks to maximize the rate of return on its investment. Whether profits were rising or declining at home, and whether there was a pressure of 'surplus capital', money capital, in the late 19th century, was exported to exploit profitable opportunities wherever they existed. The pressure to expand is built into the economics of imperialism: it is the dominant factor of capitalist accumulation.

A further point raised in this context concerns the concept of imperialism. Many Marxists, following Lenin, reserve the term 'imperialism' for the post 1870/90 period, when competitive capitalism was replaced by monopoly capital. Approximately within the period of 1790-1850 free trade was imposed on the underdeveloped world, and the policy of laissez-faire was adopted by the central states. During the free trade era, the central states pursued a policy of anti-imperialism' characterized by the absence of state intervention on behalf of their traders. The end of laissez-faire and the beginning of state protectionism, marked by the partition of the world into colonial and semi-colonial enclaves surrounded by high tariff walls, signaled the onset of the 'imperialist' era. For Marxists, therefore, the term 'imperialism' has a definite scientific
meaning. It designates the phase of capital export and international capital investment; a specific stage in the historical development of capitalism.

It is not exactly clear to me why free trade and laissez-faire should be contrasted with 'imperialism'; and the latter restricted to the monopoly stage of capitalism. Imperialism cannot be defined simply by the absence or presence of state interventionism, protectionism, or formal colonization. I have identified the phenomenon of imperialism analogous with the successive internationalization of the circuits of capital in that each stage of the internationalization of capital is also a stage of the development of capitalism on the world level. The concept of imperialism employed in this study thus differs from the classical Leninist concept; it designates the whole history of the expansion of capitalism into precapitalist markets and the formation of the international division of labour, which predate the rise of finance capital. Monopoly capital did represent a structural change in the pattern of centre/periphery relationship, but it did not mark the beginning of imperialism.

Lenins' definition of imperialism as exclusively associated with moribund and decaying monopoly capitalism does not establish how the passage from competitive to monopoly capitalism has involved a qualitatively different relationship between metropolitan and peripheral areas of the world economy. Lenin's purpose, of course, was to make the phenomenon of imperialism historically specific. However, in my view, imperialism is rooted in capitalist
expansionism in general. It might be contested that this definition is ahistorical in that it does not make a distinction between the way in which surplus is appropriated by merchant capital through trade and under the conditions of an imperfectly organized world market, and in the later phases of the development of the world market. I suggest that this problem can be surmounted by periodization of the history of the world market through identifying various circuits of capital, and specific ways in which each circuit has penetrated (and exploited) precapitalist economies. Each phase of the internationalization of capital is also a phase of imperialist domination in the general sense of the subordination of precapitalist economies to the requirements of centres of capital accumulation.

The structural changes in the nature of capitalism at the monopoly stage discussed so far have important consequences for the pattern of centre/periphery relationship. Finance capital, unlike merchant capital, is not restricted to the sphere of exchange and, by penetrating the level of production, it introduces capitalist production relations in the periphery. Export of capital is both export of money capital and export of capitalist production relations. The phase of the internationalization of money capital has aptly been called the 'Third World equivalent of primitive accumulation' (Munck, 1984).

The persistent theme of this study has been an emphasis on the differences between the process of capital accumulation in the centre and the periphery. These differences bear direct consequences for the structure of peripheral
formations. Apart from the different timing and the imposition of a pattern of 'unequal specialization', persistent until today, another major area of difference is the role of the state. In the most general sense, the relationship between state and capital is defined in terms of the role which the state plays in the maintenance and reproduction of capital as a relation of class domination. Changes in the nature of the state and class structure are derived from the dynamics of the internationalization of the circuits of capital. Without a prior characterization of the relations of production and the dominant circuit of capital, the nature of the state cannot be determined.

The earlier precapitalist state reflected the dynamics and requirements of mercantilism in the periphery. Its function, in the phase of the internationalization of the circuit of merchant capital, was to facilitate the commoditization of agriculture, a process ultimately leading to expropriation of peasants, and to regulate commercial privileges and monopolies. Commoditization gave rise to a class of merchants and created fractions within the landowning class. The state at this stage is predominantly precapitalist in both function and form.

In the phase of the internationalization of the circuit of money capital, introduction of capitalist production relations necessitates a separation of the spheres of production and consumption, a process by with the cycle of use-value production of petty commodity producers begins to be broken and is replaced by exchange-value production. This is also the necessary precondition for the emergence of the
capitalist state, that is, the establishment of a system of private property and the separation of the spheres of 'politics' and 'economics' (Holloway and Picciotto, 1978).

In almost all cases of capitalist transformation in the periphery, this process has been promoted and sponsored by the state at this stage. State intervention takes the forms of tariff barriers, import-quotas, construction of infrastructure and the establishment of financial institutions (Clawson, 1979). Both 'land reform' and 'import-substitution policy' are common measures adopted by the peripheral state to consolidate and expand capitalization of the economy and its integration into the world market. In the previous phase, the dividing line has been between processed and industrial products and unprocessed primary goods. With the adoption of 'import-substitution policy' in the periphery, peripheral economies begin to move toward production of 'light' consumer goods and the import of capital goods from the centre. This is the phase of the triumph of capitalist production relations in the periphery.

D. The Circuit of Productive Capital

The circuit of productive capital is represented by the formula $P \rightarrow C' \rightarrow M' \rightarrow C' \rightarrow P'$ (Marx, Capital, Vol.II, Chapter I). The internationalization of the circuit of productive capital covers the latest phase of the development of the world market; it means that, following the internationalization of commodity capital and then money capital, production itself becomes an international process.
The expression 'internationalization of production' indicates that the production and reproduction of capital are carried over an increasingly international arena, manifested by the tendency for the equalization of the conditions of production, exchange and distribution on the world level. At this phase, there are no longer commodity relations but relations between capitals.

The driving force behind the internationalization of productive capital is further concentration and centralization of capital, stimulated by capitalist competition. The intensification of these tendencies has led to a shift in the composition of the investment abroad carried out by the central economies in the post-Second World War era, a period corresponding to the internationalization of the circuit of productive capital. Prior to 1914, three-quarters of foreign capital investment was in portfolio terms (i.e., through financial investment) and only one quarter was direct investment in production. After 1945, these ratios were reversed (Munck, 1984:62). Even in the case of the USA, one of the central economies 'leaping' towards monopoly capitalism and overtaking others in the post-Second World War era, between 1914 and 1930 only one-quarter of capital export was in the form of direct investment, and almost three-quarters was in the form of foreign bonds (Frieden, 1983:6).

Therefore, during this phase, capital export increasingly takes the form of direct investment in productive processes instead of the portfolio investment of the earlier period. Capital investment in productive processes of the periphery
by central capitalism further integrates peripheral countries into the capitalist world market and organizes capitalist production on a world-wide basis.

Internationalization of productive capital also necessitates a more direct economic intervention by the state in the centre. The state is now forced into the role of mobilizing capital and, in its attempt to protect its own capitalists, emerges as a major unit in the competition amongst capitals (Clawson, 1979).

The internationalization of productive capital is manifested by two interrelated phenomena: the growth of multinational corporations (MNCs), which set up production sites wherever wages and other costs are lowest, and circulate products internally amongst their major subsidiaries in place of a circulation of commodities; and the emergence of the so-called 'newly industrializing countries' (NICs). The emergence of the NICs since the 1960s, signalling the formation of the 'new international division of labour' (NIDL), is the direct outcome of the internationalization of production.

MNCs have become the 'bearers' of the new international relations of production. They intensify the degree of monopolization within each capitalist country, and the degree of competition on the world level. They are firms that channel the international flow of capital, credits, commodities, technology and managerial skills. International flow of capital, as mentioned above, occurs at this stage in the form of direct investment in overseas branches and subsidiaries for the production of manufactured goods.
instead of raw materials. The international flow of credit occurs in the form of bank deposits and investment in Eurocurrency and Eurobond markets (Murray, 1975). It is, therefore, important to note that the move towards worldwide production does not replace the internationalization of money capital or of commodity capital; rather, it reinforces the internationalization of the other two circuits of social capital. Internationalization of production leads to a vast expansion of world trade and money markets, both of them at this stage subordinated to the needs of capitalist industry (Clawson, 1979).

Palloix (1977) argues that it is not helpful to study the organizational forms or the size of the MNCs as an index to this phase of the development of the world market. MNCs designate only the forms the internationalization of productive capital assumes. Rather than focusing on these forms, one should examine the dynamics of capital accumulation at the centre, of which MNCs are only an expression or a response.

One important aspect of the internationalization of productive capital has been the 'crisis of Fordism'. The phenomenon of Fordism developed between 1918 and 1945, and dominated the central economies throughout the three post-war decades. Fordism denotes two relatively distinct features. First, it involves a new 'mode of capital accumulation' based on constant changes in the labour process so that workers' skill is incorporated into the automatic features of machinery. This mode of accumulation combines rises in labour productivity with increases in the
volume of constant capital, which presupposes the systemization of the methods of scientific management called 'Taylorism'. This 'Taylorist' stage widens the gap in the labour process between conception and performance, and between skilled and unskilled labour.

As a 'system of intensive accumulation', Fordism sharply differs from the 'system of extensive accumulation'. The latter system roughly corresponds to the competitive phase of capitalist development which involved increases in productivity without changes in the labour process and a mode of regulation in which firms could not really control the market and had to adjust to demand through competitive pricing. The crisis of 1929 and the depression of the 1930s were caused specifically by this competitive mode of regulation which had led to over-production and under-consumption in the centre. In the post-Second World War era, the development of Fordism solved the question of 'markets' on an internal basis, through what is the second characteristic feature of Fordism: the 'monopolistic mode of regulation'. In this mode the nominal wage is linked to both the value of labour power and the productivity level, thereby ensuring that final demand keeps pace with supply. This was the great 'discovery' of the post-war years: adjustment of mass demand to the rate of growth in productivity by linking wages and productivity. As the 'welfare state' of the post-war era stabilized increases in nominal wages, the major firms of leading sectors were able to control their prices more or less independently of the fluctuations in demand, through their monopoly over the productive structure.
Fordism, as a 'system of intensive accumulation' and a 'monopolistic mode of wage-regulation', corresponded to the post-war US hegemony over the world market and gave rise to new norms of (mass) consumption, production and wage regulation within the centre. The 'virtuous circles' of intensive accumulation which marked the three post-war decades were the result of the domination of Fordism: the rate of productivity in the centre rose by 6-7% per annum during the late 1940s, 1950s and 1960s, against 2% previously (Lipietz, 1984:98).

By the mid-1960s, the period of the climax of Fordism, the share of commodity export from the centre to the periphery was at its lowest level, indicating that under the domination of the circuit of productive capital the periphery had lost its importance as a market for manufactured commodities. During the same period, the diffusion of mass technologies had led to the expansion of trade between imperialist metropolises. The exchange of mass production consumer goods between blocs within the centre (EEC, USA, Canada) had generalized a high-productivity model of accumulation and created larger and more homogeneous economic spaces. Under the leading role of US capital, Fordism expanded markets through mass production and economies of scale, leading to the transcendence of national frontiers and the interdependence of the OECD (Organization for Economic Cooperation and Development) countries. By the late 1960s, the stability of the system of intensive accumulation was undermined by its very success in generating a high-productivity model of mass consumption: Fordism has entered a phase of crisis in the imperialist
metropolises which continues until today. The internationalization of the circuit of productive capital, and the formation of the NICs, has been particularly spurred by this 'crisis of Fordism'.

There are various explanations as to why the 'virtuous circles' of post-war growth have turned into 'vicious circles' of stagnation and hyperinflation in the 1970s and 1980s. Most analyses see the major cause of the present crisis the falling rate of profit in the centre (Aglietta, 1982; Amin, 1982; Arrighi, 1982; Frank, 1981b-1982; Fröbel, 1982; Landsberg, 1979; Lipietz, 1982a-1984). According to this view, the formidable mechanization introduced by Fordism and the growing mass of invested capital have led to the rising organic composition of capital, combined with working class strength, have reduced the rate of exploitation in the centre. A declining or insufficient rate of surplus value has forced central capitalism to find new sources of surplus value in order to increase the rate of profitability or to offset the falling rate of profit. These new sources of surplus value were found in certain peripheral areas of the world market where industrial relocation by central capitalism has taken place. Wage differential between centre and periphery has made decentralization of accumulation to the periphery profitable. According to this view, therefore, wages are the crucial determinants in the internationalization of production in certain areas of the periphery.

Whatever the exact causes of the present crisis, the point is that it has led to an extension of Fordism in certain
areas of the periphery which, indeed, have emerged as the centres of internationalization of production. The crisis of the world economy, which has manifested itself in the centre by high rates of unemployment, declining output and domestic investment, mass redundancies, increased rationalization of schemes, fiscal crisis of the state and relocation of production processes, has given rise to new centres of industrial production in the periphery and has led to the formation of the NIDL (Frobel et al., 1980). The new centres of capital accumulation in the periphery, or the so-called NICs, are principally constituted by four countries in Asia (South Korea, Taiwan, Hong Kong and Singapore), and three counties in Latin America (Brazil, Mexico and Argentina). The internationalization of production has created a world market for labour, a worldwide industrial reserve army of labour, and a world market for production sites. Production is split into sub-processes and is then carried out wherever capital and labour can be put together most cheaply. Central economies export, usually via MNCs, semi-processed products for further manufacturing to a sub-contractor in these NICs, and the finished products are subsequently exported to another Third World country or to the centre. By the 1970s, this particular form of development had led to a growth of industrial export of the NICs to both the OECD countries and the 'low income countries' in the Third World.17

At the same time, the internationalization of production has reinforced the internationalization of money capital and of commodity capital, both of them responding to the needs of productive capital. This is clearly reflected in the new pattern or model of growth in the periphery which Aglietta
(1982) calls 'international debt economy'. In the present phase of the immense expansion of world credit, peripheral countries buy capital goods with international credit, which increasingly comes from private money markets beyond the regulation of any nation-state. Private sources financed 21% of Third World credit in 1970 and 43% in 1980 (Munck, 1984:68). By 1983, the foreign debt of the NICs stood at around $600 billion, and more than half of this ($350 billion) was owned by private international banks (Frieden, 1983:3). Indeed the dominant pattern is borrowing by Third World countries from private international money markets to finance the process of industrialization. Particularly in the past twenty years, credit has taken a form of foreign capital investment, and seems to have overtaken direct capital investment by MNCs. It is crucial to note, however, that the circuit of money capital at this stage is subordinated to the imperatives of the circuit of productive capital, although it is predominantly through credit rather than direct capital investment by MNCs that capital export from the centre takes place. The huge rise in the foreign debt of the NICs in the 1980s is exactly the outcome of the dynamics of the internationalization of productive capital which has spurred on (and subordinated) the internationalization of money capital.

The crucial question here is the implications of the internationalization of production for the centre/periphery gap. Has the global expansion of Fordism, or the extension of OECD models of wage-regulation and mass consumption to the periphery, leading to the formation of the NIDL, altered the fundamental structure of inequality between the centre
and the periphery; or has it merely reinforced the dependent integration of the periphery into the world market?

There is a continuing debate on the nature of the present industrialization in the Third World. The terms of this debate basically come down to the question of whether the NIDL is a change in the form of subordinate integration of the Third World in the world economy, or rather, a major change of substance (Cypher, 1979). Without going into detail one view is that the internationalization of production has not fundamentally altered the centre/periphery relationship, and dependence and imperialist domination have simply taken on new forms. The NIDL, associated with the 'neo-imperialism' of the USA, has led to a phase of 'neo-dependency' in the Third World, characterized by dependence on technology and managerial expertise controlled by MNCs, and by the rising debt of the NICs (Amin, 1982-1983; Barratt-Brown, 1983; Bienfeld, 1988; Frank, 1981b-1982; Frobel et al. 1980). In contrast is the view of those who can, in broad terms, be associated with a production-oriented approach: the NIDL signifies a change in substance. Capitalism (and very often imperialism too) is a progressive force in the Third world because it develops forces and relations of production. Compared to the 'old' colonial division of labour, the NIDL signals that not only have the Third World countries shifted away from dependence on export of raw materials and import of manufactured goods, but they have also laid a basis for a broader process of industrialization with the development of intermediate and capital goods industries. Capitalism is therefore developing apace, on a national basis, and in an increasingly
autonomous fashion. Insofar as there are obstacles to Third World industrialization, they are not the result of 'external' domination but rather of 'internal' contradictions of these societies (Kitching, 1982; Marcussen and Torp, 1982; Schiffer, 1981; Smith, 1982; Warren, 1973-1980).19

The internationalization of productive capital has definitely created new centres of industrialization in the periphery. However, it is fundamentally erroneous to take the formation of a handful of NICs as a sign of a general 'maturation' of capitalism in the Third World and of the ability of Third world countries to compete on an equal basis with the centre. Only an empiricist, ahistorical and undifferentiated notion of 'development', unable to discriminate between developments fomented by imperialism and those of a different origin, could lead to such sweeping generalizations. The point is not to dispute the fact that industrialization has taken place in the periphery, and that the 'old' colonial international division of labour has undergone changes since the Second World War, but the exact nature and structure of this development has to be specified.

The Third World is not a homogeneous whole but an area of the world economy with widely different systems of accumulation, forms of surplus extraction and wage-regulation. There is no single pattern which characterizes the integration of Third World countries with the world market. Under the internationalization of the circuit of productive capital, some areas of the periphery
have experienced an extension of Fordism, while others have undergone a process of 'development' which Lipietz (1982a-1984) calls 'bloody Taylorization'. Still others have hardly been affected by the internationalization of the circuit of productive capital and have not moved beyond the phase of 'import-substitution'.

In the model of 'bloody Taylorization' (or 'export-substitution' in which manufactured goods are produced for export) a segment of capital in the centre countries has relocated part of Fordist industry in those areas with a very high rate of exploitation of labour (in terms of wages, pace of work, working class organization). Internationalization of production has taken place through a Taylorist mode of accumulation: the jobs are fragmented and repetitive and are not linked to any automated system of machinery. In short, these are labour-intensive industries with a low composition of capital. Capital goods, management and technology very often remain under the control of central capital. These Taylorist labour processes involve extraction of absolute surplus value. The most typical examples are textile and electronic industries in the Asian 'free production zones' where women make up to 80% of the workforce, earning some $2 a day (Lipietz, 1982a:42).

Internationalization of production has also taken place in the form of the development of the system of intensive accumulation in the periphery, which has been termed 'peripheral Fordism' (Lipietz, 1982a). This system has developed in countries in which an autonomous domestic capital, an embryonic working class and a relatively
numerous middle class have developed (Brazil, Mexico, South Korea, Iran). In 'peripheral fordism' a local market for manufactured goods has developed and extraction of relative surplus-value has been sufficiently stabilized.

Other parts of the periphery, that is, the overwhelming majority of Third World countries, have scarcely been affected by the internationalization of production. These so-called 'low income countries' remain neo-colonial producers of raw materials, with no substantial industry, no significant domestic market and no proletariat and bourgeoisie to speak of. Finally, the major oil-exporting countries, some of which have also developed a system of intensive accumulation based on oil rent (Iran, Venezuela), contain contradictions and characteristics specific to themselves.

This overview of various models of accumulation shows the increasing fragmentation/differentiation of the periphery under the impact of the internationalization of the circuit of productive capital. At the world level, this process is still at an embryonic stage, making it impossible to generalize about its ultimate effects. However, neither the enclaves of 'Taylorization' nor the models of 'peripheral Fordism' represent a breakdown of the centre/periphery gap. In the case of the Asian 'free production zones', developed on the basis of the production of absolute surplus-value, all the limitations of this pattern of 'development' pointed out by those critical of the thesis of the NIDL are valid. In countries where the system of accumulation does not involve the relocation of labour-intensive processes, and
where production of relative surplus-value has been stabilized, an extension of the model of central Fordism has reproduced their subordinate position in the world market on a different level. Apart from the question of ownership of industry by foreign capital, the NICs remain dependent on the centre for modern technology, managerial expertise, industrial output and, above all, money capital. Today Third World countries are falling deeper and deeper into debt as they buy modern technology and industrial inputs. In the NICs the level of debt has risen so high (today Brazil’s debt stands at over $70 billion) that most of them have to spend their export earnings to service their debt. In 1982, Argentina was using 98% of its export earnings as a debt service payment (Frieden, 1983:9). The total financial collapse of Mexico by the end of 1982 shows how vulnerable is the attempt of peripheral countries to hook on to the centre-based system of intensive accumulation.20

Apart from the fact that the thesis of the NIDL exaggerates the extent of the internationalization of production - all ‘facts’ point to the limited extent of the de-centralization of accumulation to the periphery21 - even an examination of those areas/countries where the internationalization of the circuit of productive capital is most advanced shows that this process has actually intensified the contradictions of peripheral accumulation. One of these basic contradictions is the stable co-existence of absolute surplus-value and relative surplus-value extraction, or the persistence of precapitalist labour processes. If Brenner (1977) is correct that capitalism is a mode of production characterized by a generalization of relative surplus-value extraction, wiping
out and replacing all other forms of labour exploitation, it is then surprising that neither he nor Warren (1973-1980) nor any of their 'productionist' disciples has paid any attention to this significant fact. Not only in the 'low income countries' but also in the more 'developed' models of 'peripheral Fordism', relative surplus-value has not totally replaced absolute surplus-value extraction. Is this only a question of 'transition'? I do not think so; stabilization of relative surplus-value in the Fordist sectors of the economy has occurred side-by-side the persistence/perpetuation of absolute surplus-value in other (non-capitalist) areas. Is this a question of contradictions primarily 'internal' to these formations? To ask such a question is simply to evade the issue.

Some of the critics of the NIDL (Amin, 1983; Emmanuel, 1974; Lipietz, 1982a) have pointed out the persistence of precapitalist forms of production in most of the peripheral formations today. These are forms of exploitation of labour which apparently exist outside the capitalist system but are nonetheless integrated into the system at both local and international levels and participate in the reproduction of labour. Now that the main dynamics of the internationalization of the three circuits of capital have been specified, it is necessary to turn to the important question of how to characterize non-capitalist structures and the mechanisms of their subordination to the circuit of productive capital in the present phase of the world capital accumulation.
E. The Circuit of Productive Capital and Non-capitalist Forms of Production in the Periphery

In characterizing the contemporary peripheral social formations, the main issue is whether surviving precapitalist structures should be regarded as 'modes of production', in articulation with the dominant CMP, or as 'forms' of production subject to capitalist laws of motion. This difference, as I have previously argued, is the result of employing different levels of theoretical abstraction, leading to conflicting conceptualizations of the notion of the mode of production.

Given our periodization of the development of the world market on the basis of the successive internationalization of the three circuits of capital, the central emphasis in this Chapter has been on the different ways in which capital has penetrated peripheral economies. I have argued that each stage of the internationalization of capital has imparted specific structural characteristics to peripheral formations. The periphery’s relations with metropolitan capitalism has variously involved plunder, trade, colonialism, capital export and, more recently, various system of ‘enclave’ development following the internationalization of productive capital.

It should therefore be clear that my concern here is neither with the ways in which PCMsP were penetrated in the epoch of primitive accumulation nor with the question of characterizing precapitalist production relations as a 'general problem'. Rather, I am concerned with the nature of
noncapitalist structures in the present phase of the internationalization of productive capital. It should also be clear that these noncapitalist structures cannot be characterized as 'natural economies' or precapitalist modes of production which have survived intact and now exist in a relatively stable symbiotic relationship with capital. As has been suggested earlier, peripheral formations should be characterized as the articulation of non-capitalist forms of production with the dominant CMP.

The characterization of non-capitalist structures as forms of production poses three interrelated questions:

(1) What is the nature of these forms; how are they to be conceptualized and differentiated from modes of production in a Marxist fashion?

(2) What is the nature of the relations between these forms and dominant capitalism?

(3) What is the class character of non-capitalist producers in their relation with dominant capitalism?

Non-Capitalist structures generally denote the circuit of simple commodity production (SCP) which, as will be discussed below, is the earliest expression of production of commodity. While in the earlier phase of the internationalization of merchant capital it was possible to analyze the relationship between capital and SCP at the level of exchange, at the present phase of world accumulation this relationship has to be conceived at the level of production. This conceptualization involves an examination of the ways in which productive capital attempts to control and regulate the conditions of SCP (and exchange)
without undertaking its direct organization.

The penetration of commodity relations of direct producers, and the incorporation of their direct reproduction cycles into capitalist commodity relations, is what Bernstein (1977) calls the process of 'commoditization'. In this situation, "the reproduction of these conditions becomes internalized in the simple reproduction cycle to the extent that it cannot take place outside commodity relations. In other words, commodity production becomes an economic necessity" (Bernstein, 1977:63). Unless a full specialization of commodity production has occurred, direct producers remain in control and possession of the means of production, but their labour processes are determined by the withdrawal of labour from use-value production. Production of exchange-value as an 'economic necessity' implies a rupture in the reproduction cycles of subsistence producers. The breakdown of the reproduction cycles is the main criterion which distinguishes a form of production from a mode of production. This is to suggest that once reproduction cycles are broken and incorporated into capitalist commodity production, the production relations, behind the 'appearances', are also altered: "Despite the limited technical changes in production, however, this process involves social changes in the conditions of production and exchange" (ibid.:61, emphasis in original).

Once the conditions of the reproduction are destroyed, even though production processes are not completely transformed, it would be misguided to depict non-capitalist structures as PCMsP 'conserved' or 'perpetuated' by the dominant capital.
Characterizations of non-capitalist forms of production as 'domestic mode of production', 'peasant mode of production', 'lineage mode of production', etc. are also ahistorical and descriptive in the sense that they concentrate on relations within the unit of production (the household) and its mode of economic calculation, but do not address questions concerning the larger relations of production through which they are constituted. To understand the latter, it is essential to place the subsistence producers in their relation to capital and the state. In other words, they have to be located "within capitalist production relations mediated through forms of household production which are the site of a struggle for effective possession and control between the producers and capital/state" (ibid.:73, emphasis in original).

To establish the distinction between forms and modes of production in more precise terms, it is necessary to consider briefly the question of what distinguishes one mode of production from another.

Modes of production can generally be distinguished from each other by the particular way in which surplus is extracted. Surplus labour can be appropriated in different ways. For example, under slavery, the labour supplied to the master is uncompensated and the master is responsible for the reproduction of the slave. Under feudalism, labour supplied to the feudal lord is embodied in the ground rent. Under capitalism, the wage-worker gives a portion of his labour to the capitalist without receiving any value in exchange. Capitalism is the first mode of production to extract
surplus from the direct producer through purely economic relations. In PCMsP surplus is extracted by use of extra economic coercion, for example, sanctions of kinship, custom, law and politics. This leads to the general conclusion that to distinguish between different modes of production not only should the general way in which surplus is extracted be considered, but also the political, ideological and juridical structures which enable the reproduction of the relationship between producers and nonproducers.

This argument is obviously derived from the conceptualization of the mode of production presented earlier; and may pose the theoretical problem that there are as many different modes of production as there are 'superstructures'. To resolve this problem, it has been argued that we should distinguish between a mode of production (in general abstract terms) and a specific form of a mode of production as it manifests itself in a social formation. That is to say, at the level of concrete analysis within the CMP, surplus value may be extracted through the payment of a wage or through the 'wage-equivalent' paid to non-capitalist producers. What is important in distinguishing different forms of a mode of production is both the form of surplus labour appropriation and the process by which it is extracted.

This is to reiterate Banaji's (1977) distinction between 'relations of exploitation' which occur in different modes of production and 'relations of production' which are the specific historically-determined laws of motion of an
'epoch' of production. The former denotes specific forms of labour organization when their reproduction cycles are broken and are subsumed by capital. Despite the usefulness of his distinction, however, we differ from Banaji in that, for him, non-capitalist productive units, in the epoch of capitalist production, are non-capitalist merely in appearance but are capitalist in essence. Non-capitalist enterprises can be characterized as forms of the CMP in so far as they are subsumed by capital and are dependent on it for their reproduction. The term 'form' here is intended to stress the destruction of PCMsP as autonomous and distinct structures; it does not imply that their destruction is complete and that these productive units are already fully-fledged capitalist enterprises concealed behind a different appearance. I shall return to this point later in discussing class differentiation of non-capitalist producers.

Now that it has been established that non-capitalist structures should be placed within capitalist production relations as forms of production, I should elaborate this argument by examining the mechanisms of their subsumption and the methods of appropriation of their surplus labour by capital.

The relationship between capital and non-capitalist structures should be formulated at the level of production, for the characterization of this relationship at the level of exchange poses problems for a Marxist conceptualization of the notions of exploitation and surplus-value. In a vigorous Marxist sense, exploitation means appropriation of
surplus value from a value-producing class by a non-value producing class at the level of production. This is the only way in which capital exploits labour.

It has been argued above that merchant capital, as the 'agent' of industrial capital in the centre, is characterized by the fact that it operates solely in the sphere of exchange; that it exploits through robbery; that it does not create value because it cannot transform the value of labour power, and is thus incapable of transforming the mode of production itself. In the present era, capital which is acting upon simple commodity producers cannot be viewed as the archaic form of merchant capital. Productive capital penetrates the level of production and therefore the mechanisms of appropriation of direct producers' surplus labour have to be located in the sphere of production.

However, locating the mechanisms of appropriation of surplus labour of simple commodity producers in the sphere of production presents some theoretical problems. The law of value operates only under the conditions of full expropriation of direct producers from the means of production. Simple commodity producers are still in partial possession and control of the means of production and the reproduction of the unit of production is partially realized through production of use-values; this hinders the full operation of the law of value. Under the conditions of partial possession of the means of production and combined use-value/exchange-value production, Marx (Capital, Vol.III) has analyzed the exploitation of simple commodity producers in terms of 'devalorization of labour time'.
In a situation in which the household, determined by the needs of simple reproduction, 'meets' capital, determined by the logic of accumulation, a devalorization of the terms of exchange of commodities is experienced by subsistence producers. The devalorization of the terms of exchange is the result of subsistence producers' competition with commodities produced by capitalist enterprises with a higher organic composition of capital and higher productivity of labour. This competition increases the costs of the means of production and the costs of the reproduction of producers, thus raising the costs of production to subsistence producers. To sustain this competition, simple commodity producers have both to intensify production of commodities through working longer hours and using unpaid family labour, and to reduce the level of consumption. Production of use-values by members of household for personal consumption ensures part of their costs of reproduction and presents a potential source of subsidy to capital, as it lowers the exchange-value of household's marketed commodities. Capital, in this way, intensifies the labour of household members without undertaking any cost of management and supervision of the production process. Since the socially necessary labour time is not introduced and the value of commodity produced by the household can be measured only in terms of the labour time, the unpaid family labour is not regarded by the members of the household as a 'cost', and is therefore a loss of surplus labour to the household.

This pattern of penetration of commodity production explains both the 'self-exploitation' of the direct producers and the cheapness of their commodities vis-a-vis commodities
produced by capitalist enterprises (Bernstein, 1977). Overwork and underconsumption constitute devalorization of labour time insofar as commodities are sold as a function of subsistence and are dissociated from any mechanisms of 'rational' cost-calculation. Marx (Capital, Vol.III) is describing the same situation in relation to peasants owning small plots of land when he argues:

For the peasant owning a parcel, the limits of exploitation is not set by the average profit of capital ... the absolute limit for him ... is no more than the wages he pays to himself, after deducting his actual costs. So long as the price of the product covers these wages, he will cultivate his land, and often at wages down to a physical minimum (Marx, Capital, Vol.III:805-6).

And in relation to the absence of cost-calculations and thus lower exchange-value of commodities, he argues:

It is not necessary, therefore, that the market price rise, either up to value or the price of production of his product. This is one of the reasons why grain prices are lower in countries with predominant small peasant land proprietorship than in countries with a capitalist mode of production. One portion of surplus of the peasants ... is bestowed gratis upon society and does not at all enter into the regulation of price of production or into the creation of value in general. This lower price is consequently a result of the producers' poverty and by no means of their labour productivity (ibid:806).

Competition with capitalist producers, therefore, results in the intensification of labour and reduction of consumption levels of the household, leading to devalorization of subsistence producers' labour time. Indebtedness, greater reliance on cash income, and presale of product are all the result of a 'simple reproduction squeeze'. Subsistence producers continue to cover the costs of their reproduction, both individual and reproductive, through production of use-values. This is an intensification of
'self-exploitation'. From the point of view of capital, production of use-values is a source of 'subsidy'; from the point of view of direct producers, no surplus-value is produced at all (Bernstein, 1977). Placed in the context of the CMP, all types of unpaid domestic labour necessarily involve devalorization of labour time.

Only the specific conditions of household simple reproduction allows for this particular mechanism of surplus appropriation and exploitation. Devalorization of labour time occurs only because the objective of production is simple reproduction of the household (and not accumulation) and because the rationale and economic calculation of simple reproduction and capitalist production are significantly different.  

Production and appropriation of surplus-value by subsistence producers thus takes place under much less determinate and efficient conditions than those of capitalist production, for partial possession of the means of production is a barrier to the full operation of the law of value. Devalorization of labour time, therefore, entails production of absolute surplus value by direct producers (Bernstein, 1977). This also implies that, at this stage, subsistence producers are formally subsumed by capital.

This distinction between the formal and real subsumption of labour by capital and absolute and relative appropriation of surplus-value, is central to this approach. By formal subsumption of labour by capital, Marx meant a situation in which capital takes over labour processes without
transforming production relations and the internal organization of labour. The existing mode of production is not altered. This situation is synonymous with the period of manufacturing in Europe:

At first, capital subordinates labour on the basis of the technical conditions in which it historically finds it. It does not, therefore, change immediately the mode of production (Marx, Capital, Vol.1:293).

Formal subsumption of labour by capital is also synonymous with absolute surplus-value extraction, which entails extraction of surplus-value by lengthening of the working day, intensification of labour and increase in the number of worker units. No transformation of the mode of production occurs at this stage:

The production of surplus-value ... by means of simple extension of the working day, proved, therefore, to be independent of any change in the mode of production itself (ibid:293).

Real subsumption of labour by capital revolutionizes organization of labour, increases labour productivity and transforms individualized household production into socialized production. Due to improved means of production, relative surplus value is extracted. This level of subsumption entails a complete separation of the direct producer from the means of production:

The production of absolute surplus-value turns exclusively upon the length of the working day; the production of relative surplus-value revolutionizes out and out the technical processes of labour, and the composition of society. It therefore presupposes a specific mode, the capitalist mode of production, a mode which, along with its methods, means and conditions, arises and develops itself spontaneously on the foundation afforded by the formal subjection of labour to capital. In the course of this development, the formal subjection is replaced by the real subjection of labour to capital (ibid:477-8).
It must be noted that the distinction between formal and real subsumption of labour by capital is primarily analytical. It is quite possible for both forms of subsumption of labour to co-exist within a social formation. 'Simple reproduction squeeze' could reach its limits when non-capitalist producers are able to improve their techniques of production, and thus move toward production of relative surplus-value. But the generalization of commodity relations is also quite consistent with the persistence of non-capitalist forms of production operating at extremely low levels of productivity (Goodman and Redclift, 1981). For analytical purposes, however, it is essential to specify the limits to the real subsumption of labour since they will affect the specific modes of appropriation of surplus labour.

A further specification of non-capitalist producers concerns the question of their class differentiation. The question is how to characterize direct producers when their subsumption to capital is incomplete and they still retain possession of the means of production. I have already discussed that for Banaji (1977) simple commodity producers are 'pre-capitalist' only in 'appearance' and a 'form' of the CMP in 'essence'. He, therefore, considers the independence of simple commodity producers vis-a-vis capital only as a 'formality'. Juridically speaking, subsistence producers appear to be free, but behind the formality of independence the relations of production in which they are engaged are already capitalist in nature. Under these conditions, simple commodity production is regarded as a 'quasi-enterprise' employing wage-labour. The conclusion to be drawn from this
is that:

The price which the producer receives is no longer a pure category of exchange but ... concealed wage. Behind the superficial 'surface' sale of products, peasants under this form of domination sell their labour power (Banaji, 1977:34).

Banaji, therefore, attaches minimal importance to the fact that simple commodity producers are in partial possession and control of the means of production. Simple commodity production is only a specific form of reproduction of capital and simple commodity producers are already selling their labour power to capital. They are, therefore, 'disguised proletarians' and the income they receive from the sale of their commodities is a 'concealed wage'. Banaji appears to have no doubt about the ultimate proletarianization of subsistence producers.

Bernstein (1977) disagrees with the view that production relations within the household are already capitalist production relations, 'concealed' by the direct producers' formal possession of the means of production. For him, the fact that subsistence producers are not wholly dependent on wage-labour for their reproduction is significant. Bernstein is sensitive to the fact that formal subsumption imposes its own limits on both the household and capital:

Simple commodity producer is not a proletarian as (a) he/she retains some control over the organization of production ... (b) household production, while occupying a definite place in the social division of labour precludes any significant development of the division of labour internal to the production process ... and therefore cannot produce the 'collective worker' in Marx's sense (Bernstein, 1977:63, emphasis in original).
Despite the apparently total control exercised by capital, subsistence producers cannot be characterized as 'semi' or 'disguised proletarians' for the process stops short of full proletarianization in that the separation of the producers and the means of production is not complete, and the individualized production of the household is not replaced by the socialized production process 'set in motion' by capital (ibid:69).

With the monetization and commoditization of the reproduction cycle, the prices received by direct producers are equivalent to the cost of reproduction of the labour power. Subsistence producers are therefore 'wage-labourer equivalents'. This is to emphasise the formal subjection of the household by capital and the continual production of use-values by its members.

Proletarian destiny of subsistence producers is not inevitable. This is to reject the assumption that the 'classical model' of transition is a universal one, and to suggest that paths of transformation in the periphery could take a different direction due to periphery's historical/structural specificity. This also reminds us of the points raised by Bradby (1975) and Clarke (1977): it is not 'necessary' for capitalism either to destroy or conserve PCMsP in a functional or existential sense. Class differentiation of non-capitalist producers, their elimination or retention, is an open question. The direction it will take depends on the intensity of the commoditization process, that is, the extent to which homogeneity of simple reproduction is broken by the commoditization of the means of production and labour power. The intensity of the
commoditization process is itself dependent upon class struggle, or "the struggle for effective possession and control between the producers and the capital/state" (Bernstein, 1977:73).

* * * * *

The following four Chapters of this study will seek to examine the experience of capital accumulation in one peripheral social formation, Iran, in the context of the theoretical framework advanced here. The period of 1800-1978 is divided into different phases on the basis of the internationalization of the three circuits of capital identified here. The empirical and historical data presented in the following Chapters are consistent with the dynamics of the internationalization of the circuits of capital discussed in this Chapter.

Within the framework of the approach of the internationalization of capital, this study has advanced a number of theoretical propositions. First, it has been argued that the historical periodization of the development of the world market on the basis of the distinction between the circuits of capital clearly shows that the prevailing debate about the theoretical primacy of the sphere of production or circulation is misleading. While the sphere of production always plays a determinant role in defining the structural properties of a mode of production, during the initial incorporation of peripheral formations into the
world market exchange relations are dominant. Secondly, by emphasizing the persistence and intensification of noncapitalist forms of labour exploitation, this study challenges a major assumption of the approach of the internationalization of capital: that 'the bourgeoisie creates a world after its own image'. 'Development', perceived as the expansion of capital as a social relationship into the backward areas of the world economy, does not have uniform and functional consequences. While through the approach of the internationalization of capital the dynamics of the historic world-wide expansion of capital can be established, no necessary or general socio-economic consequences can be said to flow from the installation of capitalism in a given society. The case of Iran will show that the incorporation of a society within the global system of capitalist relations does not necessarily result in the liquidation of all noncapitalist social and economic arrangements.

The implication of this theoretical perspective would be a rejection of mechanical causal models of economic development. A differential approach to the development of capitalism is needed in order to avoid the pitfalls of transposing the European experience to peripheral social formations, taking into account the fact that capitalism has developed in these formations not endogenously but as a result of contradictions external to them. This perspective also entails a critique of those forms of Marxism which conceive of history as a universal and inevitable march towards progress and advanced forms of material production. The history of the past two centuries of structural
transformation in Iran, as outlined in the following Chapters, shows not only the uneven and combined effects of development of capitalism, but also indicates that we can have no general theory either about the genesis of capitalism or the necessary consequences of its development.
1. The tendency for the rate of profit to fall is directly related to the capitalists' need for exporting their products and obtaining a higher rate of profit, through producing more commodities at lower prices. The need to maximize profits and minimize costs of production results in an increase in the organic composition of capital (\( \frac{C}{V} \)), increasing the ratio of dead labour to living labour. Consequently, each commodity produced will have a smaller relative proportion of surplus value. Given the fact that only living labour produces value, and that the struggle between labour and capital tends to keep the rate of surplus value (\( \frac{s}{V} \)) constant, what follows is a tendency for the rate of profit to fall (\( \frac{s}{C+V} \)).

2. Accumulation without wage necessarily involves exploitation of price differences, either in space (merchant capital) or in time (usury capital). In reality, however, merchant's and usurer's capital are often represented by the same person.

3. The concept of simple commodity production as a 'form' of production will be discussed fully in the last Section of this Chapter.

4. The distinction between formal and real subsumption of labour by capital will be discussed in the last Section of this Chapter.

5. See Chapter One, note No.12, for a brief discussion of the unequal exchange theory.

6. Many Marxists have emphasized the size or the organizational form of the firm as the main structural feature of capitalism at its monopoly stage. Sweezy (1942), for one, has attached a great deal of importance to the expansion in the scale of production, the separation between ownership and control and the replacement of individual private property owners by a group of shareholders as the main structural features of monopoly capitalism. These changes within the firm are not unimportant in their own terms, but they merely amount to formal and descriptive observations of changes in the nature of capitalism and do not constitute theoretical criteria for explaining transition from competitive to the monopoly stage.

7. For a similar concept of finance capital, dissociated from the banks and their role, see Brewer (1980) and Krest (1973).

8. Underconsumption theory generally concerns the inability of a closed capitalist system to absorb surplus value produced, either because production of consumer goods exceeds demand ('realization crisis') or because the small size of the market prevents capitalists from expanding production of consumer goods and sustaining the average rate of profit. In both cases, stagnation follows, unless
capitalism resorts to external markets as a counteracting tendency. For detailed discussions and critique of various theories of underconsumption, see Bleaney (1976), Brewer (1980) and Lustig (1980).

9. See, for a similar point, the concept of the 'imperialism of free trade' in Gallagher and Robinson (1953). For a classical view of 'anti-imperialist' free trade era, see Platt (1968).

10. This is also Palloix's (1977) interpretation of the development of the world market. All stages of capitalist development are also stages of imperialism for him (he even refers to primitive accumulation as 'proto-imperialism').

11. Lenin (1978) has been criticised for having failed to establish a theoretical link between five major tendencies he ascribes to the 'imperialist' stage of capitalist development, for having identified monopoly capitalism with abated competition and inevitable decay and stagnation, and for an underconsumptionist 'surplus capital' thesis which does not establish why the export of capital becomes a necessity of the system at the monopoly stage. For a critique of Lenin's Imperialism see: Arrighi (1978), Brewer (1980), Kitching (1981) and Lindsey (1980).

12. The question of the role of the state and its relationship with MNCs has been subject of a rather large debate. Due to the lack of space this question has not been addressed here. See, for this debate, Barratt-Brown (1974), Hymer (1972), O'Connor (1970b), Magdoff (1969), Murray (1975), Mandel (1975), Poulantzas (1974), Rowthorn (1975) and Warren (1975). For more recent discussions of the role of the state, which emphasize the significance of the state in the process of internationalization of production, see Jenkins (1987) and Richards (1987).


14. By the mid-1960s, exports of manufactured goods to the periphery had fallen to 2% of GDP in the EEC, 0.8% in the USA, and 2.3% in Japan. Imports constituted only 0.2% of GDP in all three cases during this period (Lipietz, 1982a:37).

15. As the development of Fordism corresponded to the post-war US hegemony over the capitalist world market, the present crisis of Fordism also corresponds to the declining US hegemony and to the intensification of rivalries amongst imperialist metropolises. The present crisis significantly shows that Fordism has neither solved the inherent cyclical fluctuations of capital accumulation nor the inherent tendency towards inter-imperialist rivalries. Today Europe and Japan are competing against each other to take over the leading role of US capitalism. In strict economic terms, the intensified inter-imperialist rivalry is reflected in the relative decline in the share of American exports in the total world trade: from 20% in 1950 to 12% in 1978, compared
with the rise of W.Germany (from 4% in 1950 to 12% in 1978); and Japan (from 1% in 1950 to 8% in 1978), (Munck, 1984:65).

16. This complex question cannot be addressed within the limits of this study. It would suffice to point out that the profit-squeeze interpretation of the theory of capitalist crisis has been found inadequate for the phase of monopoly capital (Section C, this Chapter). Crises of profitability, however, do occur, and the relocation of production to cheap labour areas has augmented the rate of surplus value for individual capitalist investors and MNCs, but for the system as a whole, exploitation of labour is only one possible response to the crisis of profitability. The rate of profit can also be restored through other measures such as the depreciation of the constant capital, e.g., opening up new sources of energy and raw materials. See Jenkins (1984-1987) for arguments against the falling rate of profit tendency as an explanation for the present crisis.

17. In the case of the four Asian countries mentioned above, their share of world manufactured exports grew by 2% per annum between 1967 and 1977, against 2.1% per annum for Japan and W.Germany, and 2.9% for the USA. Indeed, it seems that the leading imperialist centres, the USA and Japan, have gone a long way in relocating their production processes: in 1977, the NICs accounted for 15.5% of imports from the US and Japan respectively (Lipietz, 1982a:39).

18. The data in the case of Latin America clearly shows this trend: while in the 1960s foreign direct investment accounted for about 30% of foreign flows into Latin America, with bank loans and bonds accounting for 10%, in the 1970s the share of direct investment by MNCs had dropped to 21% and the share of private international financiers had risen to 59% (Frieden, 1983:6).

19. These authors do not explicitly discuss the question of the NIDL, but the position here attributed to them logically follows from their arguments. Warren (1973-1980) is particularly known for the views mentioned above, and has been criticized extensively (Ahmed, 1983; Amin, 1983; Emmanuel, 1974; Gülap, 1986; Halliday, 1983; Howe, 1983; Lipietz, 1982b; Jenkins, 1984; Petras et al., 1978; Pilkington, 1981).


21. The number of countries affected by the internationalization of productive capital, whatever system of accumulation is involved, constitutes only a small part of the periphery. In global terms, the share of the NICs of consumer and producer goods remains very small. Between 1969 and 1977, the Third World as a whole increased its share in the export of world manufactured goods from 7% to 9%,
falling back subsequently. In the late 1970s, imports of manufactured goods from the Third World accounted for less than 2% of total consumption of manufactured goods in North America, the EEC and Japan, while in the clothing industry imports from the Third World accounted for over 11% of the consumption in various blocs of the OECD (Jenkins, 1984:48, 43). Moreover, the 'free production zones' employ only 7.25 million people - a mere fraction of the 'labouring poor' in the Third World (Munck, 1984:67). These figures show the limitations of the internationalization of productive capital both in terms of the area and the type of industry involved. The thesis of the NIDL looks even more dubious if we consider the very real threat of protectionism by central states, further limiting markets for export of manufactured commodities by the NICs. See particularly Bienfeld (1988) for a critique of the thesis of NIDL.

22. The circuit of simple commodity production will be fully discussed in the following Chapter. See particularly Chapter Three, Section B.

23. Given our emphasis on the production sphere, the unequal exchange thesis (see Chapter One, note No.12) is rejected for it sees the appropriation of surplus labour through exchange. In the transaction between capitalist enterprises and noncapitalist producers, what actually occurs is not the exchange of unequal values but equal exchange for values which have been produced under unequal conditions or unequal amounts of labour (Bernstein, 1977; Mueller, 1981). That is to say, simple commodity producers produce the same amount of value within a much longer time because of the lower level of development of productive forces and thus lower labour productivity.

24. Socialized production refers to the level of capitalist development when 'collective worker' has emerged. It implies concentration and centralization of the means of production, complex division of labour and cooperation between and within productive units. This level of development corresponds to real subsumption of labour by capital and relative surplus-value extraction.
In this Chapter, I shall analyze the process by which the Iranian social formation was incorporated into the capitalist world market via the circuit of merchant capital from approximately the 1800s until 1911. I shall argue that during this period the internationalization of merchant capital led to a generalization of commodity production on a precapitalist basis. An analysis of the impact of merchant capital on the character of the state, class structure, and the nature of production relations constitutes the primary object of this Chapter.

This Chapter is divided into three sections. In the first section, I shall discuss changes in the material bases of society, that is, in the pattern of land tenure, production relations, and class structure as a result of the penetration of metropolitan capital in the form of, first, wars, military invasions and conquests, and, second, in the form of loans, concessions and diplomatic activities. The pattern of land tenure and forms of labour processes are only touched upon insofar as they can sufficiently establish the proposition that there existed a causal link between (i) commodity production for the world market; and (ii) consolidation of precapitalist private monopoly on land. In the second section, the nature of class struggle in the
Constitutional Movement (1905-11) and the relationship of the Movement with the commoditization of the economy will be discussed. In the third section, I shall draw on Marx's distinction between the 'first' and the 'second path' of capitalist transformation in order to define the specificity of primitive accumulation of capital in Iran.

A. Incorporation of Iranian Social Formation Into the Capitalist World Market

The year 1800 is not the exact beginning of the incorporation of Iranian formation into the world market. Integration with the capitalist world market began around the 1600s and found its culminating point in the 19th century. Initially, incorporation into the world market was very slow due to the particular internal structures of Iranian formation; a social formation constituted by semi-isolated tribal, rural and urban units and the absence of a centralized state impeded commoditization and penetration by metropolitan capital.

By 1800, however, Iran had come into close contact with the metropolitan capital, and by the end of the 19th century it had fully been transformed into a peripheral social formation. Metropolitan capital penetration into Iran did not take the form of formal colonization but of rivalry between two imperialist powers of the 19th century: Britain and Russia. The central objective of this inter-imperialist rivalry was the need of imperialist centres for raw materials for their expanding industries, and for markets to export their manufactured goods (Clawson, 1979). In the
first half of the 19th century this rivalry took the form of wars and military conquests, and in the second half of the century it was carried over to 'peaceful' means of diplomatic activities, provision of loans, banking operations, and, above all, concession-grabbing. By the second half of the century, the era of free trade on a world-scale had ended and increased concentration and centralization of capital in a number of capitalist centres had given rise to a new stage characterized by the export of capital and direct state intervention. However, given the slow process of capital penetration into Iran and the unevenness of capital accumulation on a world-scale, the Iranian markets were opened not for the purpose of export of capital, but for the imposition of 'imperialism of free trade'. The relentless inter-imperialist rivalry throughout the 19th century was basically motivated by the need for raw materials.

From about 1800, when the Qajar dynasty (1792-1925) had established itself, until 1917, when the Bolshevik Revolution removed Russian imperialism, Iran was the scene of continuous rivalry between British and Russian imperialism. This rivalry had placed Iran in a semi-colonial position while both powers achieved control through securing a series of political, military, judicial and commercial concessions through the existing state, and often conflicting, communities of interests within the indigenous ruling elements. Imperialist powers used the state as an administrative and military structure for their exploitation. By encouraging the mortgaging of the economy through concessions, loans, and the abandonment of tariffs,
the inter-imperialist rivalry both maintained and prolonged the absolutist rule of the Qajars and, at the same time, weakened it.

Iranian markets were first opened to foreign capital through a number of wars and military confrontations. In 1813, the Russian invasion of western areas of the Caspian Sea ended in Iran's surrender of most of her territory in the Caucasus and an agreement on having no naval forces on the Caspian Sea. Subsequently, the British imposed the Anglo-Persian Treaty of 1814 which stated that the Iranian frontier with Russia had to be determined by negotiations between Iran, Britain and Russia, and that the British and Iranian governments had to provide mutual assistance in case of aggression against either Iran or Britain.

Being closer to Iran, Russia engaged in a series of military attacks on its common border with Iran. The strongest attacks on the Caspian Sea region occurred in 1825 and 1828. They each ended with great territorial losses for Iran, and the imposition of the two economically damaging treaties of Golestan and Turkamanchai. According to the Turkamanchai Treaty Iran surrendered all of her territory west of the Caspian Sea and consequently lost all revenues obtained from that area through taxes on land and agricultural products. This Treaty also lowered the rate of tariff on Russian goods to 5% only and removed the internal duties on such goods.

For their part, the British provoked a war between Iran and Afghanistan in 1856, resulting in total victory for the British who had entered the war against Iran. As a result of
this defeat, Iran relinquished all her claims to Afghan territory in 1857, and granted capitulatory rights and commercial privileges of tax exemptions for domestic trade and low tariffs for imports of British goods.

From approximately the mid to late 19th century, metropolitan capital penetration into Iran took the more 'peaceful' form of concession-grabbing. By the 1870s, the activities of the imperialist powers had become almost strictly diplomatic, through which commercial concessions, loans, and political and economic rights were secured. By the end of the century almost all areas of the economy, banking, transportation, communication, mining, customs and the nascent industries were controlled by the metropolitan capital. The list of the concessions is indeed endless. In the late 1850s, the British won a concession for the construction of telegraphic lines. In 1872, the Reuter concession granted Baron Juluis Reuter, a British citizen, exclusive rights over all mining (except silver and gold), irrigation, transportation, establishment of banks, factories and a lease of the country's entire customs for 25 years upon payment to the Shah of a stipulated sum for the first five years and an additional 60% of the net reserve for the remaining 20 years (Kazemzadeh, 1968). Although this concession was not put into operation, later, the first bank in Iran, the Imperial Bank of Persia, with exclusive rights to issue banknotes was built in 1889 by the British.

The Russians, for their part, also secured a number of concessions. The first Russian concession covered the fisheries at the Caspian Sea with a monopoly on Iranian
caviar production; and the second was a concession to build the Banque d'Escompte, which competed with the British-owned Imperial Bank of Persia.

The most famous concession of this period, which marked Iran's first anti-imperialist movement and also its first foreign debt, was the Tobacco Concession granted to Major G.F. Talbot of Britain in 1890. According to this concession, the right of full monopoly over the production, sale and export of all tobacco throughout Iran was given to Major Talbot for 50 years in return for an annual rent of £15,000 and a quarter of the annual profits after the payment of all expenses, and a 5% dividend on the capital. Together with the clergy, the Iranian merchant class, whose interests were seriously threatened by this concession, launched a massive and nation-wide protest. The clergy issued a total ban on the consumption of tobacco which brought the operation of this concession to a halt. The Court was forced to cancel the concession in 1892, and had to pay £50,000, borrowed from the British-owned Imperial Bank, as compensation. The cancellation of this concession, known as the 'Tobacco Movement', signalled the decline of British influence in Iran in the second half of the 19th century and the growing Russian hegemony. In addition to internal opposition, Russian protest also affected the cancellation of both Reuter and Talbot concessions. The British did not regain their earlier degree of influence after the Bolshevik Revolution in 1917.

There was, however, one area of the Iranian economy in which the interests and domination of British imperialism remained
constant: the oil industry. In 1901, William K. D'Arcy, a British subject, obtained a sixty-year concession for exploration, exploitation and export of Iranian oil. This concession covered the whole country except for the five northern provinces, and was tax-exempt. Oil was discovered in 1908 and, subsequently, the Anglo-Iranian Oil Company (AICO) was formed in 1911, with the British government acquiring 51% of the share (Bharier, 1971:154-5). I shall later return to the question of the structure and impact of the oil industry on the Iranian economy.

The early military interventions and wars, resulting in territorial losses, the loss of revenue from taxation and trade, the imposition of comprehensive economic concessions, and the formation of the two competing Russian and British-owned banks which monopolized Iranian money markets, are ample evidence of the forms of capital penetration into Iran and the pattern of inter-imperialist rivalry. These forms of capital penetration not only accentuated the fiscal crisis of the state throughout the 19th century but they also opened Iranian markets to the 'imperialism of free trade', which eventually transformed the economy into an exporter of agricultural raw materials and a consumer of Russian and British manufactured goods. Incorporation into the world market via the circuit of merchant capital gradually transformed the precapitalist economy of Qajar Iran into an economy in which the principle of market was dominant. In the course of nearly one and a half centuries, that is, the period from 1800 until the late 1950s, domination of merchant capital shaped and influenced almost all aspects of the economy and the path of its transition to
capitalism. What is central to this study is the extent and nature of the expansion of commodity production in Iran and the way in which this development affected the character of production relations. More importantly, I am concerned with the specific path of capitalist transformation taken in Iran as a result of the domination of merchant capital.

Internationalization of the circuit of merchant capital gave rise to a number of tendencies in the Iranian economy. These tendencies can be identified as the consolidation of the institution of private property and the concomitant concentration of the means of production (land), commoditization of agricultural output which involved replacement of subsistence production by cash cropping, and the collapse of petty-commodity production. These changes were all responses to, or adjustments of, the Iranian economy to integration with the world market. Obviously, the course of this transformation is partly determined by the characteristics of the society in which they occur. An understanding of the nature of the precapitalist mode of production is, therefore, essential for a thorough analysis of these transformations.

The nature of the precapitalist mode of production in Iran is the subject of a rather large debate. I must emphasize that an exact characterization of precapitalist Iran is not the direct object of this study; and it is not possible, within the present limits, to enter into this debate. It is necessary, however, to discuss those aspects of the debate which are directly relevant to the purposes of this study.
The controversy over precapitalist Iran derives from different and conflicting interpretations of a complex system of property ownership whose structural characteristics can be summarized as follows: (i) the predominance of state ownership of land; (ii) the existence of pastoral/nomadic societies; (iii) the absence of juridical serfdom and hereditary nobility; (iv) the lack or weakness of labour services; (v) the extraction of surplus in kind or in money rent; (vi) a socially 'fragmentary' and politically 'despotic' structure resulting in the effective absence of classes and class struggle.

Lack of space does not allow me to discuss each of these features separately. However, it will be sufficient to note that the main difficulty in characterizing precapitalist Iran is the exact status of the complex system of property relations in which three forms of landownership co-existed: tribal/communal, state and private landownership. The terms of the debate, therefore, come down to two main questions. First, whether this complex and mixed system of landownership should be characterized as 'feudal', 'Asiatic' or some other distinct mode of production. Secondly, whether precapitalist Iran should be characterized in terms of one single mode of production or a combination of two or several modes of production.

Given the complex system of landownership, precapitalist Iran has variously been characterized as 'tribal feudalism' (Minorsky, 1943; Keddie, 1981); 'patrimonial absolutism' (Banani, 1978); 'Umaq system' or 'tribal state' (Reid, 1978); 'Oriental despotism' or 'Asiatic mode of production'
(Abrahamian, 1974-1975; Ashraf, 1970-1980; Bashiriyeh, 1984; Katouzian, 1981; Mehrain 1979; Shaikholeslami, 1972); an exact equivalent of European feudalism (Pigulevskaya et al. 1975; Kuznestova, 1963; Ivanov, 1977; Nomani, 1976-1977); or a 'specific' variant of European feudalism (Petroshevsky, 1968; Shaugannik, 1985). Another interpretation emphasizes the mixed nature of the economy, and argues that precapitalist Iran should be seen as a combination of several modes of production. Turner (1984:165-8) argues that precapitalist Iran was characterized by the 'oscillation' of two modes of production: 'prebendalism' and 'feudalism'; with the movement towards the domination of the latter mode of production from the 10th century onwards. Foran (1988:351-3), within the problematic of 'articulation of modes of production', identifies three modes of production co-existing in Iran from the 16th century onwards: 'pastoral-nomadic mode of production', 'peasant cash-cropping mode of production' and 'petty-commodity mode of production'.

While it is not possible to discuss these formulations in detail here, I would argue that any characterization of precapitalist Iran in terms of the 'Asiatic mode of production', 'Oriental despotism', 'patrimonialism', etc., is misguided. My disagreement with these formulations is based on two premises. First, these are largely political descriptions which characterize the system in terms of categories such as centralization vs. decentralization, patrimonialism, military patronage, and despotism (Foran, 1988). These formulations not only define the system in terms of political categories but also tend to isolate the
latter from the productive capacity of the economy and the overall character of the social formation. Secondly, these formulations share, implicitly or explicitly, certain assumptions with the traditions of Orientalism and functional anthropology, which have been dismissed earlier as inadequate. To substantiate this argument, I would like to discuss briefly two structural features of precapitalist Iran which are central to the debate and to an exact characterization of the system. One is the question of the status of private landed property, and the other is the character of pastoral/nomadic societies.

The first question to consider is the status of private landed property in Iran. After the Islamic conquest in the 7th century, landed property relationship in Iran came to be based on the institution of iqta, which designated that, theoretically, land throughout the empire belonged to the monarch who was both a religious leader and a political head (caliph). The state or crown land was called khaleseh and was assigned to both village and tribal communities in return for taxes. In this system of landownership, direct officials of the monarch or tribal chiefs were assigned the right to collect land tax. The officials’ function was both judicial and economic. They collected taxes and provided services. This meant that possession of land was temporary and did not provide a permanent profit, posts were not hereditary and the monarch always had absolute authority. The officials did not necessarily reside in the villages and their salaries were derived from taxes. Thus, the ownership of land, theoretically, resided with the state.
Crown or state land was not the only type of landholding. There also existed vafq land, which was land belonging to religious institutions, and mulk land, which was private land corresponding completely to European feudal landownership in that it was held unconditionally and without obligation to the state and could be sold without hindrance. Whether or not this pattern of landownership should be termed 'feudal', 'feudal-prebendal' or 'Asiatic', it is certain that it was gradually transformed as a result of the incorporation of the Iranian economy into the world market. The general trend was towards the decline of state ownership of land and the consolidation of private landed property. This trend had begun in the medieval period when there was a general transformation of non-hereditary, conditional iqta to hereditary increasingly unconditional iqta. By the last decades of the 19th century, an unconditional private ownership in land, and a corresponding distinction between landlord and peasant classes, had developed. To understand this process, it is necessary to discuss the policies of competitive tax-farming and sale of state lands adopted by the state in the second half of the 19th century.

Beginning with the reign of Fath Ali Shah (1797-1834) the state entered a fiscal crisis induced by a combination of internal and external factors. The predominant factor was, however, external to Iranian formation; it was the result of Iran's entry into the world market in the form of military defeats in lengthy wars against Russia and Afghanistan, and the consequent loss of territories and revenues and the mounting foreign debts. Contradictions internal to Iranian
society, like the inter-tribal and tribal-agricultural wars, and the extravagant spending of the Qajars made their contribution, but these factors were only of secondary importance. The fiscal crisis continued throughout the reign of Mohammad Shah (1834-1848), when the court adopted a policy known as tuyul whereby the rights of tax-farming or landholding were assigned to selected individuals. Then, in the second half of the century, the Court resorted to extensive sale of the crown lands. The administrative policy of tuyul and the sale of state lands are central to this study for they had important repercussions for the pattern of land ownership and the social structure at large.

The institution of tuyul was complex and covered various forms of grants. One variant of tuyul was a grant of state land (khaleseh) to administrative or military staff in lieu of revenue or salary. Tuyul grants in the case of tribes usually meant obligation for the tribes to provide military contingents to the state. Another variety of tuyul was a grant of the right to collect taxes of a given area. The granting of these forms of tuyul rights greatly accelerated in the first half of the 19th century. As tuyul-holders were usually judicial and political figures within their districts, as well as being landlords, they gradually moved toward further autonomy from the state. In the case of tribes, tuyul rights usually transformed tribal chiefs into semi-feudal landlords. Both state officials and tribal chiefs who were tuyul-holders commonly established their own military forces. Through such forces, even those tuyul-holders who commonly were supposed to pay taxes to the state frequently defied the central government and formed
semi-independent political domains. Therefore, although tuyul was theoretically revokable, there was a tendency for tuyul land to become the private property of each assignee and for the distinction between property rights and those of tax collection to disappear.

The assignment of tuyul rights resulted in political decentralization and financial weakening of the state. In the second half of the 19th century, further pressures for revenue, generated by this decentralization and by mounting foreign debt, led to new policies concerning land. One policy involved a different implementation of tuyul rights; the other involved outright sale of state lands. The former was the policy of auctioning of governorship and official posts to the highest bidders. This policy, which was basically an auctioning of tuyul rights, was a form of competitive tax farming in which the individual who offered the highest price tag for collecting the taxes and revenues from a district was assigned to the district with full political and economic powers. The financial needs of the Court determined the length of the time for which tuyul rights were given. The Court’s hope for higher price bidders each year often led it to give short-term tuyul rights.

Throughout the 19th century, tax farming and sale of state lands brought more and more land under the ownership of tribal chiefs and large landlords. Tuyul rights were gradually transformed into de-facto private property, and a particular type of landholding was developed that was eventually transformed into private land ownership, inheritable and alienable by sale (Lambton, 1953; Keddie,
1960). Although the on-going process of the establishment of regularized property rights to land was by no means complete in 1900, in certain areas distinct feudal estates had become established. Therefore, the requirements of the world market, channelled through the Court and the landlord class, eventually broke down the traditional system of landownership. Competitive tax-farming and sale of state lands were also the central mechanisms of shaping the character of the landowning class, the movement of the merchant class into landownershi, and the creation of a vast pool of indebted peasantry. I shall later return to these important points.

What is significant at this stage is that the policies of competitive tax farming and sale of state lands also led to the entry of tribal chiefs into the fragmented ruling class of Iran and to the integration of nomadic societies with the larger social structure. It is necessary at this point to consider the character of pastoral nomadic societies.

Generally speaking, pastoral nomadic societies have been seen as an important element in Iranian history, and a major obstacle to structural transformation in Iran (Lambton 1953; Keddie, 1981; Moghadam, 1986-1988a-1988b). There is a tendency in the literature to reduce the whole history of Iran to a constant struggle between northern nomadic Turks and southern sedentary Persians; and to see this struggle as the basic feature affecting development of Iranian society. Moghadam (1986-1988a-1988b), for instance, in what she calls the 'theory of dynastic cycles', advances the view that in the period from the 11th to the 19th centuries, cyclical
nomadic invasions and rule in Iran led to the arrest in the development of productive forces, social classes, and private property rights in land, reinforcing and perpetuating the conditions of 'despotism'. While in Europe tribal invasions subsided in the 11th century, thus allowing for the development of feudal production relations, in Iran they continued until the 19th century, forming a major obstacle to the historic transition to capitalism.

While I have no problem with the argument that tribal structures played a role in inhibiting historical transformation in Iran, and therefore constitute a structural specificity which should be taken into account, most studies on tribes in Iran present a number of problems.

Beyond the general commonplace characterization that nomadic pastoral societies own animals and move about, we need to specify the particular character of production relations prevalent in these communities which, on the one hand, distinguishes them from sedentary societies and, on the other, renders them more resistant to structural change. Tribal structures express the conditions of natural economy, where production and distribution take place without the medium of the market, that is, production of use-values for direct immediate consumption. While use-value production dominates nomadic societies, they are also involved in the production of exchange-value as expressed in the trade of animals and animal by-products for handicraft and agricultural commodities produced by sedentary societies. Production of exchange-value, however, is marginal to nomadic societies as long as the larger production relations
of the social formation remain precapitalist. In tribal societies, land is owned collectively, division of labour operates along sex, age and lineage, movement of property takes place through marriage, and the main items of exchange are women and grazing animals.

Within this general precapitalist framework, the most important factor which specifies tribal societies is the expression of production relations through the kinship system. In tribal societies, economic does not constitute a separate sphere; nor do tribes contain a concrete superstructural entity distinct from the economic base. Economic and noneconomic spheres coincide and are expressed through the kinship system. The kinship system is superstructural in that it maintains the ideological, judicial and political functions; it is also economic since it determines and regulates the conditions of production and consumption. In other words, kinship relations and production relations are intrinsically complementary; the superstructural dimension of kinship appears as the dominant characteristic of nomadic societies because the determinant role of the economy is expressed through it (Godelier, 1973; Helfgott, 1977). Central to the kinship system is the institution of chiefdom which is a collective recognition of leadership entity representing the internal interests of tribes and ensuring their access to collective property (grazing lands). In the sedentary societies, by contrast, kinship relations do not define production relations. Landlords own and control the means of production (land) and extract surplus through sharecropping. Land is owned collectively in tribal societies, and the surplus produced
(animal by-products) enter the market through exchange with sedentary societies under different conditions.

In briefly characterizing pastoral nomadic societies my argument is that the apparently determinant role of the kinship system, as expressed through the institution of chiefdom, was the factor which tended to undermine the capacity of tribal societies for transformation and imposed a relative autonomy on them which was absent in settled agriculture. While the centrality of chieftainship and blood ties rendered these structures more resistant to change, this by no means implies that tribes are inherently stagnant socio-economic units, incapable of transformation and immune to external pressures. Generally speaking, there are two misconceptions about tribes. First, there is the Chayanovian view of tribes as inherently self-sufficient structures, perpetually reproducing themselves at the level of simple production. Secondly, the 'military superiority' of tribes is often over-emphasized, leading to their characterization as warlike, somewhat hostile towards civilization and constantly pursuing military and territorial conquests.\textsuperscript{12} In relation to the first point, it should be stressed that the history of Iran, as elsewhere, shows a general dissolution and disintegration of tribal structures in response to the same forces which operated upon sedentary and urban communities. Although tribes, given their internal structures, were more resistant to these pressures, it can be shown that tax-farming and the tuyul system gradually incorporated tribal chiefs into the dominant power structure. This integration was uneven and protracted, but the appointment to a governorship or administrative position
did extend the activities of tribal chiefs beyond the parochial limits of chieftainship. As mentioned above, the tribal chiefs received grants of land and became responsible for administration and collection of taxes. Although at the local level their power continued to be based on the kinship system, at the national level tribal chiefs emerged as an element of the fragmentary ruling class of Iran towards the end of the 19th century.

Secondly, the military superiority of tribes should be seen as an objective economic necessity of their existence, rather than an indication of an innate tendency towards warfare and plunder. Under the conditions of climatic aridity, the periodic paucity of goods and grazing lands, and competition with sedentary societies over scarce resources, tribes developed a strong military component, rendering military invasions and physical destruction a means of regulating their relations with both settled agriculture and other rival tribes. Otherwise, tribal societies could easily be considered as complementary to the sedentary way of life.13

The underlying anthropological and Orientalist assumptions of most studies on tribes in Iran (and elsewhere), therefore, tend to mystify the concept of 'tribe' and reduce the complex history of capitalist transition to a struggle between peaceful sedentary societies and warlike free barbarians. More fundamentally, these studies betray a one-sided, 'internalist' approach to the question of structural transformation. The analysis of structural change must take into account both the mutual relationship between
the internal features and specificities of the social formation and the external impact of integration with the world market.

Two basic conclusions can be drawn from the above discussion. First, private landed property rights did develop in Iran, on terms not too different from European feudalism. The continual emphasis on the state ownership of land, or on the 'insecurity' of private landed property under the conditions of 'despotism', reveals a failure to break with the Orientalist problematic, and a preoccupation with legal, formal and political categories which tends to obscure the economic and social reality. Through competitive tax farming land became de facto possession of military leaders, state officials, tribal chiefs and governors. The gap between theory and practice widened as different types of land assignments gradually became hereditary and were treated as private property. Whether or not we consider the institutions of iqta and tuyul as equivalent to European fief, the overwhelming tendency, during the period under consideration, was towards the development and consolidation of mulk (an exact equivalent of European fief) and a gradual disappearance of all other types of distinction. Secondly, the arrest in the development of productive forces in Iran should not be exclusively attributed to tribes and tribal invasions; nor should tribes be seen as a distinct mode of production, possessing an 'essence' which sets them conceptually apart from the larger social structure. To the extent that nomadic and sedentary societies produced surplus under different conditions, they can be seen as constituting two sets of production relations. But the significance of
tribal societies can be grasped only after the nature of the total system and the larger production relations within which tribes exist and are reproduced are identified. This study has adopted a broad concept of mode of production and therefore rejects the essentialist category of the 'nomadic mode of production'. In nomadic societies, the expression of production relations through the kinship system and the regulation of economic activities through patriarchal control of tribal chiefs, prolonged the separation of direct producers from the means of production. Due to the factors mentioned above, breakdown of relationship between sedentary and nomadic societies also resulted in periodic plunder and physical destruction. To this extent, pastoral nomadic societies constituted an internal obstacle to primitive accumulation of capital in Iran, but did not, in any significant sense, retard the development of productive forces.

Returning to the question of the mechanisms of peripheralization, it is arguable that the policies of competitive tax-farming and sale of state lands in the second half of the 19th century had a causal and direct relationship with the incorporation of the Iranian economy into the world market. These policies were, as discussed earlier, the central factor in the development of private property rights in land. The concomitant process of the commoditization of agricultural output also had a causal relationship with the development of private landed property and incorporation into the world market. Logically, land had to be commoditized, that is, its status as crown land had to be transformed into land alienable and inheritable by sale,
in order for necessary changes in the quantity and quality of agricultural products to occur, and in order to make large-scale export for the world market possible. In other words, consolidation of private property and commoditization of land also necessitated the shift from subsistence to cash-crop production, and the expansion of monetary relations in the Iranian countryside.

Like competitive tax-farming and sale of crown lands, the conversion into cash-crop production was also a response to the pressures of the world market on the Iranian economy to produce raw materials for export to the expanding economies of Russia and Britain. The first response had to come from the Qajar dynasty and the large landlords who moved towards profitable production of cash-crops for external markets. The bankrupt state, pressed by increasing need for revenues, began to demand cash payment instead of payment in kind. As landlords and taxfarmers were pressed to produce more for the world market, peasants had to convert into cash-cropping and pay their dues and feudal's share of the crop in cash. By the 1880s both private property in land and payment in cash were established in the Iranian countryside, although other forms of land tenure and payment in kind did not totally disappear.

Stimulated by the economic development in the Caucasus and Central Asia, production of cash crops increased considerably in the late 1880s, especially in the northern provinces of Iran. By the mid 1890s, cash-crops constituted a major proportion of Iran's foreign trade. Cash-cropping converted larger and larger areas of land into production of
those items profitable on the world market, while production of foodstuffs for local consumption, such as wheat and barley, was suppressed. Production of cash-crops such as cotton, tobacco, and opium, which were all exported, was boosted. Opium, for instance, became a leading export commodity constituting 28% of Iran's total exports by the 1880s, whereas it had been an import item in 1800. The British exported the opium to China and made exorbitant profits out of that trade. The famines in Isfahan and Yazd in 1871-72 have been attributed to the shortage of foodstuffs and their high prices as a result of production for export markets (MacLean, 1904, cited in Issawi, 1971: 136: Keddie, 1960).

Russian and Iranian merchants encouraged the cultivation of cotton by providing seeds and cash to farmers in the north, especially in Khurasan province. During the American Civil War the shortage of cotton made the British turn to countries like Iran, Egypt and India to supply this basic raw material. The production and export of cotton thus increased dramatically in Iran. The production of silk and tobacco in the northern province of Gilan was also instrumental in generating monetary transaction in the Iranian countryside as Iranian merchants had to purchase silkworm eggs from Greek and Armenian merchants of Russian citizenship (Issawi, 1971). Apart from the cashcrops such as opium, cotton, silk and tobacco, grains also entered trade and at the beginning of the 20th century Iran was exporting more grain, mainly rice, to Russia than raw cotton (Nowshiravani, 1981:572).
The above evidence suggests the transformation of the Iranian economy from a self-sufficient agricultural economy to an economy of cash-crop exports by the second half of the 19th century. Export of cash-crops further distorted Iran's already fragmented agricultural economy, preventing the development of an integrated home market. Export orientation firstly prevented domestic distribution and consumption of export products, and secondly encouraged shifts in the cultivation of certain products that were geared to foreign markets. As a result, agricultural production developed in an uneven, distorted and sometimes isolated pattern. While the northern areas that produced the major commodities for foreign trade developed large commercial and trade centres, other areas of the country stagnated or declined. This uneven and distorted pattern of development was the direct result of the peripheral position of Iran within the world market. The decline of nascent industry, following this pattern of incorporation into the world market, is indicated by the fact that by the second half of the 19th century re-export of manufactured goods declined relative to that of agricultural commodities. By the turn of the century, only less than 1% of imports into Iran could be classified as capital goods and small items of machinery, while mass consumption items such as cotton, tea and sugar constituted about 60% of Iran's imports (Bharier, 1971:10; Nowshiravani, 1981:564). Bharier (1971:10) estimates that 75% of Iran's exports were agricultural raw materials by 1900, while according to Nowshiravani (1981:564) 85% of Iran's exports in the year 1903-4 consisted of raw materials such as grains, cotton, wool, opium and dried fruits.
These figures indicate the fundamental shift in the commodity composition of Iran's foreign trade by 1900 as compared to the beginning of the 19th century. From being a producer and exporter of semi-manufactured goods, Iran had changed into a predominantly exporter of agricultural raw materials. This change is similar to the pattern of transformation occurring in many peripheral areas as they were being increasingly incorporated into the world market through the circuit of merchant capital.

The ever-increasing role of the market and the intensity of the generalization of commodity relations are also indicated by changes in the volume of Iran's foreign trade and its trading partners. The rise of foreign trade was relatively slow in the first three decades of the 19th century but from the 1830s it began to expand at a much faster rate. By 1864, the total volume of trade had risen fourfold, and there was nearly a twelvefold increase in the volume of Iran's trade in the period of 1800-1914 (Issawi, 1971:132).

An indication of the rise of foreign trade is the estimation that in 1800 the total value of trade was £500,000, representing imports, exports and re-exports. As transit trade represented half of the total trade, the total value of trade must have been about £250,000. By the 1880s, the total value of trade had risen to well over £7 million, and by 1913-14 it reached £20 million (Issawi 1983:230-1). In 1800, Iran's major trade partners were its immediate neighbours, Afghanistan, the Ottoman Empire and British India, and half of Iran's imports were ultimately for re-exports to these countries (Malcom, 1930, cited in
Issawi, 1971:264-7). By the second half of the century, Russia and Britain had replaced Afghanistan and the Ottoman Empire. This shift was accompanied by a decline in transit trade through Iran relative to the country's foreign trade. Since an increasing proportion of exchange was destined for consumption within the country, the total volume of trade indicates the intensity of the spread of commodity relations (Nowshiravani, 1981:564).

Russia was Iran's largest trade partner during the second half of the 19th century and Russo-Iranian trade increased at a more rapid rate than that of the total volume of foreign trade in Iran. Russian efforts were directed at driving out competition, and they did succeed in reducing British trade with Iran. Whereas trade with Britain had accounted for over half of Iran's trade until 1870, Russia's share of total trade began to increase after that date. Russia received 66% of Iran's exports and supplied 53% of Iran's imports, while British imports had dropped to 25% and its exports to Iran to 12% in the post-1870 period (Entner, 1965:42).

The developments discussed so far, commoditization of land, cash-crop production, relative expansion of monetary relations, and changes in the structure and volume of Iran's foreign trade, provide convincing evidence for the argument that the major impetus for transition to a market economy in Iran came from outside rather than from internal developments. Although factors such as opening of the Suez Canal in 1869, the fall in ocean freight rates, and the gradual improvement of transportation through the
territories of Iran's immediate neighbours in the 1870s made Iranian markets more accessible to the outside world, the major factor in the expansion of commodity relations was the transformation of the Iranian economy into a supplier of raw materials and a market for the growing industries of Russia and Britain. By the second half of the 19th century the subsistence nature of the Iranian economy had been transformed into a market economy. If by 'subsistence economy' we understand production of use-values, extraction of economic surplus directly either in the form of goods or labour services, the close correspondence between production and consumption, limited regional specialization and the restricted sphere of exchange, then all these features began to be undermined by the second half of the 19th century. Gradually, production for exchange rather than for immediate personal consumption, indirect surplus extraction through cash rents or taxes, and increasing regional specialization in exchange became dominant.

Demographic changes in the rural areas are also indicative of the incorporation of the economy into a network of internal and international trade. A full 50% of the entire Iranian population of 5 to 6 million in 1800 is estimated to have been nomadic. Together with the sedentary community they constituted about 87% of the population living in the rural areas. The remaining one-seventh of the population, comprising absentee landlords, merchants, state officials, and petty-commodity producers lived in the urban areas. The small share of agricultural products in the export trade of Iran in 1800, as compared to their dominant role later in the 19th century, suggests the degree of self-sufficiency of
peasant and nomadic population at that time. Although by the 1880s the population was still largely rural, the relative size of the nomadic population had fallen to about 25%. By 1900, about 80% of the population lived in the rural areas, a percentage that was to remain almost constant until 1940 (Bharier, 1971:25). These demographic changes, the shift of 25% of the population from nomadism to a settled agrarian way of life, and the increase in the percentage of urban population, were also responses to the expansion of commodity relations and the growing internal specialization in exchange.

By the end of the 19th century direct monetary exchange relations had become prevalent, and agriculture had been drawn into the world economy through the international system of trade relations. It is, however, crucial to emphasize that none of these developments should be identified with the rise of capitalist production relations in the Iranian countryside, as a number of writers have argued (Ashraf and Hekmat, 1974). During this period no total separation from the means of production and no shift to relative surplus-value extraction - both ensuring expanded reproduction of capital - had yet occurred. Under the domination of merchant capital, production of commodities for the market did not result in any change in the character of production relations or in the development of productive forces.

However, there is evidence that wage-labour did appear in the Iranian countryside in the late 19th and 20th centuries. This wage-labour took the form of casual
labourers hired by feudal landlords, usually at harvest time, and paid in cash or in kind. The data also suggest that the urban wage-earners grew in number. The urban population of trade centres, especially Tehran and Tabriz, increased by two or three times, absorbing some of these wage-earners. Road projects undertaken by the British and Russians provided employment opportunities for some of these wage-earners between 1890 and 1920. For instance, 30,000 wage-labourers were employed by the British in 1920 in road projects (Nowshiravani, 1981:576). Another type of wage-labour took the form of large-scale migration of dispossessed peasants to Russia where they found employment opportunities in the factories, road construction and, especially, in the oil fields of Baku. In 1893, 11% of workers in the oil industry in Russian Azarbaijan were Iranians; by 1915, this number rose to 29% (Abdullaev, 1963, cited in Issawi, 1971:51). On the whole, it is estimated that between 60,000 to 100,000 Iranians entered Russia during the first decade of the 20th century, and about an equal number returned. During the years preceding the First World War these numbers doubled (Entner, 1965:60-1).

Wage-labour, however, is not a sufficient condition for capitalism. Its emergence in 19th century Iran is related to the processes discussed above: competitive tax-farming, development of private property in land, cash-crop production and commoditization of agriculture. Following the state’s policy of tax-farming and sale of crown lands, more and more land came to be owned by landlords and tribal chiefs. This concentration of land occurred through a series of sharp and brutal inroads into peasants’ plots and the
destruction of small holdings in particular. There was a constant redistribution of peasant plots, the abrogation of the traditional rights of peasants, and the confiscation of their small holdings (Keddie, 1960: Lambton, 1953). If anything, these processes, and the arbitrary and chaotic system of taxation, intensified the exploitation of the peasantry. Short-term tax-farming rights forced tax-farmers to utilize all means of greater surplus extraction within the shortest possible time. Having little guarantee to access to land after their rights expired, the tax-farmers did not engage themselves in productive process. Their aim was only to extract as high taxes as possible. They did not reside on the land; in most cases they were absentee landlords with their representatives overseeing the affairs of their rural properties. The indebtedness of the peasantry to landlords and merchants was a new phenomenon. Peasants were forced to stay on the land not only because of their indebtedness but also because of the lack of opportunities outside agriculture. There was no industrial development in the cities, and the handicraft industries were in a state of decline. However, high taxes, land confiscations and general insecurity forced some of the peasants off the land. They, together with the simple commodity producers bankrupted as a result of import of Western manufactured products, formed the bulk of the dispossessed wage-earners of this period. The absence of a capitalist home market meant that they had to sell their labour power elsewhere; hence their large-scale migration to Russia towards the end of the 19th century.
Competitive tax-farming, together with land confiscations, droughts and famines can be considered as the earliest mechanisms of primitive accumulation in Iran. The emergence of wage-labour, however, was sporadic, uneven, localised and isolated; there existed no systematic mechanisms in the 19th century which could have created a class of 'free' wage-labourers. As I have mentioned above, the labour that was released was mainly from the depressed rural areas and declining handicraft centres concentrated in the northern regions. Uneven development had in fact created a group of dispossessed labourers who stood alone and detached from a vast pool of politically unconscious, disorganised and dispersed peasantry. This organised and conscious faction of the dominated class existed within a formation in which even its ruling class was not an industrial bourgeoisie and which had not even acquired bourgeois state apparatuses. As I shall argue below, until the mid-20th century Iran remained a predominantly pre-capitalist country which exhibited many characteristics of a market economy. Sharecropping, which has not disappeared even today, remained the dominant form of labour, although fixed rent in money and in kind also survived. The outmoded and primitive methods of production also remained virtually the same until at least the first two decades of the 20th century.

To sum up, what exactly occurred in this phase was an intense process of commoditization on the basis of precapitalist production relations following the entry into the world market via the circuit of merchant capital. Under the sway of feudal landlordism and merchant capital, the consequences were devastating for the Iranian economy, and
yet they were typical characteristics of this phase of capital accumulation in the periphery. Merchant capital, as an ‘agent’ of metropolitan industrial capital, consolidated precapitalist production relations and blocked an organic transformation of petty-commodity production into capitalist production.

This point brings us to the question of the decay of petty-commodity production and handicraft in 19th century Iran. As mentioned before, Iran was a producer of semi-manufactured goods, mainly textiles, during the Safavid Empire (1501-1722). Issawi (1971:12-3) shows that in the mid-1600s, silk exports from Iran were worth £1 to £2 million, as compared to £5 million exports from Britain in 1688 or £4.8 million from France in 1715. Beginning with the entrance into the world market, the first military defeat from Russia, and the imposition of the Treaty of Turkamanchai in 1828, a long-term process of decay of petty-commodity production and nascent industry started in Iran. It has already been mentioned that this Treaty imposed only 5% tariff rate on Russian goods and exempted them from internal duties. The low tariff was later extended to Britain in 1836 and 1841. Russia adopted subsidization of its products for the purpose of effective competition with the products of more advanced countries, notably Britain, and also in order to discourage industrial production within Iran. For instance, Russians temporarily exported sugar to Iran at artificially low prices which brought about the bankruptcy of the modern sugar mill established in Iran in 1895 (Nowshiravani, 1981:565). Keddie (1981:56) mentions that a British firm, ‘probably by design’, imported diseased
159

silkworm eggs to Iran in the mid-19th century. Consequently, the entire silk industry had disappeared by the 1870s, and was replaced by the carpet industry which was also promoted by the British. This inter-imperialist rivalry placed Iran's economy in the orbit of the 19th century colonial expansion and, as such, the growth of the Iranian economy was of a specific type: while certain industries prospered and developed, others, not linked to the requirements of the world market, declined and disappeared. The items whose production was boosted were rugs, carpets and handmade wool shawls. The expansion of this 'cottage industry' is perhaps explained by the fact that it was an area in which the metropolitan countries could not compete; however, it could hardly lay the basis for industrialization. The major items of import to Iran were 'colonial goods' such as tea (from British India), sugar and tobacco (from Russia) and textiles (from Britain) (Bharier, 1971:10).

Russia was the more powerful imperialist power and succeeded in establishing a monopolistic position within the Iranian markets by the late 19th century. The Treaty of Turkamanachai provided the basis of Russo-Iranian trade relations until the beginning of the 20th century. In 1903, a new customs duty went into effect, replacing the old import-export tax of 5% by a new tariff schedule that generally favoured Russian goods over imports from other countries and eliminated Iranian export tax. The removal of export tax on Iran’s raw materials demonstrated the dependence of Iran’s agricultural exports on the Russian markets (Entner, 1965:53-5).
The impact of the 'imperialism of free trade' on the Iranian economy was evident as early as the 1830s when large quantities of European manufactured goods were poured into the Iranian markets, with destructive effects for the nascent industries. The Iranian petty-commodity producers, the hand-manufacturers, the artisans and craftsmen enjoyed no protective tariffs and, unlike foreign merchants, were not exempted from internal taxes. Production of items which were hand-made and manufactured in home and small workshops was severely reduced following the import of cheaper factory-made goods from Russia and Britain. The metropolitan bourgeoisie, enjoying tax immunities and low tariff duties, dumped their products in the Iranian markets. The industrial centres in Yazd, Isfahan, Kerman, Tabriz and Mashhad declined, and their major factories were closed down partially due to competition by metropolitan capital (Ashraf, 1970:325).

I have so far discussed the mechanisms of peripheralization in 19th century Iran. The consolidation of private property in land, its subsequent concentration, commoditization of the means of production, development of cash-crop production and monetary relations, and the general decline of petty-commodity production and nascent industry were all responses to the requirements of the world market for the production of agricultural raw materials. I have emphasized that none of these changes should be identified with the development of capitalism in Iran for they did not amount to a fundamental transformation of social relations of production and the mode of extraction of surplus. Rather, these developments consolidated the feudal relations of
production. While the relationship between the bulk of the peasantry and the feudal ruling class remained basically the same, these developments, and the policies of competitive tax-farming and land sale, were mechanisms which profoundly affected the character of the ruling class and its later behaviour in the political struggles of the early 20th century. They brought about two interlinked processes of change in the nature of the ruling class: (i) the two distinct fractions of the landowning class, the officialdom and the landed aristocracy, gradually converged; and (ii) the merchant class developed into a major class within the social formation at large, and moved into landownership.

To begin with the first process, a brief discussion of the nature of the landowning class is necessary. The Iranian landlord class was divided into two fractions: the landed aristocracy (the Court notables and princes), and the officialdom (the political, administrative and bureaucratic agents of the state). Minorsky (1943) discusses the process whereby a new officialdom was created during the Safavid dynasty (1501-1722) which gradually transformed the foundations of political power. The origins of this process dates back to the reign of Shah Abbas I (1587-1629) whose policies led to the dismembering of the old nobility from the centres of political power, and their replacement by a new officialdom. During his reign, state land, crown land and vafq land were expanded at the expense of fiefs and private lands. Consequently, the state bureaucracy and the functional significance of its members increased rapidly. Sixteenth century Iran witnessed the growth of a powerful and centralized state bureaucracy. Shah Abbas I also
introduced new elements into the traditional power structure, such as Georgian slaves and Armenians, who gained important positions within the army. Thus, at the expense of the old nobility and tribal chiefs, a new officialdom of non-tribal and non-noble origins, also known as 'bureaucratic landlordism', was created.

In addition to land revenues, this officialdom also had an income from its effective control of state apparatuses. As the level of ground rent could also be determined by the state, the officialdom appropriated part of the social surplus as well as shares from the taxes in the form of salaries. Through their access to state apparatuses they imposed limitations on the revenues of the landowning nobility and reduced their political power by confiscating their lands and appropriating their surplus. This situation resulted in a struggle for land and revenue between the two class fractions, beginning in the 19th century when 'bureaucratic landlordism' emerged as a highly developed element of power structure, and continuing until the early 20th century. As Lambton (1953) convincingly argues, the state policy of land assignment and tax-farming during the 19th century led to the fusion of interests between the landowning nobility and the officialdom, although the distinction between them did not totally disappear. Firstly, these policies led to the narrowing of the gap between land-ownership and state bureaucracy to the extent that members of the officialdom came to own several villages each and received feudal dues directly. Secondly, with the commoditization of land and sale of crown land to merchants, an alliance was formed between the landowning class and
merchants. From this point onwards, the direction of struggle and alliances shifted from that between landowning nobility and state officials to the one between merchants and landlords. The Constitutional Movement (1905-11) was a turning point in Iranian history in that the landed nobility, subordinated by the officialdom, won a decisive victory over the officialdom in an uneasy alliance with the merchants (Lambton, 1953). This alliance removed the officialdom fraction of the power bloc\textsuperscript{19} from the political and economic scene forever. At the political level, therefore, the incorporation of the Iranian economy into the circuit of merchant capital corresponded with the fusion of interests and alliances between the ruling landowning class and the merchants. This alliance laid the basis of the absolutist state of the 1920s, as shall be discussed in the next Chapter.

At this point, it is necessary to discuss the material bases of the development of the merchant class. The Iranian merchant class was the product of the particular mode of socio-economic transformation of Iran following its entry into the world market. The processes discussed above, the imposition of free trade, expansion of foreign trade, sale of crown lands, and cash-crop production, gave rise to a class of merchants who, through their links with the metropolitan bourgeoisie, accumulated large amounts of capital and moved into landownership. The major economic activities of this class were foreign and domestic trade, collection and export of major cash-crops such as rugs, tobacco, opium and cotton, and the import and distribution of foreign products. Merchants were also involved in road
construction, transportation, and communication. Some merchants also began to invest in industrial and mining projects which, as I shall argue below, characterized the particular mode of transformation of the Iranian economy under the domination of the circuit of commodity capital. Furthermore, in the absence of credit and banking institutions, merchants also played a significant role in the provision and circulation of funds, and they became the major source of loans to landlords, governors, state officials and the Court. Some of the merchants accumulated considerable wealth and established their representatives in Europe, China and India.

Therefore, the specificity of the Iranian merchant class was that it was involved in diverse economic activities. But what is of particular importance for this study is the movement of the merchant class into landownership, and the investment in agriculture by this class. As mentioned previously, state policies concerning land were amongst the most important mechanisms to draw the merchant class into landownership. The demands for immediate payment for tuyul right and their short-term assignment, as well as the sale of crown lands, meant that only individuals in possession of liquid funds, such as merchants and moneylenders, or those able to obtain cash from those with capital, could enter the competition for tuyul rights or purchase of land. State policies consequently opened the way for merchants and moneylenders to become landowners with investment in land. The movement of the merchant class into landownership, therefore, was not accidental. While it was logical for the financially bankrupt Court to adopt such policies for
raising revenue, for the merchant class, too, it was logical to seize upon these opportunities as one means of expanding their area of activity and capital. At that time land was the main area in which the wealth accumulated by the merchant class through trade could be invested.

Yet the acquisition of land by merchants was not always voluntary. As mentioned before, merchants were the major source of provision of loans to landlords and Court officials who, despite their considerable assets, were often in need of cash and had to turn to merchants for loans. Land was consequently put up as collateral for such loans, and in cases when landlords could not pay their debts, their land would pass into the hands of merchants. Thus the payment of loans in the form of land assignment by the bankrupt Court deepened the involvement of merchants in agriculture. This process gradually transferred the authority of the Court, which used to own, theoretically, all the empire’s land, to a merchant class which became increasingly powerful within the social formation at large.

The movement of the merchant class into landownership obviously affected the character of the landlord class. Previously, a landlord was simply a state official or a Court notable. With the merchant class involved in trade, tax-farming, landownership and moneylending, these practices became interrelated to the extent that merchant, tax-farmer, moneylender, and landlord could be the same person. The fact that the Iranian landlords were also merchants and state officials was a new development in the social structure of 19th century Iran; and it also explains the flexible and
often contradictory behaviour of Iranian merchants in the class struggle of the early 20th century.

The increasing frustration of the merchant class, caused by the foregoing semi-colonial situation, set in motion an urban popular movement, known as the Constitutional Movement, under the leadership of merchants in 1905-11. In the following section, I do not intend to recapitulate the narrative of the Constitutional Movement, but to examine its material bases, the reasons why merchants and petty-commodity producers emerged as the main forces behind it, the reasons for its failure, and its consequences for the emergence of the absolutist state of the 1920s.

B. The Constitutional Movement

The most remarkable outcome of the incorporation of the Iranian economy into the world market was the emergence of a class of merchants who, while expanding and prospering as a result of the export of raw materials and the import of manufactured goods, were also hurt and frustrated by the same process. As both the Russians and the British aimed at capturing Iranian markets, the most important element of foreign trade was their policies concerning tariff charges and transportation of goods. I have previously stressed the importance of the imposition of the 5% rate of tariff on Russian goods through the Turkamanchai Treaty. In fact throughout the 19th century Iranian merchants were increasingly affected by the tariff policies and transportation taxes of the Russian government, the more influential imperialist power. Until the 1890s, most of
Iran's European imports were transported through Russia, and nearly all of Iran's imports passed through the northeastern region of Iran bordering Russia. Russia imposed high transit tariffs on goods transported through its territory into Iran, and forced Iranian merchants to pay high tariff charges and taxes on transportation of goods inside Iran (Issawi, 1971:92-9, 108-112). Russia's trade policy, which was related directly to the industrial expansion of the Caucasus, hurt both European and Iranian merchants badly. Therefore, although Iranian merchants had enriched themselves through export of raw materials and import of manufactured goods to Iran, they were also in a precarious position because of their lack of control over tariff charges. By the 1880s these policies had shattered the near monopoly of the market by the Iranian merchants, and had frustrated their attempts for further accumulation of wealth.

The first protests against Iran's semi-colonial position were launched during the last years of Nasir-al-Din Shah's reign (1848-1896). In 1884 the merchants, in a plea to the Shah, demanded an end to the import of foreign manufactured commodities and opposed the 5% rate of tariff on Russian goods (Ashraf, 1980). Policies of Nasir-al-Din Shah's Court had accentuated the contradictions of the system, manifested through closer ties with the imperialists and the increasing number of foreign firms and concession hunters arriving in Tehran and other major cities. The policies of his successor, Muzaffar-al-Din Shah (1896-1906), followed a similar pattern. In 1898 the need for liquid assets led Muzaffar-al-Din Shah to sell the entire Iranian customs
(except for the southern customs which were controlled by the British) to three Belgian concessionnaires who became responsible for virtually the whole customs and tariff system of the country. The Shah then managed to secure a loan of 22.5 million rubles from the Russian government in 1900, to be paid off through the customs receipts controlled by the Belgians. The Belgians had, in turn, established a close relationship with the Russian government and expanded their control to include the fiscal affairs of the country. This brought them into direct confrontation with Iranian merchants and artisans, who had been complaining against the excessive and illicit demands of Russian traders and Belgian officers.

By the last decade of the 19th century the legitimacy of the monarchy and the Court had been eroded amongst merchants who had found them inaccessible to their demands. This erosion of legitimacy was demonstrated by strikes, protest demonstrations, bazaar shut-downs and sanctuaries which became especially widespread after 1905 when Iran faced a severe economic crisis partly resulting from a bad harvest in Russia. In 1905, Russia was crippled by revolution and defeat in her war with Japan. Given the dependence of the Iranian economy on Russian trade, the economic crisis in Russia severely affected Iran (Avery, 1965). In response to the declining trade and soaring prices, the Court, guided by pressing needs for revenue, raised tariffs, postponed payment to the local creditors and began harassing merchants and accusing them of hoarding.
The initial strikes and protests developed into a movement with clear political and economic demands. Merchants, in alliance with the petty-bourgeoisie, the ulama and the intelligentsia, were the main force behind the Constitutional Movement. This alliance had found an earlier expression in the Tobacco Movement (1898) and these classes and social categories had traditionally formed the main elements of the power structure in Iran (Keddie, 1971). Merchants, who had earlier demanded a 'house of justice' and had opposed the 5% rate of tariff on Russian goods, now demanded the establishment of a national assembly and a national bank which would put an end to the insecurity of capital, the arbitrary power of the Court, and imperialists' control over the financial system of the country. Under the pressure generated by protest demonstrations and bazaar shut-downs, Muzaffar-al-Din Shah was forced to grant a form of constitution that permitted the establishment of a national assembly in 1906.

In this study, the Constitutional Movement is interpreted as a basically bourgeois, anti-imperialist, anti-feudal movement whose aim was to establish a non-revolutionary, liberal and democratic state, that is, the establishment of the political superstructure necessary for the safeguarding of the institution of private property. The material basis of the Movement derived from a generalization of commodity relations resulting from the incorporation of the economy into the circuit of merchant capital. The main demands made by the merchants were all of a bourgeois-democratic nature: the abolition of the absolutist power of the Court, the end of feudalism, the establishment of a Constitutional
Assembly, elections, legal codification and legislature, and a defence of the national market through ending foreign control of the economy. The Movement, however, failed to achieve its aim of the establishment of bourgeois liberal democracy. This is particularly evident in the second phase of the Movement when a Russian-backed coup in 1908 suppressed the direction of the Movement. This changed the nature of class alliances which had marked the early phase of the struggle and facilitated the rising power of large aristocratic landlords, who had captured a significant share of the control of the new executive. The ultimate outcome of the Movement was the consolidation of the power of the Court, basically representing the landed aristocracy and the ulama.

It is necessary to examine three interlinked aspects of the Movement in order to substantiate the above argument. The first aspect is the nature of the class alliances and class struggle, particularly the alliance between the merchant class and the petty-bourgeoisie on the one hand, and the relationship between the merchants, the landed aristocracy and the foreign bourgeoisie on the other. The second is the reasons why the Movement failed to achieve its objectives, and the third, the character of the power bloc which emerged in the aftermath of the Movement.

I have previously mentioned that the landed aristocracy formed the power base of the Qajar dynasty. Large landlords, we may recall, consisted of individuals who had established hereditary feudal domains through the acquisition of early tuyul rights. This class was the direct extractor and
appropriator of surplus from the land and was divided into the two fractions of landed aristocracy and officialdom. The Qajar Court, consisting of the monarch and its top staff (the latter often members of the monarch's family assigned as governors), together with large landlords and tribal chiefs formed the ruling class of 19th century Iran. They obtained their income from tribute and taxes extracted from the peasantry and the nomadic population, and from the gradual auctioning of the economy to the imperialist powers in the form of treaties, concessions, etc. The above discussion of the modes of capital penetration into Iran shows that the Court and the landed class were in close collaboration with foreign capital. Together, they transformed the means of production into commodity and pressed for higher incomes through tax-farming and cash-cropping. Thus the relationship of the Court and the landed class with the foreign bourgeoisie can be said to have contained no fundamental contradiction. It would, however, be erroneous to assume that the Court's sole existence depended on its relationship with the metropolitan bourgeoisie.

The merchants' relationship with the Court and the metropolitan bourgeoisie was of a different nature. This relationship was contradictory in that it contained both negative and positive aspects. Merchants had expanded and prospered as a result of their ties to the foreign bourgeoisie. In terms of trade interactions, they shared common interests; sale of goods was beneficial to both. However, foreign capital's control of tariffs was contradictory to the merchants' further expansion, and the
imperialists' control of financial institutions was particularly damaging to merchants' interests for it effectively prevented the merchants from expanding into an industrial bourgeoisie. Therefore, there existed a source of conflict between the two classes. It is useful to characterize the nature of the relationship between the merchants and the foreign bourgeoisie, as well as the merchants' relationship with the Iranian landed aristocracy, in terms of 'non-antagonistic contradiction'. This point requires further explanation.

The Constitutional Movement basically centred around merchants' demands for an end to the insecurity of capital through the regularization and registration of property rights. The precondition of this regularization was a thoroughgoing commoditization of the economy and an end to the absolutist power of the Court. However, because of the specificity of capital accumulation in Iran and the particular character of the merchant class, the merchants' conflict with the Court and the foreign bourgeoisie was logically limited. Commodity relations in Iran were introduced from outside; the merchant class was involved in agriculture and landownership, and its expansion depended on external markets and the requirements of foreign capital. These specificities blocked a capitalist transformation of the economy and prevented the development of the principal antagonistic contradiction of every class society, i.e., the contradiction between the exploiting and exploited classes. The merchants' contradiction with the landowning class and foreign capital was of a 'non-antagonistic' nature, that is, the reversal of the subordinate position of the merchant
class did not necessitate the total destruction or removal of the dominant classes.\textsuperscript{22} The driving force behind the Constitutional Movement was basically this 'non-antagonistic contradiction'.

It is only through a precise characterization of the nature of the structural relation of the merchant class with other classes that we can understand its mode of political struggle. The merchant class came into conflict with the landed class and the foreign bourgeoisie not because of its 'freedom-loving', 'nationalistic' and 'progressive' character,\textsuperscript{23} but because it was not receiving a large share of the surplus from taxes, feudal dues and trade, and it had been deprived of this surplus through the close ties between these two classes. Otherwise, as long as the feudalists and foreign bourgeoisie were prepared to provide means of accumulation through tax-farming and trade, they were not in any fundamental conflict with the merchants' interests. All those classes had one single interest in common: the exploitation of the peasantry, wage-workers and the petty-bourgeoisie. The anti-despotic, liberal and constitutionalist ideology of the Movement should not obscure the fact that the merchants' struggle was not exclusively guided by these ideas. Indeed, the constitutional monarchy was the superstructural prerequisite for the preservation and institutionalization of private property and accumulation of wealth by merchants. The Iranian merchants were deeply involved in landownership and foreign trade; they had more than sufficient grounds to settle for a compromise with both the landed class and the foreign bourgeoisie. The merchants, therefore, rose not to
destroy the existing structures but to reform them so that they could secure a place within the power bloc and to become, ultimately, the hegemonic fraction within it. In short, the interests of the merchant class were not in fundamental and antagonistic contradiction with either the landed class or the metropolitan bourgeoisie.

In most analyses of the Movement, the indigenous bourgeoisie is divided into the two factions of 'comprador' and 'national' (Ashraf, 1980; Ashraf and Hekmat, 1981; Bashiriyyeh, 1984; Jazani, 1980; Mehrain, 1979). The 'comprador bourgeoisie' is associated with the merchant class whose dependent character is derived from the intermediary role it plays between the local market and foreign capital. This faction is dependent on the foreign bourgeoisie for the continuation of capital accumulation and, indeed, for its very existence. The 'national bourgeoisie', on the other hand, is associated with the direct producers and small traders functioning within the local market. It was this progressive faction of the indigenous bourgeoisie which remained loyal to the Movement and rose against the landed class and the foreign bourgeoisie. It was also the only class capable of leading Iran towards 'independent capitalist development'.

While the fact that the merchant class expanded through its ties with the foreign bourgeoisie, and had vested interests in the preservation of these ties, is not disputed, I would argue that the distinction between 'comprador' and 'national' bourgeoisies is both theoretically and empirically groundless. This distinction is the outcome of a
lack of theoretical differentiation between the merchant class and the petty-bourgeoisie: yet these are two distinct classes related to different circuits of capital.

In the Iranian case, the petty-bourgeoisie mainly comprised those sectors of the urban population who were in handicraft and cottage industries of the bazaar. They were petty-bourgeoisie not because they owned small amounts of capital but because they were directly involved in the production of commodities, and thus differed from the merchants who operated at the level of exchange only. Although some of simple-commodity producers did become involved in foreign trade, this trend was not dominant. They consumed what they produced and sold their surplus on the internal market. Some also hired wage-labour, but this was the case only in larger workshops where apprentices were necessary. The same processes of socio-economic transformation of the semi-colonial period, which resulted in the expansion of the merchant class, led to the decline of the petty-bourgeoisie. It was particularly this class which was hit hardest by the imposition of free trade. With the large-scale importation of manufactured goods the possibility for this class to be transformed into wage-labourers was emerging; some of the simple-commodity producers were actually dispossessed and formed a part of the large-scale migrations to Russia towards the end of the 19th century. The petty-bourgeoisie, therefore, differed sharply from the merchant class in two respects: (i) the degree and mode of its involvement in the production process; (ii) its relationship with foreign capital.
These two basic differences explain why the relationship between the merchants and the petty-bourgeoisie was structurally contradictory and antagonistic. The merchants' means of capital accumulation through international trade, and their possible transformation into an industrial bourgeoisie, were detrimental to the interests of the petty-bourgeoisie. Yet, despite contradictory economic interests, the petty-bourgeoisie had allied itself with the merchant class and the ulama. The reason why this alliance collapsed towards the end of the Movement, when merchants moved closer to the Court and the landed class, is particularly understandable in the light of the activities of the petty-bourgeoisie outside the Parliament.

Unlike the merchants, the petty-bourgeoisie had traditionally been organised through the guilds, a form of occupational/organizational trade union where members of different crafts formed different groups. In the early stages of the Movement in 1905, anjumans, a form of local administrative apparatus or government, had been appearing throughout the country. The anjumans were mainly organized around the guilds and the petty bourgeoisie, and they rapidly expanded in the northern provinces in 1906, where the petty-bourgeoisie had gained strength. From the early stages of the Movement, control on high taxes and prices, and the unchecked exercise of power by the landed class and tax-farmers had been a major issue. The functions of the anjumans were control over prices of agricultural commodities, distribution of output, and tax assignments and collection. These organizations were potentially threatening to the local landlords and Court representatives, as well as
to the merchants. This was particularly evident in the northern anjumans which were influenced by the Iranian Social Democratic Party, a counterpart of the Russian Social Democratic Party, and also where some sections of the peasantry and urban workers were mobilized through instigating attacks on local landlords and introducing new programmes for reform in the land tenure system.

The petty-bourgeoisie became the most politically radical class in the Constitutional Movement. It was also the threat posed by this class which logically strengthened the merchants' alliance with the ulama and even the Court. The merchants were totally immersed in the religious institutions. The activities of the anjumans, a potentially threatening peasantry, and their fundamental economic interests in trade and land, both partially safeguarded by the Court and foreign capital, brought merchants closer to the ulama and the landed class in the Parliament.

The Russian-backed coup d'état of 1908 helped much in further shaping this pattern of alliance and in changing the direction of the Movement. From the very beginning Russian imperialism had allied itself with the Court and had felt threatened by the Parliament, and especially by the northern anjumans collaborating with the Russian Social Democrats. In 1908 Russian troops were sent into northern Iran and the Parliament was shelled. The period of 1908-09 is generally considered as a period of civil war in Iran which put an end to the activities of the Parliament and dissolved the anjumans. The ultimate result of the coup was to consolidate the pattern of alliance which had already emerged: a closer
alliance of the merchants, the landed class and the ulama through the removal from the political scene of the radical elements of the Movement, the petty-bourgeoisie and the intelligentsia.

The constitution and the Parliament were the most rudimentary foundations of a bourgeois-democratic state. The 1908 coup terminated the development and routinization of both. With the entry of the feudal and tribal chiefs into the Movement, and the recognition of the supremacy of the institution of the monarch and the Court, both constitution and the Parliament became redundant structures. After the period of the civil war the power structure had remained basically the same: the power of the landed class, merchants and the ulama increased at the expense of the dominated classes. After the removal of Mohamad Ali Shah in 1908, a committee was formed whose social composition showed that the Court and the landed class had actually been strengthened. The consolidation of the position of feudal landlordism is indicated by the fact that the First Parliament abolished the practice of tuyul. I have previously discussed the division of the Iranian landowning class into the two fractions of officialdom and landed aristocracy, and shown how the creation of the 'bureaucratic landlordism' had constrained and subjugated the old nobility. The abolishment of tuyul had a crucial impact on the character of the landowning class: it transferred the administrative nature of landlordism into the hands of the old nobility by firmly establishing the institution of private property (Keddie, 1960; Lambton, 1953).
The failure of the Constitutional Movement to achieve its ends can be clearly seen in the changes which occurred in the composition of the subsequent Parliament. According to the decree of the Constitution and the First Electoral Law, the following six social categories/classes were to be represented in the Legislative Assembly: (1) princes and members of Qajar family; (2) officialdom; (3) ulama; (4) merchants; (5) guilds; (6) landowners. Thus the rural and urban poor were excluded from the Electoral Law altogether. The following table shows the percentage of each of these social classes and categories in the First Parliament.

<table>
<thead>
<tr>
<th>Social Category</th>
<th>No.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qajar Princes</td>
<td>8</td>
<td>5%</td>
</tr>
<tr>
<td>Officialdom</td>
<td>36</td>
<td>22.3%</td>
</tr>
<tr>
<td>Ulama</td>
<td>47</td>
<td>29.2%</td>
</tr>
<tr>
<td>Merchants</td>
<td>28</td>
<td>17.4%</td>
</tr>
<tr>
<td>Guilds</td>
<td>29</td>
<td>18%</td>
</tr>
<tr>
<td>Others</td>
<td>13</td>
<td>8%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>161</td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Ashraf, 1980:119

The sixth category, forming 8% of the total number of deputies, was constituted by six large landlords and four physicians. The occupation or social class of the last three members is not mentioned but it can be assumed that they were also large landowners. Considering that the Qajar princes were also large landowners, the total percentage of
the landed class, added to that of the 'officialdom', would constitute over 27% of the deputies. In the course of the next few parliaments, the guilds (petty-bourgeoisie) totally disappeared from the scene and the percentage of merchants decreased to less than 10% (Ashraf, 1980:119). These figures show that the Parliament came to be dominated by the landowning class and the ulama; landownership remained the material base of power, and religion its ideological justification. The ulama, indeed, gained enormous power; they were given veto power over all legislation. The constitution prevented the major contender for state power, the merchants, from rising to dominance but they did secure a subordinate position within the power bloc. A peculiar class with one foot in trade and another in land, the merchants had won a lukewarm victory and they settled for a compromise with the Court and the feudalists. In a sense, they had achieved their 'constitution'.

The above discussion of the nature of class alliances of the Constitutional Movement also indicates the reason why the Movement failed to achieve its ends. The merchant class failed to establish a bourgeois-democratic state; and to become the hegemonic fraction of the power bloc, because of the non-antagonistic nature of its contradiction with the dominant classes. The Constitutional Movement occurred at a time when an industrial bourgeoisie was absent; and objective conditions were not favourable to the transformation of the absolutist rule of the feudal class to bourgeois-liberal democracy. The merchant class, as I have stressed repeatedly, was a specific class whose involvement in landownership and its dependence on colonial powers...
prevented the development of an antagonistic contradiction with the landowning class and the foreign bourgeoisie. Its alliance with the petty-bourgeoisie was also uneasy and structurally contradictory, which partly explains the absence of the dominated classes in the Movement. Although the Constitutional Movement was formed as a result of the conflict of Iranian merchants with the Court and their imperialist protectors, and despite the growing resentment of the merchants and the petty-bourgeoisie towards the arbitrary exercise of power by the Court, a bourgeois democracy failed to materialize in Iran because of the semi-colonial situation and the weakness and immaturity of merchants as a class. Such structural characteristics are typical of this phase of capital accumulation in the periphery where domination of the social formation by merchant capital blocked the organic transformation of petty-commodity producers to capitalist producers. This particular mode of socio-economic transformation under the domination of merchant capital shall be elaborated below.

C. The Two Paths of Capitalist Transformation

I have argued that among the most important consequences of the integration of the Iranian economy with the world market were the consolidation of precapitalist production relations, the sway of merchant capital over production processes, and the subsequent blockage of an organic transition from petty-commodity to capitalist production. These developments are compatible with the dynamics of the internationalization of merchant capital, and can be
directly related to Marx's distinction (*Capital*, Vol.III, Chapter XX) between the 'two paths' of transition to capitalism, discussed in detail in Chapter Two of this study. To recapitulate, the 'first path' is that of the direct-producer/capitalist, 'the truly revolutionary path', and the 'second path' is that of merchant/capitalist, which, by itself, is incapable of transforming the existing structures. The present discussion of 19th century Iran provides sufficient evidence that it was the 'second path' of transition to capitalism which was experienced in Iran. The semi-colonial situation resulted in the merchant class establishing 'direct sway over production process'. Indeed, the available evidence suggests that, while petty-commodity production declined and some direct producers were dispossessed, the merchant class actually attempted to move into industrial production. In the last quarter of the 19th century, for the first time in Iranian economic history, a number of merchants invested their capital in industrial and banking corporations. This capital investment included the establishment of a silk-cord factory in the northern province of Gilan in 1885, rope-processing plant in Tabriz in 1894, a tea-processing factory with the machinery imported from Russia, and a large-scale project for iron extraction and road construction in the northern province of Mazandaran in 1894 (Ashraf, 1980:84-5). There was also some capital investment by Russian and British bourgeoisie in the period after the Constitutional Movement. It is estimated that some 60 small and medium sized factories were established during the first two decades of the 20th century through capital investment by Iranian merchants and British and Russian bourgeoisie. The major capital investment of
this period was in the oil industry owned by the British, employing 7,000 workers; the fisheries in the Caspian Sea owned by the Russians, employing some 4,200 workers; in the forestry and lumber industry, with 300 workers, and in railroad construction in the north with 200 workers, both established by the Russians (Ashraf and Hekmat, 1981:738).

This investment of capital in industry by the merchant class indicates the specific pattern of transition to capitalism in Iran. However, the merchants' attempt to transform themselves into an industrial bourgeoisie failed under the conditions of semi-colonial domination. Their enterprises could not withstand the competition of European manufactured goods and were eventually closed down. Evidence suggests that only those factories which specialized in production of agricultural raw materials, such as cotton processing plants, were successful; while those competing with foreign capital, such as the textile industry, went bankrupt.

In this study, I have identified the domination of the merchant capital, as an 'agent' of the expanding industrial capitalism of the centre, over production processes as the major obstacle to capitalist transformation of 19th century Iran. Under the semi-colonial situation, the movement of the merchant class into landownership and cash-crop production for external markets was a major obstacle to the transformation of production relations and the development of productive forces, and, simultaneously, it was a logical and inevitable outcome of the commoditization of the economy on a precapitalist basis. One can make the simple comparison that while in Europe primitive accumulation of capital was
accomplished through internal forces of the market, greatly promoted by the colonization of Asia, Africa and Latin America, in Iran this process was introduced as a process predominantly external to the social formation. The process took the form of wars, military defeats and inter-imperialist rivalry, which imposed commercial capitulations, free trade and 'open door' policies. These developments paved the way for the expansion of the merchant and landowning classes whose domination of the economy suppressed the organic transformation to capitalism. In Tudor England, land closures drove the peasants off the land and played a crucial part in the creation of 'free' labour. In Iran, incorporation into the circuit of merchant capital left its contradictory impact on the whole process. On the one hand, heavy taxes, costly dues, land confiscations, peasant indebtedness, cash-cropping for export, and a sequence of droughts and famines drove some of the peasants off the land, and in this sense laid the preliminary basis for the establishment of the CMP. On the other hand, the same developments suppressed the transformation of the mass of the peasantry into an industrial labour force; and of the petty-bourgeoisie into capitalist producers. The sway of merchant capital and fuedal landlordism was the main obstacle to capitalist transformation of Iran but, in itself, this obstacle was only an 'effect' of the internationalisation of merchant capital.

Internationalisation of merchant capital gave rise to a number of tendencies such as the consolidation of private property in land, the concentration of the means of production, the commoditization of agriculture, and, on the
whole, the strengthening of precapitalist production relations. These transformations were significant for the nature of class alliances prior to the emergence of the absolutist state of the 1920s. I have interpreted the Constitutional Movement as the outcome of the commoditization of the economy and the concomitant expansion of a merchant class which prospered but was simultaneously suppressed through its ties to foreign capital. Its attempt to capture the apparatus of the state and to establish a bourgeois-liberal democracy failed due to its peculiarities as a class, and the non-antagonistic nature of its contradiction with the Iranian landed aristocracy and foreign bourgeoisie. The complementary and yet contradictory interests of Russian and British bourgeoisie and the indigenous ruling class were channelled through the Iranian state, which acted as distributor of surplus amongst these classes. The core of the struggle was over this surplus.

As a result of the semi-colonial domination, the 'second path' of capitalist transformation was experienced in Iran. The merchants' attempt to transform themselves into an industrial bourgeoisie was, however, frustrated due to the domination of the economy by the Iranian landowning class and foreign capital. In its characteristically peripheral context, the real pressure had to come from the state for the CMP to become dominant, a development which was delayed until the second half of the 20th century. By the beginning of the 20th century, however, a peripheral economy had been born, fully integrated with the world market via the export of agricultural raw materials and the import of manufactured goods. The peripheral position of the Iranian economy within
the capitalist world market was strengthened by the absolutist state which emerged in the aftermath of the 1921 coup d’état. This will be examined in the next Chapter.
NOTES TO CHAPTER THREE

1. My emphasis is on the pattern of historical evolution and consolidation of precapitalist private landed property rather than on the exact character of the ground rent. The latter aspect will be fully discussed in Chapter Six.

2. See Introduction for a discussion of the choice of the period under consideration.

3. See Chapter Two, Sections B and C for a theoretical discussion of this periodization.

4. See Gallagher and Robinson (1953) for the concept of the 'imperialism of free trade', and Chapter Two, Section C for a discussion of this concept.

5. The following discussion of the initial stages of metropolitan capital penetration into Iran is very brief and is drawn from Curzon (1969) and Kazemzadeh (1968) which provide details of the period.

6. See Keddie (1966) for a detailed discussion of this movement.

7. For a discussion of the various interpretations of precapitalist Iran, see: Foran (1988).

8. See Chapter One for a discussion of these traditions as colonial disciplines and the context of their formation.

9. Other structural features outlined above, that is, the questions of juridical serfdom and hereditary nobility, weakness of labour services and the consequent form of labour exploitation through appropriation of surplus in money or in kind, and the 'despotic' form of political rule, are also important for a thorough characterization of precapitalist Iran. Although lack of space does not allow me to deal with these issues, the following discussion implies a position compatible with those of Nomani (1976-1977), Petrushevsky (1968) and Shaugannik (1985). They characterize precapitalist Iran as a feudal system which, although possessing a number of specificities, did not in essence differ from European feudalism. Nomani, in particular, is an important source. Against the prevailing Orientalist interpretations of Iran, his analysis shows the existence and consolidation of private landed property, feudal servile obligations and peasants' legal attachment to the soil. See also the critique developed by Turner (1984, chapter five) against the usefulness of the concept of Oriental despotism in relation to Iran.

10. For details of the nature of fiscal crisis, see Lambton (1970). Avery and Simmons (1970) also discuss various attempts by the Qarjars to deal with this crisis, such as debasement of the currency in the late 19th century.
11. For a more detailed account of different forms of tuyul, see Lambton (1953). The brief account of the tuyul system in this study is largely drawn from the above work.

12. See Moghadam (1988a) for a characterization of tribes in these terms, particularly her argument that while surplus extraction in settled agriculture took the 'peaceful' form of sharecropping, in nomadic societies surplus was extracted through violence and plunder. Her general conclusion is that the cyclical reproduction of nomadic dynasties caused the "persistence of despotism, the arrest in the development of private property in land, the absence of social classes, and the self-reproducing character of the Iranian socio-economic system" (ibid:409). Criticisms of Orientalism have been particularly difficult and ineffective because Marxism shares some of its central assumptions, making it possible to operate within both discourses without being necessarily contradictory or inconsistent. Moghadam's work is a good example of this possibility. For a critique of the Chayanovian view of tribes and its relationship with functional anthropology, see Asad (1978).

13. Asad, for example, has argued against the prevalent assumption that tribes in the Middle East constituted a formidable military force. See his 'The Beduin as a Military Force' in C.Nelson (ed), The Desert and the Sown, Berkeley, 1973.

14. For an attempt to characterize the 'nomadic mode of production', see the chapter 'The Nomadic Brake' in Perry Anderson's Passages from Antiquity to Feudalism, London, 1974. For a critique of this concept see Asad (1978) and Turner (1984).

15. See also Ashraf and Hekmat (1981) who recognize the uneven and unsystematic character of primitive accumulation in Iran by arguing that the development of an industrial bourgeoisie lagged behind the growth of wage labour.

16. The system of sharecropping will be discussed in Chapter Six on the land reform.

17. I am indebted to Ashraf (1970), Lambton (1953), Minorsky (1943) and Vali (1980) for the following discussion of the landowning class.

18. The concept of class fraction employed in this study refers to an internal structural differentiation within a social class. Class fractions are defined as those ensembles which are related to different instances of economic practice, involving "different forms of labour power and means of production, and different ways of combining these" (Post, 1978:84). According to this definition, all class fractions are located at the level of production relations, that is, they represent a specific type of relation to the process of production and a specific mechanism of appropriation or surplus labour. Within the capitalist class, for example, we can distinguish between industrial, mercantile, financial and agrarian class fractions.
19. The concept of power bloc has been developed by Nicos Poulantzas (1973) who defines it as "the particular contradictory unity of the politically dominant classes as related to a particular form of capitalist state" (ibid:234). Post (1978:61-2) identifies three important aspects of a power bloc. First is its composition. A power bloc may be formed in essence by one ruling class, containing various fractions with interests of their own; or it may contain elements of more than one class. The second important aspect is the existence within the power bloc of a hegemonic or dominant element which could be a class or class fraction. The third aspect is the exact form of the articulation between the power bloc and state apparatuses. This articulation may take the form of a parliamentary party system, or military rule by a junta, or constitutional monarchy, or a variety of other forms. In short, the term 'power bloc' refers to a situation in which state power is held by an alliance of dominant classes and class fractions, whose interests are complementary and contradictory at the same time. This alliance could also characterize a precapitalist state as no state power is monopolized by a single class or class fraction.

20. It is beyond the scope and concern of this study to discuss the role of the ulama and the roots of their power in 19th century Iran. For a discussion of these issues see Algar (1969) and Keddie (1971). For a discussion of the intelligentsia in 19th century Iran, see Abrahamian (1976).

21. I have defined the ulama and the intelligentsia not as classes but as 'social categories', a concept developed by Poulantzas (1975) who defines it as those "social ensembles ... which may become social forces whose distinguishing feature is based on their specific and over-determining relation to structures other than economic one" (ibid:84). According to Poulantzas (1975) a social category is defined on the basis of its relationship to non-economic instances and, therefore, does not, a priori, relate to the class origins of its members. It is, however, important to determine the class origins of the members of social categories involved in the division of labour at cognitive and political levels. Theoretically, a social category could be formed by individuals from diverse class origins, although this is determined by the level of the development of the society in question.

22. The concepts of antagonistic and non-antagonistic contradictions are developed by Post (1978:25-30) who bases his argument on Mao Tse-Tung's essay On Contradictions. Very briefly, from a Marxist point of view, the structures of social relations are characterized by contradictions which are mutually interdependent and contain both positive and negative aspects. The contradictions between those structures which have the potential for self-destruction are termed antagonistic. These are contradictions in the social relations of production of any class society. Non-antagonistic contradictions, on the other hand, exist within cognitive, political and ideological structures which relate only indirectly to the social relations of production. Non-antagonistic contradictions do not
necessitate the abolition of the dominant structures, but only partial changes in the conditions of their existence. These contradictions, for instance, characterize the relationship between various fractions of a single class. The contradiction between merchant class, on the one hand, and the landlords and foreign bourgeoisie, on the other, was not limited to ideological and political level; rather, it reflected a struggle over the distribution of the surplus. I have, however, defined it as a non-antagonistic contradiction because the primary social relations of exploitation were not operating between these classes. In this sense, the reversal of the position of merchants did not necessitate the destruction of the existing social relations of production.

23. See, for example, Mu'mini's (1977) characterization of the merchant class in these terms.

24. For details concerning the alliance of the anjumans with the petty-bourgeoisie, and the debates within the anjumans about the possibility of a socialist revolution in Iran, see Abrahamian (1982), Mehrain (1979) and Zabih (1966).

25. Mohamad Ali Shah, who had ascended to the throne in 1907, fled to Russia after the 1908 coup d'etat.

26. Mehrain's (1979) work represents a detailed and similar analysis of the Consitutional Movement, although its attempts at class analysis contain a certain amount of conceptual unclarity, leading to an implicit identification of merchant capital with the development of capitalism in 19th century Iran. This work also represents another example of the apparent compatibility of Marxist and Orientalist discourses, as mentioned previously in note 12.

27. This is compatible with Soudagar's (1980) argument who discusses the attempts made by merchants to invest in industrial enterprises, and the failure of this class to transform itself into an industrial bourgeoisie due to the semi-colonial condition of Iran. Soudagar argues that "although accelerating the dissolution of feudalism, accumulation and concentration of merchant capital, in the second half of the 19th century, could not bring about the dissolution of feudalism on its own" (ibid:213). This is in line with the present analysis; as I have argued repeatedly throughout this Chapter, neither landownership nor accumulation of profit at the level of exchange by merchant capital can provide sufficient bases for the capitalist transformation of the economy. Soudagar makes a precisely similar point. Furthermore, Soudagar argues that the transformation of merchants into capitalist producers did not materialize in the 19th century due to the general economic insecurity and the inability of the Court to protect capital; which further reinforced merchants' dependency on foreign capital (ibid:212-3). This is also in line with the characterization of merchants' relationship with both the landowning class and the foreign bourgeoisie in terms of non-antagonistic contradiction; which has been seen as a major factor inhibiting the transformation of
merchants into an industrial bourgeoisie. Lambton’s (1971b) discussion of the case of Haji Abd-al Karim, a powerful and wealthy merchant in mid-19th century Iran, also confirms the present discussion. She discusses how Haji Abd-al Karim’s dispute with the Court over a loan he had provided had led him to seek British support and protection through assuming British citizenship. This case is an example of the contradictory structural position of merchants, who were dependent on the imperialist powers for the continuation of capital accumulation and were simultaneously frustrated by this dependency and the internal antagonism with the Court and the landowning class.
CHAPTER FOUR

INTERNATIONALIZATION OF MERCHANT CAPITAL
AND GENERALIZATION OF COMMODITY PRODUCTION: 1911-1941

The purpose of this Chapter is to analyze the internationalization of merchant capital in Iran under the auspices of the peripheral state which emerged after the 1921 coup d'état.

In order to better understand the role of the Iranian state in the process of the internationalization of merchant capital, this Chapter begins with a few remarks on the characteristic features of the state in the periphery and the factors which foster its relative autonomy. The second Section of this Chapter focuses on the socio-economic fragmentation of Iran following the First World War. This fragmentation is seen as the long-run consequence of the semi-colonial position of Iran in the capitalist world market during the 19th century, and the failure of the Constitutional Movement to establish a bourgeois-liberal state.

The principal argument of this Chapter is that until the second half of the 20th century Iran remained a basically precapitalist country, incorporated into the world market via the circuit of merchant capital. This argument is developed in the third Section where the role of the state in the generalization of commodity relations is examined.
Reza Shah’s state is seen as the first centralized state in Iranian history which intervened in the economy in order to regulate and generalize production of agricultural raw materials for the world market. Although fundamentally precapitalist, the state laid the foundation for future capitalization of the economy through its infrastructural reforms and the rudimentary separation between economic and political power which these reforms initiated. In discussing Reza Shah’s state, I have attempted specifically to place it in the context of the characterization of peripheral states outlined at the beginning of this Chapter.

A. State in Peripheral Formations

In Chapter Two, a number of distinctive features of peripheral economies were identified. It was argued that the internationalization of each circuit of capital has led to increasing integration of peripheral economies as integral components of the social process of reproduction in the centre; that these economies are characterized by structural heterogeneity (persistence of noncapitalist forms of production); and that at each phase of the internationalization of capital the nature of the commodity produced in the periphery plays a significant role in the mode of its integration into the world market. These features of peripheral capital accumulation directly affect the character of the state in the periphery and suggest that the process of the formation of the peripheral state fundamentally differs from that of the metropole. Peripheral states embody specific contradictions and require a conceptualization different from that of the state in
advanced capitalist countries.

One of the major contradictions of the peripheral states is that the centre of gravity of capital accumulation is situated outside their national territory. This is to say, the peripheral states lack an economic basis congruent with their national territory, or there is a lack of correspondence between national/political and economic spheres. The absence or weakness of a reproductive sector in the peripheral economies means that the boundaries of the economic (world market) and the political (nation-state) structures do not coincide in peripheral formations. While in the metropolitan capitalist societies the process of capital accumulation is self-centred, and thus political conflicts tend to arise from the basic contradiction of capitalism (i.e. the increasing socialization of labour as against private appropriation of surplus-value), class struggle in the periphery is determined and influenced by contradictions originating in the specific character of their integration into the world market (Hein, 1980; Ziemann et al., 1977).

It is these specific conditions of capital accumulation in the periphery which give rise to, and foster, the relative autonomy of the state. Alavi's (1972) analysis of the post-colonial state has been particularly influential in relation to the question of the relative autonomy of the state in the periphery. He argues that in contrast to the state in advanced capitalist societies, post-colonial state is not the instrument of one single class but represents multiple class interests. Drawing on the examples of
Pakistan and Bangladesh, he shows that in the post-colonial period the state represented the interests of three propertied classes: the metropolitan bourgeoisie, the indigenous bourgeoisie, and the landed class. Since none of these classes can exclusively dominate the state apparatuses, or subordinate the other two, the state plays a conciliatory role in maintaining the balance of power, and, in doing so, assumes a relative autonomy from these classes. Moreover, at the time of independence, the post-colonial state 'inherits' a superstructure constituted by a bureaucratic-military oligarchy, which is 'overdeveloped' in relation to the economic base of the post-colonial society. This particular disjuncture in base/superstructure increases the relative autonomy of the post-colonial state. The bureaucratic-military oligarchy, then, through the direct appropriation and distribution of the economic surplus, achieves a certain 'centrality' and relative autonomy in relation to all other classes, and, by implication, becomes the central force of the post-colonial society.

Alavi's thesis of the post-colonial state has been followed by a debate which need not be repeated here. While the theses of 'overdeveloped' and 'central' post-colonial state have been strongly criticised (Leys, 1976; Ziemann et al., 1977), the questions of the multiple class character of the state and the heterogeneity of production relations remain important issues for understanding the peripheral state's relative autonomy. While in advanced capitalist societies private commodity production and the fractionalization of the economic interests of the ruling class form the real
basis of state autonomy, in peripheral societies this
tendency is reinforced by the underdeveloped class structure
and the heterogeneous production relations. Therefore,
structural heterogeneity, particularization of the interests
of the ruling class and the weakness of the bourgeoisie are
the principal causes of the relative autonomy of the state
in the periphery (Thomas, 1984).

The characteristic features of peripheral economies also
reinforce the need for an active state interventionist
policy. The binding to the world market, the contradictory
and incoherent societal reproduction, and the need to
promote the process of capital accumulation in the absence
of a strong bourgeoisie make it a sine qua non for the
peripheral state to intervene and invest in the production
processes. In other words, the need for an active and
permanent state intervention in the periphery is
structurally rooted in the disruption of the peripheral
economic structure and the relatively stagnant expanded
reproduction process. In this sense, peripheral states own
more productive forces and are more directly involved in the
appropriation of economic surplus than states in advanced
capitalist societies.

Considerable attention has been focused on the state
bureaucracy as another source of the relative autonomy of
the state.² The rapid growth of the bureaucracy is the
necessary outcome of the growing complexity of the division
of labour. The competitive nature of capital and the
antagonism amongst fractions of the capitalist class render
the direct operation of state apparatuses by this class
difficult, and make it necessary to create a body of bureaucrats. The formation and growth of the state bureaucracy brings about an institutional change in the structure of the state by separating the state from the ruling class and the civil society at large; and is thus a factor in promoting the relative autonomy of the state. It must be emphasized, however, that the state bureaucracy neither constitutes a class on its own nor can the class character of the state be determined by the 'petty-bourgeois' origins of the functionaries of state apparatuses.

To sum up, I have argued that characterization of the peripheral state must begin with placing the state in the context of the world market. The sources of the relative autonomy of the peripheral state lie in the absence of a reproductive sector, and the weakness of an indigenous bourgeoisie which make state intervention in the accumulation process necessary. The structural heterogeneity of peripheral economies, the particular character of the commodity which links these economies to the world market, and the rapid growth of the state bureaucracy also foster the relative autonomy of the peripheral state. Moreover, as Thomas (1984) has argued, the economic functions of the peripheral state (particularly in the post-colonial period) are necessarily contradictory in the sense that while the state’s struggle to create a national arena in the world economy appears anti-imperialist, this struggle results in the reproduction of world market conditions within the national economy for the benefit of the indigenous dominant class. For example, foreign capital may be attacked (through
nationalization, demands for higher prices of primary products, criticisms of insufficient aid and technological assistance) in order to strengthen indigenous capital (through tariff policies, foreign trade control, suppression of trade unions). The state therefore must win a relative autonomy from the interests of the dominant class in order to pursue its economic functions. The main economic function of the state, however, remains that of securing the conditions of capital accumulation and reproduction of the basic class relations of the society.

I have briefly outlined the specific factors fostering relative autonomy of the peripheral state - some also common to states in advanced capitalist societies - in order to better understand the reasons why the peripheral state assumes an apparently more 'central' role and is able to adopt active interventionist policies. In the case of the peripheral absolutist state in Iran in the 1920s and 1930s almost all these factors were present. They endowed the state with a relative autonomy from the ruling landowning class, enabling it to pursue reforming policies which led to a rudimentary separation of economic and political power.

B. Socio-Political Fragmentation: 1911-1921

The period of 1911-1921, covering the years after the collapse of the Constitutional Movement to the emergence of the Pahlavi state, is a distinct phase in Iranian political history. This period was marked by the absence of a power bloc, the collapse of the institution of the parliament, and the consequent fragmentation of the power structure and
radicalization of various political forces. The main external events which created a new phase of political crisis were the First World War and the Bolshevik Revolution in Russia. Iran, having been a semi-colony of both Britain and Russia, was deeply affected by these events.

During the First World War Iran was invaded by British, Soviet, German and Turkish troops. The Ottoman Empire, allied with Germany, invaded Iran in 1915 in order to push back the Russian troops who had been stationed in the north since 1911. While Russian forces were fighting Turkish troops in the north, the British occupied the south and formed an army called the South Persian Rifles, an equivalent to the Russian-organized Cossack Brigade in the north (Keddie, 1981:79-80). With the country turning into a battlefield for these invading forces, the central government collapsed. The parliament had already been dissolved, following Russian military invasion, in 1911. The collapse of the government and the parliament removed the Constitutional Movement's final possibilities for the establishment of a state. During the next decade, both the Constitution and the parliament remained inactive. The only political institution which continued to function during this period was the cabinet, which existed as one of the many equally strong centres of power. Decline in the power of the executive and the Court, accompanied by the abolition of the parliament and the physical presence of foreign troops in the country, strengthened some feudal landlords and tribal chiefs, enabling them to establish strong and autonomous domains in various parts of the country. The decade of 1911-1921 was therefore a period of severe
disintegration of socio-economic structures, when Iran appeared on the verge of collapse and annexation. The imperialist powers played a major role in intensifying fragmentation of the system by promoting ethnic, regional, and tribal conflicts. Each group, tribe or class fraction identified itself with either Russian or British forces, seeking to establish independent or autonomous states. Despite their wartime alliance against Germany, Russia and Britain remained in constant competition in Iran. They continued to adopt policies which were determined by their own economic interests as well as designed to prevent the other’s territorial expansion. In the previous Chapter, I have discussed the impact of the divided and competitive character of imperialist domination on the political and economic transformation of Iran in the 19th century. During the war, this competing and divided foreign capital could not provide a substitute for the abolished parliament and the weakened central government, so Iran in this period was a country without a central government or a single power bloc.

The inter-imperialist rivalry was abruptly terminated in 1917 when the victory of the Bolshevik revolution in Russia and the approaching end of the First World War set off a new pattern of imperialist domination and a new wave of political crisis. In January 1918, the USSR removed all Tzarist privileges, concessions and treaties with Iran. The departure of Tzarist Russia from Iran meant that British imperialism could now dominate Iran single-handedly and with relative ease. However, Iran had proved to be rich in an important raw material: oil. It has been mentioned before
that through the D'Arcy concession Britain had acquired total control of the southern oil fields in 1901. The discovery of oil in 1908 had increased Britain's interest in Iran, and by the second decade of the 20th century Iran moved into a new pattern of relationship with the capitalist world market. This new relationship was characterized by Iran's domination by a single imperialist power, and its new function within the international system, that is, production and export of oil. The significance of this commodity for the industrial expansion of Britain had been demonstrated by its importance in the First World War when the British navy had switched from using coal to oil.4

Britain's interests in Iran were not limited to the oil industry. After the war, British policy in Iran turned towards the creation of a neo-colonial peripheral state that would retain Britain's domination over Iran and protect its interests. This policy is partly evident in the Anglo-Persian Pact of 1919. Under the Pact, the British offered loans, administrative and financial assistance for a total reform of the entire administrative apparatus of the state including customs, taxation and the treasury. Other proposals included a low tariff for British commodities, the creation of a national army and programmes for building infrastructure such as extensive plans for road construction (Avery, 1965:203-5).

The Anglo-Persian Pact sparked a new wave of nation-wide political struggle and crisis in Iran more severe than that during the Constitutional Movement. From the date of the
introduction of the Pact in 1919 until the middle of 1922, Iran experienced such an intense political struggle between various classes and political groups that the country appeared on the verge of annexation and division into separate republics. The political crisis, begun by the Constitutional Movement, had not only remained unresolved by the end of the First World War but had actually escalated during and after the war.

The decentralization and fragmentation of the Iranian polity was evidenced by the formation of five autonomous provinces in the south, two independent republics of Gilan and Mazandaran in the north, and the autonomous republic of Azarbaijan by 1920. This decentralization was the long-term consequence of the failure of the Constitutional Movement to establish a bourgeois-democratic state. The failure of the Movement, I have argued, was due to the nature of the parliament which failed to dominate the old executive, the monarchy, and its ideological base, the ulama. This failure, in turn, derived from the particular mode of socio-economic transformation of 19th century Iran. The class which aimed to establish a bourgeois-democratic state was itself the outcome of the semi-colonial situation: it was not an industrial capitalist class proper but a merchant class with contradictory class interests and alliances. The socio-political fragmentation, chaos and crisis of the war years were the legacy of the semi-colonial position of Iran in the world economy. During the last two years of the crisis, inter-tribal, rural-tribal and military confrontations became the order of the day. A form of political stalemate had developed since the central
government was unable to suppress autonomy-seeking movements and the latter were not strong enough to capture Tehran. Only the use of force seemed to offer an alternative to the existing situation. This alternative was provided by the British: they succeeded in staging a coup d'etat in February 1921. The commander of the military division that launched the coup was Reza Khan, a colonel of the Cossack Brigade. In 1925 he declared himself the first king of the Pahlavi dynasty.

C. Absolutist Peripheral State and Generalization of Commodity Relations: 1921-1941

In this Section, it will be argued that Reza Shah's state was the first centralized state in Iranian history which was committed to a systematic generalization of commodity relations. The state's commitment to centralization and political unification of the country, its anti-tribal, secular, and developmentalist ideology, and the reforms it instituted, separated political power from economic power in a rudimentary fashion. This separation was the necessary basis for the expansion of commodity production and market relations, but it should not be identified with the capitalist character of the state at this stage of Iranian history. Basically, the class character of a state is derived from the nature of dominant production relations. The policies adopted by the state and the way in which it intervenes in the economy are also indicative of its class character. An examination of these areas, as presented below, suggests that Reza Shah's state was not capitalist; it was a predominantly precapitalist state representing the
interests of the landowning and merchant classes. Although the state's intervention in the economy and its infrastructural reform programmes failed to generate a transition to capitalist production relations, it will be argued that they did lead to the generalization of commodity production, and to a deeper integration of the Iranian economy into the world market via the circuit of merchant capital. The direction of state's reforms and intervention was unmistakable: increasing commoditization and specialization in exchange laid the basis for future transition to the internationalization of money capital.  

While little economic changes took place in the period of 1911-1925, except for the increase in the production of oil in the British-owned oil industry, the two decades of the 1930s and 1940s are marked by the state's direct intervention in the economy and its emergence as the central instrument of capital accumulation. Obviously, the first goal of the state was political unification and the establishment of relative stability. By 1925, all forms of political opposition, including tribal revolts and autonomist movements, had been crushed (Keddie, 1981:91); and Reza Shah had moved to establish absolute control over the political system. A degree of political stability had been achieved which enabled the state to begin its reform programmes. In the period of 1925-30, the state instituted a series of reforms which were basically infrastructural in nature. They were aimed at centralization and expansion of the administrative, educational, judicial and transportation systems. From 1930 onwards, however, the state moved to
directly influence the economy through capital investment in manufacturing industry and control over foreign trade.

There are no comprehensive statistical data on the structure of the economy for the period 1925-30. The existing data on state expenditure, however, suggest the centrality of infrastructural programmes during this period. The centralization of the army and the bureaucracy was particularly a major concern; these institutions accounted for the bulk of state expenditure. A conscription law, with universal service, was enacted in 1926, and military expenses were for a time the largest budget item (Keddie, 1981:94). Roughly within the period of 1928-33, Ministries of War, Finance and Interior received 70% of state allocations, with the Ministry of War receiving 40% to 50% of the total budget (Katouzian, 1981:114; Keddie, 1981:98). The military continued to receive between 30% to 35% of the state budget throughout the late 1930s (Bharier, 1971:64). Other areas of state expenditure were post and telecommunication and education which, within the 1928-33 period, received 6.2% and 6.8% of state budget respectively. Later, in the 1940s, on average about 4% of state expenditure went to education. Education expenses rose from £100,000 in 1925 to £3 million in 1940 (Banani, 1961:108; Elwell-Sutton, 1941:142; Katouzian, 1981:114).

But the major area of state expenditure was transportation. The construction of the Trans-Iranian Railway started in 1927 and was completed in 1938. Linking the Caspian Sea to the Persian Gulf, it covered 1,394 Kilometres of railway (Ashraf, 1970:329; Katouzian, 1981:115). Apart from the
railway project, the state also made considerable investment in extending ordinary roads. The Ministry of Roads was established in 1930, and road construction activities expanded the carriage road from 1,286 miles in 1921 to 16,000 in 1938 (Ashraf, 1970:330). Officially, Iran’s roads were stated to total 24,000 Kilometres by 1938 (Issawi, 1971:375).

State expenditure in infrastructural projects was made possible by customs revenues, oil royalties, sale of state lands, and revenues from state monopolies on foreign trade. But, seemingly, the most important source of state revenues in the 1930s was indirect taxes, particularly following the enactment of a regressive income tax in 1933, and taxes on major consumer items such as sugar and tea (Banani, 1961:133; Bharier, 1971:64; Issawi, 1971:376; Upton, 1960:98). In the period of 1921-30, the state spent $2 billion on the military, $260 million on railway construction and $200 million on the construction of government buildings (Bharier, 1971:303-234; Halliday, 1979:66).

The most substantial impact of these infrastructural projects was to generalize commodity production. For example, the poor condition of overland transportation had been a major barrier to the development of trade. Trans-Iranian Railway established an economic link between north and south and facilitated export-import trade. Trade was also facilitated by the abolition of road taxes, enforced by the Qajars, which had been a barrier to internal transport (Issawi, 1971:376).
The state's reforms in the judicial system also facilitated the expansion of trade by limiting the traditional influence of the ulama and the religious law (Shari'a), which were both seen as a brake on economic development. Shari'a had forbidden charging interest and trade by Muslims in certain goods. It did not recognize joint-stock companies, and had left certain commercial rights to the ulama. The Commercial Code of 1925 was designed to limit ulama's influence in commercial matters, and recognized joint-stock companies (Banani, 1961:70-84; Keddie, 1981:95). The state also took over a large part of the religiously-controlled land (vafq). Moreover, a French-style Civil Code of 1928 and an Italian-style Criminal Code of 1929 brought the administrative and judicial systems under secular law, and further reduced the power of the ulama, who had, until then, controlled these areas. Laws concerning the registration of legal documents and ownership were transferred from the ulama to secular authorities; and registration of marriages and divorces also came under secular law (Banani, 1961:70-84). Therefore, the loss of power by the ulama, who had constituted one of the elements of the power structure in 19th century Iran, was both economic, through the loss of revenue from land and trade, and ideological, through secularization of state apparatuses.  

State intervention in the areas of finance and foreign trade, and the first major investments in the manufacturing industry, mark the decade of 1931-41. Banking and finance came under state control with the creation of the National Bank of Iran in 1927, which took over the right to issue bank notes and other national banking privileges from the
British-owned Imperial Bank of Persia (Keddie, 1981:102; Katouzian, 1981:112-3). Later the Agricultural and Industrial Bank and the Loan Bank were founded in 1933 and 1939 respectively. By 1940, the National Bank had 84 branches throughout the country. Through these banks, financial markets came largely, but not entirely, under state control. These banks financed capital investment in industry, trade and transport, and their capital was mainly drawn from regressive income taxes (Bharier, 1971:237; Keddie, 1981:102; Issawi, 1971:377). Formation of these banks created a rudimentary financial system which, together with the improved transport system further facilitated and regulated trade and commodity production. The corollary to state financial control was state monopoly over foreign trade; an area which remained the greatest realm of state intervention in the 1930s.

The Law of Foreign Trade Monopoly was introduced in 1930 (Ashraf, 1970:328; Bharier, 1971:86). Through this law, the state took control over exports and imports, foreign exchange, industry and transport. Certain imports such as tea, cotton and sugar became the monopoly of the state, while others could be authorized only by proving exports of greater value (Keddie, 1981:106). An exchange control law was passed by which merchants had to obtain special permission to import luxury goods, and exporters were required to sell 90% of their foreign exchange to the state within one year of obtaining it (Bharier, 1971:107). Almost 33% of all imports and 49% of all exports were controlled through state monopolies (Ashraf, 1971:328).
State control over foreign trade was in line with the import-substitution policy, which characterized Iranian industry in the 1930s. The objective of this policy was to create light consumer industries to transform local raw materials into consumption goods. This policy would reduce dependency on foreign exchange, which, due to the depression of the 1930s, was not forthcoming. The depression was characterized by a sharper drop in agricultural rather than industrial prices; it resulted in the reduction in the price of Iran's agricultural raw materials on the world market, by 2 to 3 times, which in turn curtailed the flow of foreign exchange into Iran (Keddie, 1981:98, 99-106).

Partly in order to offset the deteriorating terms of foreign trade, the state raised a high tariff wall against the import of certain consumer goods. Low interest rates were given to private investors through the National Bank, and the import of capital goods and machinery was exempted from customs duties and certain other taxes. However, it seems that tariff rises, although in line with import-substitution policy, were initially designed to meet the need for revenues and not for protecting local industry (Banani, 1961:16; Clawson, 1979:254). Keddie (1981:96) also observes, correctly, that the idea of protective tariffs had not yet fully developed in the 1930s, and that tariffs were mainly based on revenue needs.

After the war, industry in Iran had been limited to a few power plants and match factories, although small privately-owned textile factories had expanded in number. But real growth in industrial investment occurred from 1930 onwards.
Initially, most of the capital investment in industry was carried out by the state. By the late 1930s, however, private capital investment in manufacturing industry was relatively high. The initial absence of private capital investment in industry is comprehensible given the particular character of the Iranian merchant class, and the general structure of the economy in the 1930s. The merchant class had traditionally, and logically, invested in land rather than in industry, as the latter had proved disastrous for individual merchants under the conditions of semi-colonial domination. Moreover, as I shall discuss below, the state did not move to induce any changes in the nature of agrarian production relations. Agricultural production continued to be organized on the basis of large feudal estates concentrated in the hands of large absentee landowners, and the landlords were under no pressure to improve agricultural productivity. Industrial private capital remained underdeveloped as cheap labour made exploitation of land and peasants more profitable than investment in industry. Given the traditional concentration of capital in trade and landownership, high costs of initial investment in industry, and slow returns in a market with a very low purchasing power, the main pressure for industrialization had to come from the state during the first half of the 20th century. The state had to perform the role which the Iranian merchant class had failed to play. Indeed, what could have been accomplished if the Constitutional Movement had not failed was partly accomplished by the state.
Despite the lack of comprehensive data on the exact size, output and structure of the industry in the 1930s, the existing information does indicate the growth of a nascent home market for the production of consumer goods and the purchase of labour power. The number of industrial enterprises increased 17-fold during Reza Shah’s reign. In 1925, there had been fewer than 20 industrial plants; of these only 5 were large, each employing more than 50 workers.° They included a sugar refinery, a match factory and two textile mills. By 1941, however, the number of industrial plants had reached 346. Of these, 200 were small installations, but the other 146 included such major plants as 37 textile mills, 8 sugar refineries, 11 match-making factories, 8 chemical enterprises, 2 glass works, 1 tobacco and 5 tea processing plants (Abrahamian, 1982:146-7). Most of the large-scale plants were state-owned, while some were a combination of state and private-owned, or were wholly private-owned plants; often with state subsidies and guarantees (Ashraf, 1970:330; Bharier, 1971:172-80; Wilber, 1948:132). By the late 1930s, however, over half of the $260 million invested in industry came from the private sector (Issawi, 1978:132). Private capital continued to increase, and, by the mid-1940s, only sugar, cement and tobacco factories were entirely state-owned. In textiles, tea-processing, flour and rice milling a mixture of private and public plants operated; and other manufacturing was left entirely to private enterprise (Bharier, 1971:180-1).

A review of annual state expenditure and allocations will also give some indication of the economic trends in this period. The budget of the Ministry of Industry and Mines,
established in 1932, reached R315 million in 1938, and R745 million in 1940 (Bharier, 1971:66). In 1941, state allocation to industry was nearly 50 times that it had been in 1934, with the result that the percentage share of industry and trade, in total budgetary allocations, rose from 3.5% in 1934 to over 24% in 1941 (Katouzian, 1981:131).

It is also important to note that the increased state expenditure in manufacturing industry was made possible through increases in state revenues. I have already discussed the main sources of state budget during this period: indirect taxes, oil revenues, and state control over financial markets and foreign trade. State budget rose from under R237 million in 1924 to over R3,613 million in 1941 (Ashraf, 1971:329). According to Bharier (1971:66), the total state budget rose 10-fold in the 1928-40 period. Oil revenues, although increasing, were not yet substantial; they contributed between 10% to 30% of state budget during the same period (Bharier, 1971:65,159; Katouzian, 1981:129).

A major impact of state's infrastructural reforms and direct investment in industry was the growth of wage-labour. In the preceding Chapter, I have argued that wage-labour first developed in the second half of the 19th century, and have discussed the unsystematic nature of the processes which led to the dispossession of direct producers during this period: confiscation and concentration of land, cash-crop production, an arbitrary and chaotic system of taxation, together with famines and droughts were factors which led to the impoverishment of the peasantry and forced some of the peasants off the land. During the first half of the 20th
century 'free' labour still came primarily from rural areas. However, it is important to note that the causes of rural-urban migrations within the period of the mid-1930s to the late 1950s were different from those in the late 19th century. In the period of 1930-1950s, the rural-urban migration was caused by what might be considered as the 'pull' factors, that is, the concentration of manufacturing industry, the rapid expansion of construction activity and the prospects of higher living standards offered in the urban areas (Bharier, 1971:31). Although land confiscations and 'natural' disasters such as famines and droughts continued to influence the pattern of rural-urban migration, in contrast to the situation in the 19th century, the state's direct investment in infrastructure and industry in the 1920s and 1930s created a small home market for the purchase of labour power. As will be discussed later, rural-urban migrations in the post-1960s period assumed a different character when, following the land reform, the development of capitalist production relations in the rural areas marked the beginning of a large-scale and systematic real subsumption of labour by capital.10

The railway and road construction activities were the major areas in which wage-labour employment, outside the oil industry, was concentrated. Although there are no exact figures on the number of wage-labourers in these areas, it is estimated that they numbered in tens of thousands in road and railway construction projects of the late 1920s and 1930s (Banani, 1961:133-5). Another major area of wage-labour employment was in state-owned factories. Ashraf (1970:329) estimates that by 1941 between 50,000 to 60,000
wage-workers were employed in 200 industrial plants. About 120 factories employed from 30 to 100 workers, about 10 industrial plants employed 100 to 500 workers, and some employed between 500 to 1,000 workers. Textile factories were the largest industrial plants where the highest concentration of wage-labour employment occurred: they employed about half of the total industrial labour force. Consequently, state-owned industry employed 40% of all wage-workers, and owned 80% of the largest industrial plants. Together with the number of workers in the railway system and non-oil mining sector, the proportion of wage-labourers employed by the state comprised 60% of the total labour force (ibid:329-330). Apart from textile factories, other large-scale state-owned industrial plants included a cement factory, essential for construction projects, sugar refineries, tobacco factories, a steel mill and iron factory by 1941 (Bharier, 1971:177-8). Later, in the late 1930s and 1940s, private capital investment increased relatively, but the formation of this nascent industrial bourgeoisie, still tied to land, and the growth of wage-labour, should not be identified with transition to capitalism at this stage. This important point will be elaborated below.

No comprehensive data have been found on the exact size of the working class within this period. Ashraf (1970), Abrahamian (1982), and Bharier (1971) give different figures on the expansion of wage-labour employment. While it is generally agreed that the number of wage-workers was about 1,000 in 1925, the numbers given for the period of the 1940s fluctuate between 50,000 to 170,000. According to Abrahamian (1982) during the 1930s
the wage-earners in oil and large modern factories, together with some 10,000 in small modern factories, 2,500 in the Caspian fisheries, 9,000 in the railways, 4,000 in the coal fields, another 4,000 in the port docks, and a substantial but seasonal number in construction jointly produced a total of over 170,000 (ibid:147).

These figures do indicate the growth of wage-labour employment. Bharier (1971:172), for instance, emphasizes that between 1934 to 1938 the number of wage-earners increased by 250%; and according to Katouzian (1981:131) the industrial labour force (excluding the oil industry) in 1941 was nearly three times what it had been in 1931. It is also important to note that the growth of wage-labour was not as significant as the general increase in the manufacturing industry, partly due to the capital-intensive nature of large-scale state-owned enterprises. The proportion of wage-labourers to the total labour force was still very small: wage-workers constituted less than 4% of the total labour force by the 1940s (Abrahamian, 1982:147). As mentioned above, the main reason for the slow growth of wage-labour was that the state did not carry out any land reform which would have separated the direct producers from the means of production.

The expansion and centralization of state apparatuses also led to the employment of a large proportion of the labour force in the army, the bureaucracy and the educational system. By the end of the 1930s, 20% of state expenditure went to wages and salaries (Bharier, 1971:64), indicating the development of working and middle classes. The expansion of the middle class was particularly disproportionate. Abrahamian (1982:145) estimates that 90,000 bureaucrats were
employed in 10 new civilian ministries; and the 'intelligentsia' grew to 7% of the country's labour force. Compared to the working class which constituted less than 4% of the total labour force, this figure shows another specificity of class formation under the auspices of the state. The growth of the middle class was more extensive than that of the industrial bourgeoisie and the working class, confirming the view that the nature of state intervention in the economy was basically infrastructural and in the unproductive areas of the economy.

The evidence presented so far gives some indication of the general economic trends of this period: development of infrastructure, expansion and centralization of state apparatuses, state control over foreign trade and a rudimentary financial market, increased state budget and expenditure, and the formation of a nascent home market. These developments, however, failed to generate a transition to the internationalization of money capital. Rather, they led to a deeper incorporation of the Iranian economy into the world market via the circuit of merchant capital.

The failure of the state to generate a transition to the internationalization of money capital, and therefore to establish capitalist production relations, was primarily due to the absence of foreign capital investment at the point of production (Clawson, 1979:254-5). The absence of foreign capital investment was partly caused by the depression of the 1930s, which curtailed the flow of foreign exchange into the Iranian economy. But the primary reason for the absence of foreign capital investment should be sought in the nature
of the Iranian economy's relationship with the world market. In the first half of the 20th century, Iran's relationship with the world market was still based on the requirements of industrial capital in the centre, that is, production of agricultural raw materials for export to the centre and a market for the importation of Western manufactured goods. This type of relationship entailed that metropolitan capital could not tolerate competition from local producers, and that the development of capitalist production relations had to be severely limited. Iran was not yet a site for direct investment by foreign capital and the bulk of foreign capital remained linked to the economy through trade.

There was, however, one exception: the oil industry was the only area in which direct foreign capital investment did take place. This was a highly developed capitalist industry with little tendency towards penetration of capitalist production relations into other sectors of the economy. In effect, it was a capitalist 'enclave' superimposed on an economy with distinct precapitalist agrarian structures. The British government owned 51% of the Anglo-Persian Oil Company (APOCH), which had been established in 1909. In 1933, the Iranian state signed a new 60-year agreement with the APOCH, renamed the Anglo-Iranian Oil Company (AIOC). The new agreement reduced the area of concession to 25% of the original concession, and the royalties were to be assessed on a new tonnage basis (Bharier, 1971:156; Amuzegar and Fekrat, 1971:14-15). The new agreement continued to provide a vested interest for Britain in the Iranian economy.
The original investment by the APOC in Iran amounted to £21,656,252 million. Oil exports were exempted from taxes and customs duties, making further profits for the British government. At a conservative estimate, this modest investment of some £22 million produced for British capital something like £700 to £800 million in its fifty years of operation; that is an average of £16 million a year (Elwell-Sutton, 1955:84). The direct royalties the APOC paid to the Iranian government were very meagre indeed: oil royalties constituted about 10% of the state budget in the 1920s, 30% between 1929 and 1932, and 25% between 1934 and 1938. This is despite the fact that production of oil increased rapidly, rising from 80,000 tons in 1912 to 4.2 million tons in 1925 to 5 million tons in 1930 (Bharier, 1971:159).

Therefore, the Iranian economy assumed another important role for British imperialism: production of oil. The British had created a small colony around the southwestern oil fields with almost no contact with the rest of the economy. They imported all the technology and personnel required, including manual labour force from India. During the period of 1910-50, the APOC made no impact on the production processes, or on the banking and financial system. The only significant impact of the industry on the economy was the oil royalties to the Iranian government. The impact of the employment of the local labour force was almost negligible, due to the capital-intensive nature of the oil industry and the APOC's policies of importing its labour force. Despite the APOC's policies, however, the number of Iranian employees in the oil industry did increase from 20,000 in 1920 to about 30,000 in the 1930s and to 50,000 in 1948
(Bharier, 1971:162), but this was less than 1% of the total labour force of Iran (Amuzegar et al., 1971:26). Indeed, the stakes for the British government in the southern oilfields were high; Britain’s capital investment in the oil industry overshadowed the total local investment in trade and industry during the 1930s (Keddie, 1981:109). However, due to the APOC’s policies and the particular nature of the oil industry, the impact of this direct capital investment on the local economy closely resembled the mercantile form of capital penetration: except for the provision of very small amounts of royalties and wage-labour employment, the larger social relations of production remained unaffected by it.

An examination of two areas of the Iranian economy, foreign trade and agriculture, further supports the argument that while there was a substantial degree of commoditization in the 1930s, the dominant form of capital remained mercantile and production relations precapitalist.

There are no comprehensive data for the Iranian foreign trade during this period. However, the existing information suggests that world market demand, and the structure of the Iranian economy, limited Iran’s non-oil exports to agricultural raw materials and carpets. Indeed, from the beginning of the 19th century until the early 1950s, carpets, raw cotton and dried fruits constituted over half of the value of Iran’s non-oil exports (Bharier, 1971:110). In the 1920s, agricultural production was divided between cash-crops (cotton, opium, dried fruits, tobacco), which were mainly exported, and food crops produced for domestic market. Despite the lack of data for agricultural output, it
seems that Iran was generally self-sufficient in food production, and its non-oil exports began to recover and were generally maintained in the 1920s. It is also certain that carpets made up the bulk of Iranian exports, which remained a village-based and cottage industry (Katouzian, 1981:95, 116-7).

The data on foreign trade for the period of the 1930s are also scanty and incomprehensive, but they do confirm the view that commercialization became significant in the 1930s, and that there was a substantial increase in the export of agricultural raw materials. Undoubtedly, the new state industries encouraged the production of cash-crops for export, which was highly profitable to large landlords. For example, the value of non-oil exports (mainly cash-crops) rose from R179 million in 1921 to R459 million in 1930; while the total value of exports rose from R502 million to R1,575 million for the same period (Bharier, 1971:107).

Concomitant with state policy of protection of local consumer goods and promotion of exports, imports of producer goods also rose rapidly, helped by the drastic decrease in their price following the depression. While the value of the imported durable producer goods totalled R442 million for the entire period 1900-1927, it reached R427 million for 1937 alone. In 1927, capital goods comprised about 3% of all imports; their share rose to 25% in 1930 and 30% in the period of 1937-43 (Bharier, 1971:197).

In terms of trade partners, trade with Britain generally prospered in the 1920s, while trade with Russia fell substantially, partly due to British tariff policies which
allowed British goods to be imported at very low rates and were unfavourable to Russian-Iranian trade. Despite the annulation of the Anglo-Persian Pact in 1920, and the conclusion of a Russian-Iranian Treaty in 1921, Russian trade with Iran reached only three-fourths of its prewar level by 1928 (Bharier, 1971:102-16; Keddie, 1981:83-7). However, by 1940, the Soviet Union had overtaken Britain in trade, the U.S., for the first time, had gained an important trade position, and Germany had emerged as the leading trade partner (Wilber, 1948:136). Germany's rise to a prominent trade position can partly be explained by the general opposition and hostility towards Britain in Iran, but, more importantly, by Germany's own position in the world market: an aspiring imperialist power seeking markets and zones of influence. Earlier in the 1920s German firms had played a prominent role in the construction of the Trans-Iranian Railway. In the 1930s, Germany provided most of the machinery and contractors in Iran's industrial, mining and construction projects. Germany emerged as the leading trade partner in Iran's foreign trade: between 1939 to 1941, it controlled about half of the total value of foreign trade with Iran (Keddie, 1981:110).\textsuperscript{12}

In agriculture, production relations remained on a precapitalist basis and no agrarian reforms were carried out in the 1920s and 1930s. The general direction of state policies was towards consolidation of private property in land and further commercialization of agricultural output; both highly profitable to the landowning class. A Civil Code of 1928 made registration of landed property compulsory—and recognized de facto ownership as legal ownership of land
(Lambton, 1953:189-97). Registration of landholdings was a necessary precondition for land transfers and thus consolidation of private property rights. Sale of state lands, which had begun in the mid-19th century, continued in the second half of the 1930s. In 1934, state lands were put on the market, but on prices which only large landlords and merchants could afford. Some landlords and state officials used their power to take over the land, and through pressures such as withholding much needed water from the land, many peasants were expropriated (ibid:246-9). But, on the whole, state policies placed land expropriations on a more regular basis. Through the Department of Land Registration, regional magnates were encouraged to place communal property under their names. Complete villages were sold to private tenants, and state land in remote areas, which had in effect been controlled by tribal chiefs and large owner-tenants, were turned over to them legally. The landlord-dominated parliament also passed a law that any village in the possession of one person for 30 years becomes his private property (Keddie, 1981:96). In 1939 the state also brought land belonging to religious institutions (vafq) under its control (Abrahamian, 1982:141). These measures legalized land expropriations, which had been an ongoing process since the 19th century, and strengthened private property rights to land. An indication of the extent to which private landholding was consolidated is that about 70% of the cultivated land came to be owned by private landlords; the remaining 20% belonged to the state, and the rest 10% was controlled by religious institutions. This is a far cry from the early 19th century when all land theoretically belonged to the state.
Sale of state lands and land registrations, although resulting in the concentration and consolidation of private land ownership, did not entail a change in the nature of production relations. These measures did, however, facilitate production of cash-crops for export markets. Despite the lack of data on agricultural output, the existing evidence suggests that state's promotion of commercialization of agriculture facilitated production of cash-crops; examples are exemption of cash-crop exports from taxes and the exemption of agricultural machinery imports from tariffs (Keddie, 1981:96). Taxes were also placed on a more regular basis and labour service (bigari) diminished to some extent (Lambton, 1953:179-81; Clawson, 1979:258). Peasants, however, were given no protection and production relations remained organized around sharecropping, a transitional form of production which has not disappeared even today.  

Under the sharecropping system direct producers were not fully divorced from the means of production, although it can be stated that expansion of commodity relations did encourage differentiation of the peasantry. Neither did the methods of production undergo any substantial changes. Landlords were encouraged in the scientific and hygienic use of canals, the construction of roads, the establishment of health services, rural housing, etc. The landlord-dominated parliament, however, blocked any radical changes and few progressive measures were carried out in practice. Given the legalization of land confiscations, large landlords came to own about 70% of the cultivated land, while 40% to 50% of the rural population remained both landless and without any cultivation rights.
In relation to tribal population, the state adopted the policy of forced settlement. However, animal husbandry continued to provide the only source of economic subsistence for tribes as they had no alternative way of making a living. As a result of forced settlement and inadequate grazing lands, many tribes lost their animals, leading to decreasing livestock production and general impoverishment of nomadic population (Keddie, 1981:96-7).

Although production relations remained precapitalist, consolidation of private landed property and the expansion of commodity production did affect the character of the landowning class. The developments discussed above accelerated the 19th century trend of transforming ‘bureaucratic landlordism’ into private landholding (Ashraf, 1970:330; Lambton, 1953:179-81; Clawson, 1979:258). To be more precise, state policies led to an increasing convergence of the two fractions of the landed class: the aristocracy and the officialdom. This convergence entailed a significant change in the legal status of large landlords from that of a ‘petty-territorial prince’ (Lambton, 1953:260) into an individual commodity owner. This trend was piecemeal in the late 1930s, but significant in the context of the subsequent capitalist transformation of the economy. 16

These state policies also consolidated both the movement of the merchant class into land ownership and its sway over production processes. Although the merchant class did become involved in agricultural production, this involvement was restrained by the state’s monopoly control of private trade.
On the other hand, exclusive state control of foreign trade meant greater protection for large merchants and landlords, which intensified commodity production on a pre-capitalist basis and limited capital investment in manufacturing. By 1940, investment by merchants in commercial enterprises was greater than total investment in industry. There were twice as many commercial as industrial corporations in 1940, and their total capital was twice as high (Keddie, 1981:107). Private capital continued to be directed to usury, moneylending, landownership and production of raw materials for export. Merchant capital, with strong metropolitan ties, remained the dominant form of capital.

It probably goes without saying that the large landholding class was the principal base for the Pahlavi regime, and land ownership remained the basis of political power. An examination of the social composition of the 4th and 5th National Assemblies, whose support was instrumental in Reza Shah’s succession to power, shows that the majority of Assembly members originated from the landed and merchant classes. The two political parties which dominated these assemblies, the Reformers’ Party and the Revival Party, were largely composed of landed aristocrats, wealthy merchants and clerics. Subsequently the position of large landlords was further strengthened as they increasingly gained high positions in the parliament, the cabinet, the diplomatic corps and state enterprises (Lambton, 1953:181-93). Large landlords, who had constituted 8% of the First Parliament and 12% of the 4th, made up 26% of the 12th Parliament, together with high state bureaucrats and the nascent industrial bourgeoisie. Landlords also formed 84% of Reza
Shah's deputies. Of the 50 ministers who filled 98 cabinet posts between 1925 to 1941, 37 had been born into titled families. Other measures taken by the state, such as the new law passed by the Third National Assembly introducing adult male suffrage and extending the vote to the rural population, also ironically served to strengthen the position of landlords within the parliament (Abrahamian, 1982:120-126, 149-150, 121).

However, the preservation of the interests of the landowning class was not straightforward and the Pahlavi state should not be considered as a mere instrument of this class. Large landlords and merchants gradually lost their independence. Tribal chiefs were incorporated into the landowning class and this class in turn, through integration into the state executive and its bureaucracy, grew increasingly dependent on the state. This implies an important transformation in the character of the state. Through the centralization and expansion of state apparatuses and the introduction of a secular, uniform legal system, the state acquired a relative autonomy from various factional interests and indigenous dominant classes. It was on this basis that the state was able to curb and limit the power of feudal lords, tribal chiefs and the clergy, and legitimately restrain individual or class interests. The internal structure of the state was such that, while it preserved and represented the interests of the landed and merchant classes, it also controlled and restrained these classes and the political factions they represented. This development is evident in the dispossession, imprisonment and even execution of a number of large landlords and tribal chiefs. Through land
confiscations, Reza Shah himself became the largest landlord in the country.  

Factors mentioned earlier in the discussion of the peripheral state, such as the expansion of the state executive and its bureaucracy, the underdeveloped class structure, the underdeveloped and heterogeneous production relations, and the fractionalized economic interests of the dominant classes, were the principal sources of the relative autonomy of the Pahlavi state. Neither the landowning class nor the merchant class and the nascent industrial bourgeoisie were able to become the economically dominant class. Indeed, the industrial bourgeoisie was only a class-in-formation, and the state was the instrument of its formation and expansion. Moreover, in a situation where bourgeois norms of constitutionality were neither well-developed nor deeply well-entrenched, and where there was little or no separation of powers among the judicial, executive and parliamentary organs of the state, the relative autonomy of the state could only be fostered.

The economic function of the state was also necessarily contradictory. The Pahlavi state's 'nationalist' struggle to create a national arena in the world economy (e.g., the annulment of the colonialist 1919 Anglo-Persian Pact, the dissolution of the British-owned Imperial Bank of Persia) only served to reproduce world market conditions within the national economy, that is, regularization of the export of raw materials to external markets and thus further commoditization of the economy. Without a relative autonomy, the state would not have been able to pursue its
contradictory economic function, to intervene in the
domestic economic system, or to intervene against foreign
capital. Given the extent to which the Iranian economy was
subject to state intervention, and the degree to which the
state owned the means of production and was directly
involved in the extraction and distribution of surplus, I
would agree with Ziemann and Lanzendörfer (1977) and Leys
(1976) that the peripheral state is more 'embracing' and
'extensive' than the state in advanced capitalist societies.
In short, representation of class interests by the state
came to acquire a new character, different from that of the
Qajar Court, indicating the most rudimentary moves towards
separation of the 'economic' from the 'political'; a
distinction wholly absent in precapitalist Qajar Iran.

In further relating this analysis to the earlier discussion
of the peripheral state, it can be argued that the Pahlavi
state was not a post-colonial state in the sense used by
Alavi (1972). Unlike post-colonial states, the Iranian state
did not 'inherit' 'overdeveloped' apparatuses. Indeed, one
might argue that 19th century semi-colonial domination was
even more exploitative than formal colonial rule. While the
colonial state did establish a legal-ideological framework
for subsequent bourgeois rule, the peripheral state in Iran
had to start from scratch to build this infrastructure.
During the semi-colonial rule, the sole sources of
infrastructural development were imperialist concessionary
enterprises, operating according to the logic of maximum
profitability. Iran was left with retarded communications
and anachronistic legal, educational and finance systems, by
comparison with many formal colonies where such developments
were systematic and comprehensive. The peripheral state in Iran tried to accomplish what the bourgeois Constitutional Movement had failed to achieve at the turn of the century.

Through its ownership of most of the means of production, the state appropriated a large part of the economic surplus and deployed it in bureaucratically-directed economic activity. Most of the surplus was distributed amongst the military and the bureaucracy. With regard to the question of the class characterization of the state-bureaucracy and its relationship to the means of production in Iran, the critique developed above against the concept of 'bureaucratic bourgeoisie' renders it untenable to argue that the bureaucracy constituted a class in its own right and that the state represented bureaucratic class interests. In Iran, the leading members of the state executive and its bureaucracy, the diplomatic corps, Parliamentary deputies, and high army officers were also the owners of the means of production, which remained primarily in the form of landed property, and were therefore the appropriators of economic surplus. They formed the dominant class in Iran, not because they were in control of state apparatuses but because they owned the means of production. The bulk of the bureaucracy had no particular interest in the expansion of commodity production for external markets or in the preservation of the system in general, no matter how much individual members were committed to the ideology of 'developmentalism': they were not the owners of the means of production.

In conclusion, the state which was born of the coup of 1921 was not a capitalist state. It did not intervene at the
point of production to transform the nature of production relations; its intervention in the economy served only to generalize commodity production. Measures taken by the state, such as the introduction of a commercial code, the establishment of a national bank, and the construction of roads and railways, all served to accelerate generalization of exchange relations. As for agriculture, sale of state lands and compulsory land registrations gave a firm legal basis to private landownership. The state, therefore, laid the foundation for future capitalist transformation of the economy. In Europe, the transformation of the state from feudal to a bourgeois institution was the historical product of an organic transition from feudalism to capitalism. There the emergence of a nascent bourgeoisie ensured a historic struggle against the feudal landowning classes. In Iran, in its particularly peripheral context, the state was the central vehicle of initiating this transition.

The role of the state as the motor force of transition and capital accumulation was particularly evident in the phase of the internationalization of the circuit of money capital. It is to this phase that I shall turn in the next Chapter.
NOTES TO CHAPTER FOUR


2. See, for example, Draper (1978) and Thomas (1984), who discuss the state bureaucracy in detail. References cited in note number 1 also deal with the question of the role and function of the state bureaucracy.

3. I am referring to the argument that the state bureaucracy is of petty-bourgeois origins; and that through control of state apparatuses it forms a class on its own. Berberoglu (1983), Clawson (1979), Saul (1976) and Von Freyhold (1977) have developed this argument in detail. This argument was originally presented by Issa Shivji in his influential Class Struggle in Tanzania (1976). Shivji argued that the class which moved to occupy state apparatuses after independence in Tanzania was the petty-bourgeoisie, comprising all salaried workers from the higher civil servants and intellectuals to managers, farmers, traders, tailors. The stratum of this class which achieved control of the state is a class of a new type in the process of formation. The notion of petty-bourgeois state has been ingeniously criticized by First (1980) and Leys (1976). They argue that this notion is based on an erroneous understanding of the concept of petty-bourgeoisie and its identification with state bureaucracy. Firstly, the petty-bourgeoisie is an historically accurate notion, referring to those who are directly involved in the production of commodities mainly for the purpose of personal consumption and reproduction of the household. The fact that they own the means of production means that the categories of surplus-value and wage-labour are absent in the circuit of simple reproduction, and so they are fundamentally different from capitalist producers. They are also different from the so-called 'white-collar' employees, managers, clerks, state functionaries, etc., who do not possess capital and the means of production. Secondly, as First (1980) has strongly argued, the class character of the state cannot be discovered by inspecting the interests of the state bureaucracy. The state bureaucracy does not form a class in itself and we have to move beyond the state apparatuses in order to characterize the social bases of the state. Once it is established that the social origins of the occupants of government posts have little or no explanatory power in determining in whose class interests the state operates, and that the state bureaucracy itself does not constitute a social class (whether of petty-bourgeois origins or not), any discussion of the predetermined politics of the 'petty-bourgeois state', and its 'anti-imperialist', 'nationalist' or 'reactionary' ideology become futile. The critique of the notion of 'petty-bourgeois politics' is developed by Williams (1976).
4. According to Amuzegar and Fekrat (1971:16), the discount sale of Iranian oil by the APOC to the British Admiralty had saved the British government some £7.5 million during the First World War.

5. For details on the formation of these republics and other autonomy-seeking movements during and after the war, see Abrahamian (1982), Avery (1965), Cottom (1979) and Lenczowski (1949).

6. The formation of Reza Shah’s state has generally been seen as a turning point in Iranian economic and political history. Interpretations of this turning point, however, are often characterized by lack of conceptual clarity, and almost always dominated by the Orientalist problematic. Bashiriye (1984:11) sees the 1930s as the point of transition to capitalism, and adds that Reza Shah’s state transformed the Iranian society from ‘Oriental despotism’ into a ‘capitalist social formation’. Ashraf (1970), Katouzian (1981) and Moghadam (1988b) also uneasily combine an Orientalist interpretation of the state with a discussion of capitalist transformation. Ashraf (1970:328) argues that in the period of 1925-30, Reza Shah ‘revitalized the Asiatic system of power’, while in the period of 1931-41, he established ‘state-capitalism’. It is very difficult to see the relationship between ‘Asiatic patrimonialism’ and ‘state capitalism’, but Ashraf seems to mean that the state policies led to an assimilation of ‘Western legal-rational authority’ with ‘arbitrary and non-rational Persian patrimonialism’ (ibid:328). In this sense, Reza Shah’s state is seen as a continuation of ‘thirty centuries of tradition of patrimonial intervention in economic enterprises’ (ibid:320). Katouzian (1981) seems to be expressing the same view when he describes Reza Shah’s reign as a period of ‘pseudo-modernist despotism’. Moghadam (1988b), too, briefly describes Reza Shah’s state in terms of ‘persistence of despotism’ (ibid:413-4).

7. Expansion and modernization of the educational, bureaucratic and judicial systems are discussed in the literature in detail. Banani (1961), discusses anti-clerical reforms (Chapter 3) and educational reforms (Chapter 6). See also Abrahamian (1982), Chapter 3, Katouzian (1981), Chapter 3, and Keddie (1981), Chapter 5, for discussions of these reforms. Transport and communications are discussed by Elwell-Sutton (1941), Lenczowski (1949) and Wilber (1948). The last three authors, as well as Banani, paint a positive and progressive picture of Iran in the 1930s and are generally sympathetic to Reza Shah.


9. Large-scale manufacturing is usually defined as enterprises employing 10 or more workers.

10. For a discussion of the distinction between formal and real subsumption of labour by capital see Chapter Two, Section E.
11. The specificities of the conditions of production and extraction of oil will be fully discussed in Chapter Five. This discussion has been avoided here as it was only from the late 1950s onwards that the oil industry directly affected the pattern of capital accumulation and the character of the state.

12. Iran’s relation with Germany in the 1930s, and Reza Shah’s pro-Nazi sympathies, are discussed by Baldwin (1967) and Issawi (1971).

13. These are approximate estimations. See Chapter Six, Section A for the exact figures and their sources.

14. In Chapter Six, Section B, the exact nature of sharecropping as a transitional form of labour will be discussed.

15. See Chapter Six, Section A, for the sources of these figures and a discussion of the category of landless peasants who had no cultivation rights (khushneshings).

16. Lambton (1953), Chapter 8, discusses in detail the process by which the legal status of landlords was transformed, leading to a consolidation of private landownership.

17. These issues are discussed in detail by Abrahamian (1982), Chapter 3, who also describes Reza Shah’s state as the ‘guardian of the landowning class’ (ibid:149).

18. The fact that Reza Shah confiscated many villages from large landlords and tribal chiefs and registered them under his name is often stressed in the literature cited here. See, for instance, Keddie (1981) and Ashraf (1970). Clawson (1979:258) states that at the time of his abdication in 1941, Reza Shah owned up to 6,000 villages.

19. See note number 3, this Chapter.

20. For evidence on the consolidation of private landed property during Reza Shah’s reign, see Lambton (1953), Chapter 8, who discusses this point in detail. Keddie (1981), Chapter 3, also stresses the strengthening of the institution of private landed property in the 1930s. Ashraf (1970) is an interesting case because despite his attempt in applying Witfogel’s concept of ‘Oriental despotism’ and Weber’s ‘Oriental patrimonialism’, concedes that during Reza Shah’s reign “the institution of private landed property was well established and received a solid legal basis” (ibid:330). Reza Shah’s confiscation of entire villages has led some writers to argue that the institution of private property remained ‘insecure’ (Katouzian, 1981; Moghadam, 1988b). These interpretations have been found inadequate because of their ‘politician’ character and the assumptions they share with the Orientalist problematic (see Chapter One, Section E for this point).
Iran was incorporated into the circuit of money capital from the mid-1950s onwards. This Chapter examines the structural changes induced in the Iranian social formation by the internationalization of this circuit. It is argued that the most important consequence of the export of capital from the metropolitan economies to Iran was the development of capitalist production relations and the formation of a capitalist home market.

The internationalization of the circuit of money capital in Iran coincided with the emergence of the US economy as the centre of the Fordist system of accumulation and the hegemonic imperialist centre. This phase of capital accumulation also coincided with the nationalization of the oil industry and its development as a state monopoly. Dependence on oil as the main source of financing the capital accumulation process imposed certain structural features on the pattern of capitalist development and the character of the state in Iran which are fairly common in all oil-based economies. The first Section of this Chapter examines the specificities of oil-based states and economies.

The following three Sections of this Chapter examine, empirically, the process of the internationalization of the
circuit of money capital in the context of the emergence of the US economy as the leading imperialist power, the export of capital from the centre and its investment at the point of production, and an oil-based capital accumulation and an oil-mediated link with the world market.

Section Five of this Chapter analyzes the beginning of the internationalization of productive capital from the mid-1970s onwards, marked by a movement from the 'sub-Fordist' system of accumulation to that of 'peripheral Fordism'. In relation to the critique of the thesis of the NIDL developed above (Chapter Two, Section D), an empirical examination of the Iranian case confirms the view that the internationalization of the circuits of money and productive capital has not led to the complete dissolution of precapitalist structures in the periphery; rather, precapitalist forms of production have been restructured as integral parts of the expanded reproduction of capital. In the last Section of this Chapter these non-capitalist forms of production in Iran are identified and their relationship with the dominant CMP is examined.

A. Contradictions of the 'Rentier' Peripheral States

The empirical focus of the present Section is on oil-exporting countries in the periphery. Since oil is the commodity which primarily links these societies to the world market, the purpose of this Section is to examine, theoretically, the particular characteristics and contradictions engendered by an oil-mediated link with the world market, and the consequences it holds for the
structure of the state and the socio-economic development of major oil-exporting countries.¹

There are a number of attributes of oil, as a commodity, which have fundamental effects on the socio-economic structures of all societies in which production and export of oil has become the dominant economic activity. First, the conditions inherent in the production of oil give rise to large financial surpluses which are in excess of 'average profit' produced in capitalist manufacturing industry. Messarrat (1980) has analyzed the origins of this 'superprofit' in the oil industry by relating the conditions of extraction and production of oil to Marx's theory of ground rent (Capital, Vol.III).

In capitalist industry, the conditions of competition ensure that the most productive processes in a given industry are generalized and determine the average price of production (production costs plus average rate of profit). In other words, the law of value ensures that the level of productivity is generalized, i.e., transferred to other industries and sets the average price of production. In capitalist industry, therefore, the final price of commodities is not determined by those capitals which produce in the worst conditions, but by those which operate in the average conditions of production. This law of capitalist production, the generalization of labour productivity or the equalization of the average rate of profit, does not operate in those spheres which are immediately dependent on nature, that is, in agricultural and extractive industries. Here the level of labour
productivity cannot be generalized because the highest productivity levels do not arise from capital but are dependent on nature. As a result, the market price is not determined by those commodities produced in average conditions of production, but by those produced under marginal conditions. In this sphere, therefore, capitals producing under the worst or marginal conditions obtain an average profit, while those producing under the most favourable conditions obtain a superprofit compared to the natural quality and location of the raw material. Under private landed property, this 'surplus profit' is transformed into absolute ground rent and appropriated by the landowning class. The institution of private monopoly in land acts as another barrier to the operation of the law of value; it prevents capital's access to land unless a tax or toll is paid. By raising the level of tax or toll, the precapitalist landowning class appropriates a superprofit and sets limits to capitalist competition and the free flow of capital in and out of agriculture. Private monopoly in land does not allow capital to transcend the first barrier, that is, the limitation on the generalization of labour productivity.

Like agricultural production under private landed property, the law of value is modified (or faces obstacles) in the conditions of production of oil. Oil is a raw material, or a use-value, extracted from land. Productive oil wells are fixed in supply and their location and number are determined by nature. Thus, unlike the manufacturing industry, the market price of oil is not determined by the socially necessary labour time required for its production under
average conditions, but by the amount of labour time necessary to extract it under marginal conditions. Secondly, oil is only one type of energy, and the total world demand for energy cannot be met by oil or other cheaper sources of energy. Thus the value of energy is much above the average extraction costs of oil. In other words, the final price of oil is much above its production costs, for the price of oil is determined by the price of production of the marginal energy producer on the world-scale.

These conditions explain why extraction of oil takes the form of extraction of absolute ground rent, or a 'superprofit', which the landowner (oil exporting state) manages to extract from capital (oil wells). This analysis also explains the existence of differential rent in the oil sector. Differential rent exists whenever surperprofit arises from the difference between the individual price of production of a single capital and the general price of production in the same sphere. This is to say, oil is of different qualities and is found under widely different conditions; and that there is an enormous difference between the costs of the production of the most expensive source of energy for which there is still a social demand, and the average costs of the extraction of oil. This difference is transferred into differential rent by the sale of oil (Messarrat, 1980).

Oil revenues are therefore superprofits realized by the oil companies, transformed into differential rent and appropriated by the state. For this reason, the type of state of major oil-producing countries has been termed
'rentier state'. This term has been popularized by Hussain Mahdavy (1970) in his discussion of Iran. 'Rentier states' are defined as "...those countries that receive on a regular basis substantial amounts of external rent. External rents are in turn defined as rental paid by foreign individuals, concerns or governments to individuals, concerns or governments of a given country. .... Oil revenues received by the government of the oil-exporting countries can also be external rents". (Mahdavy, 1970:428)

The second structural feature of the oil industry is its extreme 'enclave' character. Oil is a commodity whose extraction, compared to other primary commodities, is extremely capital-intensive. Production of oil is largely independent of the level of the development of the productive forces or the nature of production relations of the local economy. The tendency in the oil industry is towards a greater degree of capital intensiveness, greater automation and a smaller labour component per unit of output. When a broad and diversified industrial base is largely absent, as is the case in most major oil-exporting countries, the impact of oil operations on the local economy is negligible. The oil sector establishes neither a strong 'backward linkage' (the flow of resources from the local economy into the oil industry) nor 'forward linkages' (the local economy's use of oil industry's output and products). The only linkage of the oil sector with the local economy is through provision of revenues and foreign exchange. I have discussed above the origins of the abundant revenues created by the oil sector. The apparent prosperity these revenues create in a number of urban centres has very little to do
with the structure of the economy in the oil-based countries. It is for this reason that Mahdavy (1970) refers to the oil revenues as a "free gift of nature, or a grant from foreign sources" (ibid:429).

These two structural characteristics of oil, that is, a commodity whose production realizes a superprofit, derived from the existence of absolute and differential ground rent in the oil sector, and its extreme 'enclave' character, are coupled with the fact that oil is one of the few primary commodities for which there has been a continuous increase in world demand over the past 50 years. Production and export of oil are vital for the reproduction of the capitalist world market, perhaps as vital as the reproduction of labour power. Given these characteristics, I shall now consider the important structural consequences of the oil sector for the nature of the state and class formation in major oil-based economies.

The first structural consequence of an oil-mediated link with the world market is the development of a particular type of statism. I have previously discussed, in Chapter Four, those particular features of peripheral capital accumulation which foster relative autonomy of the state: the heterogeneous social and economic structure, the multiple class basis of the state, the weakness of a bourgeois class, the absence of a reproductive sector, a stronger need for an active state interventionist policy, and the rapid growth of the state bureaucracy. In peripheral rentier economies, the peculiarities of the oil sector is an additional factor which enhances the relative autonomy of
the state. This is to say, the fact that the oil sector is a state monopoly and that oil is a source of superprofit endow the rentier state with a relative autonomy almost specific to it. For example, the abundance of oil revenues means that the state does not need to develop a tax base, nor does it need to secure the conditions for the intensified exploitation of labour power to increase productivity levels. In other words, state monopoly of a source of superprofit tends to increase the objective disjuncture between the state and the civil society. Rentier states are generally absolutist structures maintained by oil revenues; they can continue for years without any need for structural reform or creation of a strong social base.

The rentier state regulates the whole process of capital accumulation by distributing the oil rent through 'development projects'; it sets the pattern of investment and consumption, the method of industry, the level and composition of employment, the distribution of income, and the pattern of demographic changes. The repercussions on class formation and class conflict are fundamental: the rentier state is able to expand, reward and even create certain classes, and to guarantee the repression of other classes. Oil-engendered statism and relative autonomy of the state are two sides of the same coin.²

What is at issue here is the pattern and composition of state expenditure of the surplus and the response it generates in the economy. There is a tendency for the rentier state to relate to the economy not through production but through distribution, circulation and
consumption. One consequence of this is that the industrial bourgeoisie comprises a small fraction of the bourgeois class, whereas traders, construction contractors, and financiers constitute major fractions of this class. The latter fractions of the bourgeoisie do not reinvest the appropriated profit in the productive processes but direct it towards land speculation, luxury trade and other non-productive spheres. These economic activities do not directly increase the total social capital but merely meet the demands of a society with an over-expanded middle class and 'services sector'.

The disproportionate growth of the middle class and state bureaucracy is another impact of the rentier state's distribution of rent on the pattern of class formation. This over-expansion of the public sector and services is a characteristic feature of all peripheral economies, but it is more pronounced in rentier economies since the oil revenues grow at a much faster rate than the GNP. The share of services in the national output expands because of the rapid expansion of the public sector and as a result of high demands for private services. In the rentier economies, therefore, the progression from agriculture to industry and services is distorted in the form of the growth of services sector (First, 1980). All non-productive economic activities, import-export trade, urban real estate, etc. become the hallmark of development.

A state relating to the economy through distribution and consumption also promotes consumerism by the bourgeoisie and the upper strata of the middle class, while the productive
sectors of the economy stagnate or decline. As a result, a kind of home market is created in which demands for the means of consumption far exceed the demands for the means of production. This demand can be met only through imports for consumption by these classes, at the expense of the exclusion of the rest of the population from the market. Thus, within the context of the capitalist world market, oil revenues would be spent on financing imports for non-productive consumption rather than for financing a process of industrialization. Although the rising price and production of oil seem to be desirable for promoting industrialization, the oil sector is actually transformed into an element which delays industrialization. The paradox of the rentier economies lies exactly here: increasing oil production inserts these economies deeper into the world market through dependency on imports and high consumption.

In short, the above analysis of the relationship between the oil sector, state, and capital accumulation emphasizes the contradictions engendered in the structure of oil-based economies at both national and international levels. At the national level, the oil sector, as a source of superprofit directly accruing to the state, intensifies the tendency towards state interventionism and fosters the relative autonomy of the state. It also encourages the state to relate to civil society through distribution and consumption rather than production. At the international level, the oil sector results in deeper insertion of peripheral economies into the capitalist world market.
However, the notion of rentier state, although it correctly describes the contradictions engendered by the planning strategies adopted by the state of an oil-based economy, does not go far enough in analyzing the class character of the state. While issues of state planning strategies are not unimportant questions, they have to be posed in such a way as to clarify the class basis of the state (First 1980). None of the tendencies of the rentier economies discussed above are inevitable, or even inherent, in the conditions of production of oil. The realization of these tendencies depends on the economic and political priorities of the state, themselves determined by its class character and by its position in the world market. It is important to emphasize this point because, both in Marxist and non-Marxist thought, there is a strong tendency to characterize oil-based states as precapitalist institutions, and to examine their politics in an unspecific and populist fashion. Two examples of this type of approach (within the Marxist tradition), which in different ways attribute the pre-capitalist character of the state to the particular nature of the oil sector, are studies by Delacroix (1980) and Messarrat (1980).³

Delacroix (1980) characterizes oil-based or 'distributive states' as archaic, precapitalist institutions linked to the world market through trade. This characterization derives from Delacroix's conception of the oil sector itself. He argues that production of oil is not based on the extraction of surplus-value and thus exploitation of those involved in the production process. Since the entire economy is dependent on the production of oil, the central task of the
state is simply distribution of a commodity whose production does not involve exploitation of labour power. 'Distributive states', therefore, cannot be analyzed in terms of class relations and class politics; they express the conditions of the primacy of consensus over coercion and of political over economic.

On a totally different plane, Messarrat (1980) also characterizes oil-exporting states as predominantly precapitalist landowning institutions. Messarrat's point is to demonstrate how the oil-exporting states, as representatives of the international landowning class, have constituted a barrier to further accumulation of capital on a world level. To demonstrate this point, he extends Marx's analysis of the development of capitalism within a single nation-state (Britain) to the international level of analysis. Historically, on a national level, capital had to face forces related to rent; now the very same forces express themselves internationally, in the guise of the nation-state, thus reproducing the original relationship between capital and landed property. At the world level, forces related to rent are posed as the major oil-exporting countries (Organization of Petroleum Exporting Countries, OPEC), while forces related to capital are represented by the major oil-consuming countries of the centre (International Energy Agency, IET). This seems too simple a classification, but Messarrat does not mean that the world market is divided between two types of nation-states. Rather, each nation-state is subjected to a 'dual characterization' in that it represents the interests of both the landowning and capitalist classes. Oil-based states
are not feudal states pure and simple but, given the low level of development of capitalism in these countries, the interests of capital in them are only marginal, and they predominantly represent the interests of rent. In IEA countries, on the other hand, capital represents the decisive interests. Oil-rich countries are, therefore, like the feudal landowning classes within the centre countries in the earlier phase of capital accumulation. OPEC, by the same token, is the institution of the landed property on the world market, and, as such, is a barrier to further accumulation of capital.

The characterization of oil-based states as pre-capitalist, landowning institutions is fundamentally erroneous. I have argued above that oil as a commodity does have important effects on the structure of the state and the pattern of capital accumulation, but the larger production relations of oil-exporting countries are not derived from the conditions of extraction of oil, but from dynamics produced by capital accumulation on the world level. One major argument of this study is that the internationalization of money capital has necessitated capitalist transformation of peripheral countries; the latter are no longer enmeshed in the world market through trade only. However, the characterization of oil revenues as absolute and differential rent explains the origins of superprofit in the oil industry, and thus its place as provider of enormous amounts of revenues, but this does not mean that no exploitation of workers occurs in the process of production of oil. The character of the oil sector as being dependent on nature only modifies the operation of the law of value in comparison with the
manufacturing industry; it does not eliminate exploitation.

In determining the class character of oil-based states the question of the pattern of the distribution of the rent is of prime importance since it indicates the nature of the ruling class and the particular pattern of development of class forces. Although at the present stage of capital accumulation OPEC countries are predominantly capitalist, an examination of the distribution of oil-rent shows that the level of the development of capitalism varies from one country to another. There is no homogeneous monolithic bloc of oil-exporting countries, although the oil-mediated link with the world market does produce certain common effects in these countries. In Kuwait and Saudi Arabia, oil-rent is mostly used for luxury imports or investment in real estate property and treasury bonds in other countries, indicating the strong precapitalist character of the ruling class. In Iran, Iraq, Algeria and Venezuela, oil-rent has been utilized to transform precapitalist production relations, no matter how partial this process has been.

The capitalist nature of the major oil-exporting countries can be shown not only by the direct role of the state in the transformation of relations of production, but also by the existence of state oil corporations which make the state the biggest capitalist in the country (Nore, 1980). Given the 'strategic' and economic importance of oil for the reproduction of the capitalist system, the state in oil-exporting countries plays a central role in maintaining the interests of capital. This is not to say that the precapitalist structures have been dissolved completely, nor
that, with the development of capitalism, these countries have already become entirely independent politically and economically. OPEC is not an institution of the 'anti-imperialist' 'national bourgeoisie' of the Third World. Its contradiction with the IEA on the world market is not antagonistic. Oil-exporting and oil-consuming countries are organic components of the world market and their relationship is marked by mutual interests and structural interdependence. Messarrat recognizes this fact, but insists that the development of capitalism in OPEC countries has only transformed the old relationship between capital and precapitalist landed property into a new relationship between capital and modern landed property.

In this section, I have discussed the common effects of an oil-mediated integration with the world market on the structure of the state and class formation in major oil-exporting peripheral formations. I have emphasized that the specific conditions of the extraction and production of oil foster the relative autonomy of 'rentier states' and intensifies the tendency towards state interventionism. In discussing the nature of the oil sector, I have accepted much of Messarrat's theoretical perspective on the characterization of oil revenues as superprofits derived from the absolute and differential ground rent, but have argued that the class character of the state in major oil-exporting countries is not derived from the specificities of production of oil as a commodity, but from necessities of the present phase of capital accumulation on the world level.
Insofar as the principal function of the state is maximization of surplus appropriation for accumulation and extended reproduction of capital, the state is capitalist. Rentier states are distinguished by the fact that the direction of surplus in the production process is only partial; and a large part of surplus is unproductively consumed by the state apparatuses. This, however, does not imply a precapitalist character for the rentier state. Indeed, in the majority of oil-based countries the oil-rent has been used to transform precapitalist production relations, as the case of Iran will show, but the failure of the state to develop fully productive forces and homogenize production relations emanates from the larger context of the world market and from a host of other factors, such as the particular political structure, and the level of political and military dependency on the imperialist centre.

B. Anglo-American Imperialist Rivalry and Nationalization of Oil: 1941-1953

In August 1941, Iran was invaded by British and Russian troops. Reza Shah’s pro-German sympathies and the German invasion of the USSR in June 1941, provided the Allies with an excuse to invade Iran. The main reason for the invasion, however, was to use the Trans-Iranian Railway to send supplies to the troops in the USSR. The British forced Reza Shah to abdicate in September 1941 and he was subsequently sent into exile and died in Johannesburg in July 1944. Upon his abdication, his son, Mohammad Reza Shah, ascended the throne.
During the war, Iran was once again divided by imperialist powers into three zones: British in the south, Soviet troops in the north, while Tehran and the central province remaining unoccupied. In January 1942, the Allied leaders met in Tehran and agreed to a pact that guaranteed the departure of Allied troops from Iran within six months after the end of the war.

The Allies' occupation had severe economic and political impacts on the country. It led to the devaluation of the currency by 100% and the subsequent inflation, combined with a decline of the marketable agricultural surplus, resulted in a great scarcity of goods and famine in towns (Katouzian, 1981:142-4). During the war and in the immediate post-war years, the state monopoly on foreign trade became inoperative, as Britain and the US opposed any limits on their national exports. The few industries which were established by Reza Shah declined and, by 1950, only 53,000 were employed in industrial enterprises, that is, less than one-half percent of the population (Keddie, 1981:127). Likewise, private capital investment was negligible during the period as it appeared risky and insecure. There was a great deal of hoarding, and investment in urban real estate was the major form of capital investment.

Politically, Reza Shah's abdication and departure from Iran ended 16 years of dictatorship and unleashed a new wave of political activity. During the war years Iran witnessed the formation of numerous political parties, societies, and associations by both radical and conservative forces. Free press, trade unions and a relatively free parliamentary
system re-emerged, and the Iranian Communist Party (Tudeh Party) grew and expanded enormously. The Tudeh Party, whose members had been jailed by Reza Shah in the 1920s and were released after his departure, grew into the most influential, best organized, and the largest communist party in the Middle East. It became a major political force in Iran during this period and was particularly influential in the more prosperous regions of the north, which have traditionally been a stronghold of radical and leftist politics. It also grew southward, and gained considerable influence amongst the oil workers of the southwestern oil fields, which were controlled and owned by the British.

By 1944-45 the Tudeh Party controlled the streets of almost all major towns. In 1944, its membership reached 25,000. The Federated Trade Unions of Iranian Workers and Toilers (CCFTU) was formed also around the same time, consisting of 400,000 members and 186 trade unions (Iran and Permanent Revolution:1983:5). By August 1946, three cabinet ministers were members of the Tudeh Party (Keddie, 1981:121). According to the British ambassador in Tehran, 8 out of 11 cabinet ministers in 1946 were either communists or communist sympathizers (Abrahamian, 1982:234).

Iran during the occupation was divided not only by class antagonism but also by ethnic and regional struggles. In the north, the presence of the Red Army and the tremendous influence of the Tudeh Party encouraged demands for autonomy in the two provinces of Azarbaijan and Kurdestan. In November 1945, the Democratic Party of Azarbaijan, formed in September 1944, took over the region and established a
National Assembly. The provincial government of Azarbaijan called for autonomy from the central government. Similar events occurred in Kurdestan where the Kurdish Democratic Party, formed in 1945, proclaimed the formation of the Kurdish Republic in January 1946. Both autonomous governments were strongly supported by the Red Army which prevented the central government troops from entering these provinces.4

The British, who owned the entire oil industry in the south, saw their vital economic interests at stake and watched these developments anxiously. From their point of view, the presence of the Red Army in the north, the formation of the autonomous governments, and the tremendous influence of the Tudeh Party, were signs of the central government falling into the hands of the Bolsheviks. By then, the classic British imperialist policy was, whenever its interests were endangered, to provoke ethnic and tribal rebellions against the central government. Thus, when the Tudeh Party organized a general strike in the oil fields in 1946 involving some 100,000 workers, the British provoked the minority Arab workers against the majority Persian workers to divide and break the strike. They also mobilized the reactionary forces of the region - religious leaders, tribal chiefs and large landlords - to pressure the central government to expel the three communist ministers from the cabinet.

After the end of the war, when British and American troops left Iran, the USSR refused to evacuate its forces from the northern provinces according to the treaty it had signed and made it conditional upon receiving a northern oil concession
from the central government. During the war years, oil appeared to be the centre of inter-imperialist rivalry in Iran. The Iranian parliament had passed a law in September 1944 making it a crime to enter into negotiations with foreign powers for oil concessions while Allied troops were in Iran. The Soviet Union's insistence on the northern oil concession, which it had been demanding since October 1944, was basically a reaction to Anglo-American rivalry. The British wished to preserve their concession in the AIOC intact and to keep out competition in the face of growing Iranian nationalism and the interests of other powers. Moreover, since 1943 two American companies, Standard Vacuum and Sinclair, had been investigating the possibilities for obtaining the northern oil concession. However, following negotiations between the USSR and the Iranian government, resulting in the promise of a 50-year joint Soviet-Iranian oil concession in the north, the USSR agreed to withdraw its troops in March 1946. The consequences of the Soviet withdrawal proved disastrous for the northern autonomous governments. In November 1946, the central government's troops, backed by the British, invaded the provinces and both autonomous governments collapsed. While some of their leaders fled, others were jailed and executed. Subsequently, the joint-concession with the USSR was rejected by the Iranian government.

The issues of the northern oil concession and the autonomous governments of Azarbaijan and Kurdestan marked the first major US involvement in Iran. Without US support, it would have been almost impossible for the Iranian government to crush the autonomous governments and to refuse,
subsequently, the northern oil concession to the USSR. These developments also involved Iran in the cold war which was to polarize international politics in the post-war period. Iran, as a country of economic and strategic significance, that is, an oil-rich country with a large market for manufactured goods and capital investment, and as a defensive base against the USSR, was gradually coming into the focus of emerging US imperialism.

It is important to note that the gradual emergence of the US as the hegemonic imperialist power in the post-war years was fundamentally related to changes in the structure of US capital and in the pattern of inter-imperialist rivalry. The uneven character of capital accumulation on the world level led to a shift in the centre of concentration and centralization of capital from Britain to the USA. The US capital, having been fundamentally influenced by the recession of the 1930s, appeared as the centre of Fordist accumulation in the post-war period and sought to reconstruct the world economy on a basis which could secure its access to markets and raw materials. More precisely, British hegemony over the region was challenged by the US from 1941, when the latter entered the war, until 1957, when the Eisenhower doctrine was proclaimed. This transitional period was marked by Anglo-American rivalry and conflict in the Middle East (Halliday, 1974:505). Apart from the conflict over the Suez Canal in 1957, the oil nationalization crisis of 1951-53 in Iran was clear evidence of this inter-imperialist rivalry and of the declining British hegemony in the region. The oil nationalization crisis was a turning point in Iranian history, in that it
put an end to the Anglo-American rivalry over markets, raw materials, resources and concessions in Iran. Over the next two decades, the US emerged as the single dominant imperialist power in the region.

The fall of Reza Shah, and the Allies' rivalry over the northern oil concession during the occupation, raised the question of the 1933 oil agreement, and indeed the whole question of Iranian oil resources and oil revenues. Throughout the 1940s, nationalist feeling in Iran was directed against the continued ownership of Iran's oil by the AIOC. In the immediate post-war years the AIOC was paying out an ever smaller percentage of its growing income and royalties to the Iranian government. The revenues paid to Iran amounted to only 11.9% of the total net income of the company; this was less than the 19.5% in taxes which the company was paying to the British government. Iran's share in the company's profit was only 14.6%, even less than the 16% of profits which Iran had received under the D'Arcy concession of 1903 (Katouzian, 1981:183). Therefore, the 1933 agreement, which had extended the period of concession for another 60 years, was generally considered as a colonial imposition. Between 1933 to 1951 the Iranian government had received a total of £105 million from the AIOC, while the AIOC had paid £715 million in taxes to the British government and £115 million worth of profits to its shareholders. The AIOC had also invested £500 million in other branches which it had established outside Iran in order to avoid payment of taxes to the Iranian government (Nirumand, 1969:102). Table No.2 shows that even the taxes collected by the British government from the company were
greater than the amounts the Iranian government received under the contract:

Table 2: Iranian Profits and British Tax Collections From the AIOC. 1948-1950

<table>
<thead>
<tr>
<th>Year</th>
<th>Iranian Profits (million pounds)</th>
<th>British Tax Collections (million pounds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>9</td>
<td>28</td>
</tr>
<tr>
<td>1949</td>
<td>13.5</td>
<td>23</td>
</tr>
<tr>
<td>1950</td>
<td>16</td>
<td>50.5</td>
</tr>
</tbody>
</table>

Source: Nirumand, 1969:45

Oil was thus the central issue of the elections in 1950; and oil-workers' demonstrations in the AIOC fields in 1951 forced members of the parliament to approve the Oil Nationalization Act of parliamentary deputy Mohammad Mossadeg, who headed a loose bourgeois-national organization called the National Front. Mossadeg was elected as prime minister in 1951. In June 1951 the oil industry was nationalized and the state-owned National Iranian Oil Company (NIOC) took over the fixed assets of the AIOC. An offer was made to the AIOC to resume activities as an operating company on a 50-50% profit sharing basis, and the Iranian government would compensate the AIOC for its unilateral abrogation of the 1933 agreement.

The AIOC refused the 50-50% profit sharing offer. The reaction of British imperialism was to send battleships to the Persian Gulf, to freeze Iranian assets, and to file complaints against Iran in both the World Court and the United Nations Security Council. The British government also imposed a boycott on the direct purchase of Iranian oil by
any oil company or individual country. As a result, the seven international oil companies (the so-called 'seven sisters') which controlled the transaction and shipment of oil throughout the world, boycotted the purchase of Iranian oil. The British-imposed boycott resulted in a severe loss of oil revenues and a decline in oil-related employment in Iran. From the Oil Nationalization Act in 1951 to 1953, Iran exported only 103,000 tons of oil, or less than the amount of its exports in a single day prior to nationalization (Nirumand, 1969:105).

During the oil nationalization dispute, the US played a conciliatory role, as both Iran and Britain turned to the US as a mediator. From the point of view of the nationalist-bourgeois government of Mossadeq, the US was a counter-balance to the old British colonialism in the region. From the US point of view, Mossadeq's government was the best alternative to the rise of communism in Iran, especially given that the Tudeh Party, after a major crackdown in 1949, had gained enormous power through the nationalization crisis and was again operating openly.

As the Tudeh Party grew stronger and pro-Tudeh demonstrations continued, it seemed that political struggles in Iran had reached new proportions. The prime objective of the US was to put an end to British hegemony in the Middle East, so that it could secure Iranian markets and oil revenues for itself and perpetuate Iran's incorporation into its 'zone of influence'. But Mossadeq did not seem a strong enough barrier against 'communism'. In January 1953, when the Eisenhower Republican administration took office in the
US, British and US views on how to resolve the issue gradually coincided. The US, now backing the boycott, was becoming convinced that Mossadeq could not cope with 'communism', and that he was not going to sign an oil agreement favourable to American interests. In August 1953, a coup d'état, organized by the CIA and British Intelligence Office, overthrew the nationalist-bourgeois government of Mossadeq, and the Shah, who had fled to Italy, was returned to the throne. The CIA spent about $19 million to carry out the coup (Ahmed, 1973:10; Nirumand, 1969:87).

The 1953 coup culminated a year later in a 25-year agreement which left effective control of oil production and marketing, and 50% of the profits, in the hands of the so-called 'seven sisters' (Exxon, Mobil, Texaco, Gulf and Standard Oil of N.J. from the US, British Petroleum and Anglo-Dutch Shell) and the French oil cartel Compagnie Francaise des Petroles. Although the Iranian state now received 50% of the oil profits in place of the 11.9% pre-nationalization profit sharing arrangement, the eight world oil companies forming the Consortium were the real controllers of oil production, pricing and distribution. As can be seen in the following table, the British share dropped from 100% to 40% in the post-nationalization period, equal to that of the US companies which previously held no share in the oil industry.
Table 3: Participation of Oil Companies in Iranian Oil

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Participating Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Petroleum Oil Co. (formerly the AIOC)</td>
<td>40%</td>
</tr>
<tr>
<td>Standard Oil Co. of New Jersey</td>
<td>8%</td>
</tr>
<tr>
<td>Standard Oil Co. of California</td>
<td>8%  US</td>
</tr>
<tr>
<td>Texas Oil Co. (Texaco)</td>
<td>8%  Firms</td>
</tr>
<tr>
<td>Socony-Vacuum Oil Co. (Socony-Mobil Oil)</td>
<td>8%  US Firms</td>
</tr>
<tr>
<td>Gulf Oil Corporation</td>
<td>8%  40%</td>
</tr>
<tr>
<td>Royal Dutch Shell (60% Dutch, 40% British)</td>
<td>14%</td>
</tr>
<tr>
<td>Compagnie Francaise des Petroles</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Nirumand, 1969:100

C. Foreign Capital Investment and the Rise of Capitalist Industry

It was argued in Chapter Two that in the post-war period the new requirements of imperialism were no longer those of raw materials and markets, but the demands of finance capital for higher rates of profit through export of capital (Clawson, 1979). This is the phase of the internationalization of the circuit of money capital when capital export becomes the central mechanism through which peripheral economies are integrated with the world market. This phase also corresponds to the development of a capitalist home market in the periphery which, in the case of Iran, was based on a 'sub-Fordist' mode of accumulation.
The post-war 'Point Four Programme', launched by the US in the Middle East, had exactly the function of establishing the context for the export of capital to Iran. The Programme sought to establish the prerequisite of a capitalist home market by providing technical, financial, commercial and administrative 'assistance' to the countries of the Middle East. In Iran, the Programme began in October 1950 and continued until 1965. Its objective was to implement structural and administrative reforms in all areas of the economy. The Shah was pressured to sell his Crown Lands to the peasants; factories were reorganized for sale to private industrialists; and attempts were made to attract private foreign capital investment by re-organizing the newly-established Industrial Development Centre and Plan Organization in 1954 (Amuzegar, 1966:18-9). The first seven-year development plan of 1949 was partly financed by this Programme through a $25 million grant in 1950 (Nirumand, 1969:41).^8

The Point Four Programme, however, covered only a small part of the total US aid and loans which were poured into Iran as 'emergency grants' and 'special assistance' following the 1953 coup. Most of the grants and loans, which totalled $127.3 million in 1954 alone, came from the Foreign Operation Administration and Export-Import Bank (Alexander et al., 1980:270). Between 1955 and 1960 Iran received $500 million in military assistance, almost 50% of the total US aid, which amounted to $900 million (Ahmed, 1973:13). The drastic rise in both military and economic aid to Iran after the coup can be shown by the comparison that while before the coup military and financial aid to Iran amounted to less
than $30 million, in the period of 1953-70 it reached $2,300 billion. This exceeded any amount the US offered to a non-NATO country during this period (Ramazani, 1982:28,327).

These loans and grants can be considered as 'port-folio' investment, or the early forms of capital export from the centre. They diminished as a proportion of capital investment during the 1960s and, by 1967, US financial assistance to Iran was formally terminated. From the mid-1960s onwards, capital export from the centre began to take a distinctly different form: direct investment in the manufacturing industry, spurred by the spread of tariff barriers to encompass products previously exported to Iran. In the 1970s, investment by private foreign capital generally took the form of 'joint-ventures' between MNCs and the state and local private capital, or the form of technology with imported machinery and capital goods. These different forms of capital export, and their investment at the point of production, signalled the internationalization of the circuits of money and productive capital, the rise of capitalist production relations and the development of a capitalist class in Iran. The Iranian state played a central role in this process; it directly intervened in the capital accumulation process and became a major capital investor.

As mentioned before, until the 1950s the oil industry was the only area in which major capital investment took place. In the late 1950s and 1960s the state initiated an aggressive campaign to attract foreign capital investment in other areas of the economy. For this purpose, the Centre for the Attraction and Protection of Foreign Investment (CAPFI)
was established in 1955. Under CAPFI’s supervision, foreign investors who entered into joint-ventures with Iranian industrialists were guaranteed all rights, exemptions, and facilities accorded to domestic capital. They were guaranteed 5-year tax exemptions, exemption from duty on all imports, as well as the right to repatriate profits in the currency in which they first invested and guarantees of compensation in case of nationalization or war.

Following the formation of CAPFI, private foreign capital inflow increased rapidly. In the eight years after the establishment of the Centre the total foreign capital investment increased by about 800%. In the decade of 1963-73, the inflow of foreign capital was valued at some $130 million (McLachlan, 1977:151). By 1970, 90 foreign firms were established in Iran; by the mid-1970s, their number reached 200 (Bharier, 1971:192, Halliday, 1979:153). During the 1970s, and especially after the oil boom in 1973, the state promoted the establishment of joint-ventures with private or state capital. By 1975 some 193 joint-ventures had been set up with foreign capital of 18 different countries (Issawi, 1978:145). The following table shows the amount of foreign capital investment in the manufacturing industry in the period 1956-68.
Table 4: Foreign Private Investment in Iranian Manufacturing Industry, 1956-68 (ml. rials)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total approved investments</th>
<th>Inflow of funds</th>
<th>Outflow of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>122</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>1957</td>
<td>101</td>
<td>63</td>
<td>0</td>
</tr>
<tr>
<td>1958</td>
<td>294</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>1959</td>
<td>24</td>
<td>135</td>
<td>0</td>
</tr>
<tr>
<td>1960</td>
<td>170</td>
<td>139</td>
<td>0</td>
</tr>
<tr>
<td>1961</td>
<td>365</td>
<td>198</td>
<td>5</td>
</tr>
<tr>
<td>1962</td>
<td>595</td>
<td>396</td>
<td>15</td>
</tr>
<tr>
<td>1963</td>
<td>1,350</td>
<td>193</td>
<td>144</td>
</tr>
<tr>
<td>1964</td>
<td>483</td>
<td>253</td>
<td>90</td>
</tr>
<tr>
<td>1965</td>
<td>4,319</td>
<td>808</td>
<td>451</td>
</tr>
<tr>
<td>1966</td>
<td>n.a.</td>
<td>958</td>
<td>265</td>
</tr>
<tr>
<td>1967</td>
<td>n.a.</td>
<td>668</td>
<td>153</td>
</tr>
<tr>
<td>1968</td>
<td>n.a.</td>
<td>1,583</td>
<td>586</td>
</tr>
</tbody>
</table>

Source: Bharier, 1971:191

The US was the major foreign capital investor in Iran and, by the late 1960s, its private capital investment was estimated in excess of $200 million, or half of Iran's total private investment. By 1975 US private capital investment in Iran reached $1 billion, and there were some 400 US firms with stakes in Iranian industry. It was, however, only after the oil boom in 1973-74 when Japanese capital took over US capital, amounting to 43% of all foreign capital investment (Halliday, 1979:154). The following table shows the major foreign capital investors in Iran during the period of 1968-76.
Table 5: Foreign Private Investment in Iran Through the Centre for the Attraction and Protection of Foreign Investments by Country of Origin (million rials)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>855</td>
<td>2,696</td>
<td>560</td>
<td>502</td>
<td>349</td>
<td>1,090</td>
<td>797</td>
<td>589</td>
</tr>
<tr>
<td>W. Germany</td>
<td>178</td>
<td>125</td>
<td>720</td>
<td>295</td>
<td>131</td>
<td>662</td>
<td>130</td>
<td>238</td>
</tr>
<tr>
<td>U.K.</td>
<td>242</td>
<td>118</td>
<td>331</td>
<td>288</td>
<td>29</td>
<td>25</td>
<td>52</td>
<td>135</td>
</tr>
<tr>
<td>France</td>
<td>67</td>
<td>99</td>
<td>117</td>
<td>127</td>
<td>102</td>
<td>23</td>
<td>61</td>
<td>629</td>
</tr>
<tr>
<td>Japan</td>
<td>--</td>
<td>10</td>
<td>129</td>
<td>55</td>
<td>221</td>
<td>1,659</td>
<td>2,867</td>
<td>1,707</td>
</tr>
<tr>
<td>Belgium</td>
<td>60</td>
<td>4</td>
<td>32</td>
<td>11</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>6</td>
<td>3</td>
<td>122</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>25</td>
<td>25</td>
<td>23</td>
<td>24</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holland</td>
<td>33</td>
<td>29</td>
<td>41</td>
<td>18</td>
<td>5</td>
<td></td>
<td>585</td>
<td>593</td>
</tr>
<tr>
<td>Pakistan</td>
<td>--</td>
<td>16</td>
<td>28</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>24</td>
<td>2</td>
<td>1</td>
<td>8</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>--</td>
<td>6</td>
<td>6</td>
<td>9</td>
<td>--</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>93</td>
<td>131</td>
<td>208</td>
<td>153</td>
<td>400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,583</td>
<td>3,264</td>
<td>2,318</td>
<td>1,472</td>
<td>1,336</td>
<td>4,044</td>
<td>4,500</td>
<td>3,976</td>
</tr>
</tbody>
</table>

Source: Halliday, 1979:153
In the 1970s foreign capital investment in Iran was concentrated in the most technologically advanced industries such as capital-intensive petrochemical and electronics. These industries were designed to lead Iran toward export-substitution industrialization based on the 'peripheral Fordist' mode of accumulation. The statistics on foreign capital investment in Iran, as shown in the previous table, might suggest that the presence of foreign money capital has not been very significant. These figures, however, are not very accurate. From the mid-1960s onwards, a large part of foreign capital inflow consisted of technology and machinery imported on a large-scale for capital-intensive industry. It is also safe to assume that foreign capital entering the country through channels other than direct investment was much higher. For example, foreign capital inflow in the form of loans and credits formed about 20% to 30% of Iran's total capital formation in the early 1960s. In 1961 alone, loans to Iranian industrialists from foreign suppliers of capital goods and raw materials reached an estimated $400 million (Benedick, 1964:61-2). Although tariff and tax policies of the state provided an incentive for private foreign capital investment in the manufacturing industry, the principal factor for foreign capital inflow was not tariff barriers and cost differentials between the local production and the world market, but the dynamics of capital accumulation in the centre, that is, concentration and centralization of capital at the monopoly stage of capitalist development.

The rapid increase in foreign capital investment was obviously accompanied with the growth of private capital
accumulation and the rise of a local capitalist class. The four main fractions of the capitalist class, the industrial, financial, agrarian and mercantile bourgeoisies, grew rapidly during this period. Likewise, the state played a central role in the formation of this class and in the encouragement of private capital investment through its fiscal and monetary policies, and through the formation of a number of financial institutions.

The first incentive for the growth of private capital investment was provided by the state through the devaluation of currency in 1957. The devaluation of currency and an increasing money supply led to a boom in the 1955-59 period, marked by increasing state expenditure and private sector credit. This period, for the first time, witnessed the growth of private capital investment on a large scale, private investors responding to cheap credit and low rate of inflation. The devaluation of currency made $95 million available to the state, and $48 million of this was allocated as credit to private investors (Benedick, 1964:102). Loans extended to the private sector increased by 46.1% in 1957, 60.3% in 1958, and 32.4% in 1959 (Walton, 1980:246). In the period between 1950 and 1960 private capital investment in industry climbed from $60 million per year to an estimated $120 million (Baldwin, 1967:103).

Mahdavy (1970:441) estimates that between 1955 and 1959 the total private capital investment increased five-fold. Although an overwhelmingly large proportion of private capital investment continued to be concentrated in urban real estate construction, the boom in construction swamping
all other types of investment, about 20,000 factories of all sizes were established in the course of four years between 1952 and 1956 (Bharier, 1971:184).

One of the main incentives for private capital investment was the establishment of a number of banks and financial institutions by the state in the 1960s. These institutions were the Industrial Credit Bank (ICB), established in 1957, the Industrial Guarantee Fund, founded in 1959, the Development and Investment Bank of Iran (IMDBI), established in 1973, the Bank Melli Iran and the Agricultural Development Bank. These banks, strongly supported by the state were instrumental in encouraging private capital investment in industry through easy credits and loans. Their formation led to the mobilization of large amounts of capital and the expansion of credit. The IMDBI was founded with 60% Iranian capital (both state and private) and 40% foreign capital (Benedick, 1964:124). It was therefore the first major area of foreign capital investment in the Iranian economy outside the oil industry. The IMDBI became the most effective institution in the country in supporting private capital investment, and the major source of provision of large-scale, long-term credit to private industry. It sought foreign partners for Iranian capitalists in joint-venture projects; provided foreign exchange for the import of capital goods; and protected domestic production of goods against foreign competition. In the period of 1954-7, the IMDBI provided loans totalling $873 million to private enterprises and directly invested $116 million in industry. In 1974 alone it made loans of $291 million, and direct investment of $49 million (Issawi, 1978:154-5).
Parallel to the formation of state banks was the growth of private banks and financial institutions. There were no private banks in Iran until the early 1940s. The first indigenous private bank in Iran, the Bank Bazargani Iran (Commercial Bank of Iran) was founded in 1949 but had very little impact on the economy. Beginning in 1953, 5 new private banks were established, and by 1960 there were 17 private banks in Iran. The number of branches of private commercial banks increased from 1,000 in 1960 to 4,500 in 1968 (Bharier, 1971:224-5, Issawi, 1978:160). The development of private commercial banks and financial institutions also suggest the growth of a sizeable financial bourgeoisie. Foreign capital substantially participated in the formation of these banks, and jointly-owned banks with US, West European and Japanese capital flourished.

Banks and financial institutions were not the only means by which the state promoted private capital accumulation. Fiscal and monetary policies of tax-holidays, licensing, easy credit and customs rebates also played an important role in this process. The policy of licensing was used to control and guide both foreign and private local capital, by directing investment into selected industries and using it to encourage decentralization of industry. A license would enable the holder to receive governmental or bank credits, tariff exemption on imported goods, eligibility to buy governmental land, water and power at nominal prices, and tax exemptions for five years. Industrial enterprises were also offered exemptions from taxes on export profits, low-rate export credits, and rebates on duties paid on materials used in exported products. A further incentive was
given to joint-venture companies by exempting 10% of their profits from taxation. If losses occurred to private industry, they could be carried out over a number of years, and profits re-invested in industry or derived from export earnings were exempted from taxation. The direct income tax law of 1966-67 made industrial enterprises tax-exempt for ten years. Furthermore, through its trade policies, the state committed itself to support enterprises by limiting competition within the home market, creating additional tariff barriers to protect them, and, in some cases, by banning importation of foreign goods.\textsuperscript{11}

To further encourage private capital accumulation, in the late 1960s, the state began the sale of its holdings in the consumer goods industries to the private sector and limited its direct investment to large-scale, capital-intensive units such as steel mill, tractor assembly, petrochemicals, machine building, heavy engineering and electronics. Light industries, generally producing durable and non-durable consumer goods such as radios, television sets, footwear, oil heaters, and food products were left to the private sector. The Tehran Stock Exchange was established in 1967, with the IMDBI as the prime force behind its formation. Both the IMDBI and the Tehran Stock Exchange offered shares to private investors.

The state also assisted private capital accumulation through the development of a public infrastructure. Most of the five development plans were infrastructural;\textsuperscript{12} they expanded means of communication, electric power capacity, areas under irrigation, water supplies, and other general facilities. In
this way, they provided low cost services to capitalists and lowered the initial costs of production. Transport and communications was, consistently, the largest category of expenditure in these development plans.

On the whole, these policies initiated a process of rapid capital accumulation by foreign and local private capital. Between 1957 and 1960 the number of factories increased from 45,000 to 70,000. An annual average of 400 commencement permits for the manufacturing industry were issued by the Ministry of Economy in the 10-year period of 1958-68. Within the same period, sales of industrial fuel oil almost doubled. Iran's manufacturing sector grew about twice as fast as the average growth of this sector in other peripheral economies (Bharier, 1971:183-9).

It can readily be seen that the phase of the internationalization of money capital also led to the formation of a capitalist class and altered the composition of the power bloc. We have seen that in the phase of the merchant capital the power bloc was formed by the feudal/merchant classes, producing for the external market but operating with precapitalist production relations: the 'agro-export oligarchy'. With the internationalization of money capital this model of domination entered into crisis. Beginning in the early 1960s, a relatively sizable bourgeoisie came into existence whose social origins was constituted by three major classes: (i) the landowning class; (ii) the merchant class; and (iii) the petty bourgeoisie.
The land reform, which will be discussed in the next Chapter, played an important role in the formation of the bourgeoisie. The land reform law provided landowners with compensation for the land they had to sell to the state. This compensation took the form of shares in state-owned factories. In this way, the state aimed to create a class of industrial bourgeoisie out of the landowning class and to transform at least part of its wealth into capital invested in industry. In practice this transformation was very limited because the majority of ex-landlords did not invest in industrial production, and directed their capital in the areas of construction, urban land speculation, banking and insurance.

The merchant class constituted the second social origin of the Iranian bourgeoisie. As has been shown in the previous Chapters, the socio-economic ties between the merchant and landlord classes in Iran have generally been strong, as a result of the movement of merchant class into landownership in the 19th century. Until the early 1960s, merchants continued to buy land and invest in agriculture. The land reform and the various incentives for private capital investment must also have driven some merchants into capitalist production; a process of transformation of this class, which as we have seen, was both promoted and hindered as a result of the incorporation of Iranian formation into the circuit of commodity capital.13

The transformation of simple commodity producers into capitalist producers ran on similar lines. The majority of small-scale capitalists came from a petty-bourgeois
background. But, in addition to small factory owners, some of those who built industrial empires in the 1960s and 1970s also came from bazaar simple-commodity production. Thus, the 'first path' of transition to capitalism, direct-producer/capitalist, which was blocked in Iran in the earlier stage of the internationalization of merchant capital, became possible under the auspices of the state, albeit in a belated and distorted way. However, only a small proportion of simple-commodity producers managed to transform into capitalist production. Within these 'first path' capitalists, the majority either stagnated at the level of small-scale production or fell into the ranks of the proletariat. The transformation of simple-commodity producers into capitalist producers further shows the important role which the state played in the formation of the bourgeoisie.

I have previously mentioned that the capitalist class was divided into the four fractions of industrial, financial, mercantile and agrarian bourgeoisie. However, the differentiation of this class into these fractions does not imply that they were exclusive. Many individuals were involved in more than one area of economic practice: there were capitalist farmers involved in trade, merchants involved in finance, and bankers involved in construction and real estate. It is therefore difficult to determine the size of the various fractions of the capitalist class, although it is certain that the bourgeoisie as a whole formed a very small proportion of the population. Bashiriyeh (1984:15) maintains that in the 1970s the bourgeoisie was composed of 150 families, who owned 67% of all industries
and financial institutions; while Halliday (1979:151) estimates that in 1974, 45 families controlled 85% of firms.

The internationalization of money capital also led to the expansion of capitalist wage-labour. The real turning point in the formation of a sizeable working class in Iran was the land reform of 1962 which unleashed a large-scale process of dispossession of direct producers. The overwhelming majority of the Iranian working class came from peasant and petty-bourgeois backgrounds. The massive rural to urban migrations, from the 1960s onwards, formed one of the main features of this class. Parallel with the processes of migrations and dispossession, the proportion of agricultural workers in the total labour force dropped from 75% in 1946 to 46% in 1966, then to 33% in the late 1970s (Bharier, 1971:34-5). The industrial labour force grew from 23% of the total labour force in the 1960s to 34% in 1978 (Bashiriyyeh, 1984:51).

Methods of documenting changes in the class structure by reference to demographic changes or to shifts in the distribution of the 'economically active population' among various 'sectors' of the economy are notoriously unreliable. The categories employed in this type of statistics do not directly reflect changes in the nature of production relations; nor do they allow us to identify the prevailing mode of production in agriculture and industry. Despite this inadequacy, the above figures certainly indicate the tendency towards dispossession of direct producers and the rapid growth of capitalist wage-labour. From 1965 to 1968, employment in industry expanded at a rate of 5.8% annually,
and in the 1969-75 period it rose to 7% a year (Johnson, 1980:15). On the whole, out of an economically active population of totalling 10.4 million in 1977, an estimated 2.5 million were employed in approximately 250,000 manufacturing firms (Looney, 1982:3). Between 60% to 70% of wage-earners were employed in small-scale enterprises, but the number of large-scale enterprises also increased form 198,000 in 1966 to 700,000 by the mid-1970s (Halliday, 1979:182). About 78,000 of these wage-earners were employed in the oil industry, including the vast army of day labourers who were organized by labour contracts (Turner, 1980:275). The oil-industry remained the largest employer of wage-labour, despite its capital-intensive nature and the tendency towards the decline of wage-labour employment. In addition to 2.5 million wage-labourers in oil and manufacturing industries, there were also about 1 million unskilled workers employed in construction (Hooglund, 1982:119). The figure of 3.5 million wage-labourers in 1977-8 is a substantial increase over the 1956 figure of 800,000 wage-earners (Kazemi, 1980:42), and suggests that the working class accounted for between 30% to 35% of the total economically active population by the late 1970s.

The underlying strategy of the state-sponsored process of industrialization in the 1960s was the import-substitution policy. This policy led to the development of a sub-Fordist mode of accumulation in Iran. Import-substitution policy, as discussed in Chapter Two, represents an attempt by peripheral states to develop a Fordist model of accumulation based on the importation of producer goods financed out of the agricultural surplus or the mineral and oil rent.
Massive customs barriers would then nurture a sector producing consumer goods for the narrow middle class market within the country. However, in most peripheral economies, as in Iran, the adoption of such a policy does not lead to a genuinely Fordist system, but a 'sub-Fordist' mode of accumulation (Lipietz, 1984). Sub-Fordism in the periphery is based on capital-intensive methods resulting in unemployment, acute unequal income distribution, a distortion of the price system (due to the uncompetitiveness of commodities on the world market) and an almost total dependence of the industrial sector on the internal market. It is, however, erroneous to suggest that the failure to develop a genuinely Fordist system of accumulation in the periphery is due to the wishes of metropolitan capital to 'block' the process of industrialization at this phase of world capital accumulation. Rather, this failure is partly due to the absence of the social conditions for the development of a system of intensive accumulation, that is, the insufficient transformation of the internal social relations, the immaturity of the bourgeoisie as a class, the limited development of wage-relations and the narrow internal markets.

It is a truism that the development of sub-Fordism in the periphery actually increases the differences in productivity levels between the centre and the periphery, and intensifies periphery's dependence on the metropolitan economies. As we shall see in the following Section, dependency on the oil rent as the principal source of financing the accumulation process intensified these tendencies in Iran. However, the
development of sub-Fordism in Iran is reflected by all the old indicators of 'economic growth': the share of consumer goods imports in the total imports declined from 30% in 1959 to 11% in 1969 (Looney, 1982:39); and manufactured products diversified from 300 different types in 1958 to 450 in 1960 (Bharier, 1971:188). Both the industrial sector and the industrial output expanded and diversified.

The evidence marshalled above suggests that: (i) foreign capital investment began in earnest in the post-war period. The Iranian economy was incorporated into the circuit of money capital, first, via 'portfolio' investments, and then increasingly through direct capital investment. Although tariff barriers and tax policies of the sub-Fordist strategy were beneficial to foreign capital, I have argued that the causes of capital export should be sought in the dynamics of metropolitan monopoly capitalism rather than in the cost differentials between local production and the world market; (ii) by sponsoring banks and financial institutions, and by favourable taxation, licensing and trade policies, the state played a central role in encouraging private capital accumulation; (iii) capital export from the centre and the promotion of private capital accumulation by the state also led to the formation of a capitalist class and the growth of capitalist wage-labour. The composition of the power bloc was altered and the bourgeoisie developed into the dominant class of the Iranian formation.

I have so far discussed the process of industrialization in Iran without any direct reference to the role of the oil sector. A distinct feature of industrialization from the
mid-1960s onwards was the rapid increase in the share of public investment and public consumption as compared to that of private sector. This shift in the pattern of industrialization can be understood only in relation to the development of the oil sector as the principal source of financing capital accumulation.

D. Oil and Capital Accumulation

With the discovery of oil in 1908, the oil industry became a major basis for the production of surplus to the metropolitan centre and, after its nationalization, the fundamental factor underlying the emergence of a 'rentier' state. I have previously shown that in the period of 1908-51, the AIOC paid only a meagre proportion of the net profit derived from oil to the Iranian state. During Reza Shah’s reign, the total oil income accounted to only £35 million, and oil revenues financed between 10% to 30% of the state development budget. For the whole period between the discovery of oil and its nationalization (1908-51), the oil revenues accruing to the state amounted to £120 million (Bartsch, 1971a:246-9).

The period of 1950-56 represents a landmark in Iranian economic history in that the structure and sources of capital accumulation, and the role of the state in this process, were fundamentally altered. In the previous Section it has been shown that Iran had undergone a substantial process of capitalist industrialization from the mid-1950s onwards. Transition to capitalist production relations forces social actors to maximize their profits. The
capitalist rentier state, as a commodity owner on the market, is subject to the same driving force of capitalist accumulation, that is, maximization of revenues and profits. Under this pressure, the Iranian state intensified the exploitation of oil revenues. Economically, this meant that the superprofits were, to a degree, transformed into a differential rent and were appropriated by the state. The appropriation and maximization of this differential rent was especially pronounced from the mid-1960s onwards, when the oil sector became the principal link of the Iranian economy with the world market. The oil revenues formed the cornerstone of the relative autonomy of the state, and the pattern of their distribution affected the whole structure of the economy and the relationship of the state with the bourgeoisie.

Although nationalization of the oil industry meant in practice that only 50% of the share of the industry was held by the state, it enabled the state to appropriate a larger share of the rents that had previously accrued to the foreign oil companies as profits. While in 1950 oil revenues amounted to only £16 million, they reached over £100 million in 1960 and £183 million in 1965 (Mahdavy, 1970:438). The increase in the oil revenues was particularly pronounced from 1965 onwards: oil revenues amounted to $437 million in 1962-3 and $712 million in 1967, and they totalled $6.3 billion for the period of 1954-69 (Amuzegar et al., 1971:36; Bartsch, 1971a:246; Fesharaki, 1976a:133). The following table shows that in the post-nationalization period oil revenues have been substantially larger than other sources of state revenues.
Table 6: Major Sources of Revenue as Percentage of Total Revenues: 1954-6

<table>
<thead>
<tr>
<th>Source of Revenues</th>
<th>1954</th>
<th>55</th>
<th>56</th>
<th>57</th>
<th>58</th>
<th>59</th>
<th>60</th>
<th>61</th>
<th>62</th>
<th>63</th>
<th>64</th>
<th>65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Revenues (and concession bonuses)</td>
<td>11</td>
<td>37</td>
<td>39</td>
<td>47</td>
<td>51</td>
<td>40</td>
<td>42</td>
<td>42</td>
<td>46</td>
<td>46</td>
<td>61</td>
<td>50</td>
</tr>
<tr>
<td>Customs Duties</td>
<td>27</td>
<td>23</td>
<td>19</td>
<td>18</td>
<td>16</td>
<td>22</td>
<td>22</td>
<td>19</td>
<td>16</td>
<td>18</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Direct Taxes</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Other Taxes and Domestic Revenues</td>
<td>35</td>
<td>28</td>
<td>28</td>
<td>26</td>
<td>24</td>
<td>24</td>
<td>25</td>
<td>26</td>
<td>30</td>
<td>28</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Foreign Grants</td>
<td>22</td>
<td>7</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>5</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total(%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Mahdavy, 1970:455
In the early 1970s, two major developments accentuated the centrality of the oil sector to the Iranian economy. One was the total nationalization of the oil industry in 1971-2, and the other was OPEC's decision in 1973 to increase the price of oil. Peripheral integration with the world market makes a country vulnerable to sudden changes which are unrelated to its internal developments. The Arab-Israeli war of 1973 and the subsequent Arab oil boycott, as well as short-term oil shortages in the US, were in no way directly related to internal developments in Iran in the early 1970s. However, following OPEC's decision, the price of Iranian oil per barrel rose from $1.50 in 1972 to $10 in 1974; and oil revenues increased from $2.2 billion in 1972 to $5 billion in 1973 and $20 billion in 1974 (Housego, 1976:21; Looney, 1982:121).

The increasing oil revenues throughout the 1960s, and the fourfold increase of oil prices in 1973, made large amounts of oil-rent available to the state, and affected the pattern of capital investment, state consumption and expenditure, foreign trade, and, indeed, the whole structure of the economy. From the mid-1960s onwards, the major trend of the economy can be identified as an increased share of state consumption, expenditure and investment compared to that of the private sector.

I have indicated above that after 1955 there was a period of rapid increase in private capital investment stimulated by the state's credit and foreign exchange policies. It is important to note, however, that in the decade of 1955-65 the share of private investment was higher than state
investment. In 1962-3, for example, the level of private investment was almost twice that of state investment (Katouzian, 1981:229; Mahdavy, 1970:439). Most of the state investment in this period was limited to construction and infrastructure, and was complementary to private sector investment; state investment directed, rather than replaced, private capital activities. However, from the mid-1960s onwards the state moved to the centre stage and capital investment and expenditure by the state came to dominate private capital activities. This central economic role of the state was obviously possible only because of the increasing oil revenues and the state's monopoly of the oil sector. Throughout the 1960s the average annual growth of the oil revenues was 18%, that is, higher than the average annual growth of non-oil income which was about 15%. Oil revenues financed about 55% of the second development plan (1950-62), 66% of the third development plan (1963-76), and 80% of the fourth development plan (1968-72) (Amuzegar et al., 1971:43-53). The extent to which oil revenues financed capital accumulation was also indicated by their proportion in total government revenues and foreign exchange earnings. During the 1960s and 1970s, oil revenues provided between 50% to 80% of the total government revenues and between 80% to 90% of total foreign exchange receipts. The following table shows these oil revenue percentages in the period of 1963-77:
Table 7: Share of Oil and Gas Sector in Government Revenues, Foreign Exchange Receipts and Gross Domestic Product During Five-Year Plans (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>In Government Revenues</th>
<th>In Current Foreign Exchange Receipts</th>
<th>In GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1963-67)</td>
<td>48.1</td>
<td>75.8</td>
<td>18.7</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1968-72)</td>
<td>55.2</td>
<td>76.2</td>
<td>24.0</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1973-77)</td>
<td>77.7</td>
<td>84.7</td>
<td>37.4</td>
</tr>
</tbody>
</table>


Oil revenues transformed the state into the chief spender and investor: in 1963-7 state investment increased at an annual average of 26%, against 11% for the private sector. In 1968, the public sector accounted for 49% of all investments in contrast to 34% in 1963. Between 1968 and 1973 the public sector was responsible for 58% of all investments, and invested about $5 billion in industry. The share of the state investment in the economy reached 60% in 1975 and 65% in 1976. The ratio of private investment to public investment declined substantially: from 1.53% in 1963 to 1% in 1972 to 0.74% in 1977. The main institution through which the state invested in industry was the Industrial Development and Renovation Organization (IDRO); by the early 1970s, the IDRO had a major stake in or owned 90 major large-scale firms (Halliday, 1979:149; Housego, 1976:35; Looney, 1982:64-5; McLachlan, 1977:141).

These figures show the specificity of Iran’s oil-based economy: the bulk of investment in Iran since the mid-1960s was being undertaken by the state, the sole recipient of oil
revenues. But the state dominated the economy not only in the area of capital investment but also in consumption expenditure. The rates of state consumption expenditure were particularly high after the oil boom in 1973, making $98.2 billion of oil-rent available to the state, instead of an anticipated $24.6 billion, to finance the fifth development plan of 1973-78 (Housego, 1976:21). The immediate reaction to the quadrupling of oil prices was the doubling of the budget of the fifth development plan from $24.6 billion to $69 billion, and the immediate expenditure of the revenues as they accrued. In 1973, state consumption expenditure jumped by more than 220% over the previous year. During the first quarter of 1975, state spending increased by 280%, compared with the same period in the previous year. In 1974-5 alone, the state spent $22 billion. Money supply increased by 60% per year, and imports were running at $1.2 billion a month. Private consumption also increased very rapidly but at a much lower rate: in 1977-8, private consumption was 7 times and state consumption was 26 times what they had been in 1962-63 (Bashiriyyeh, 1984:86; Graham, 1978:19-87; Katouzian, 1981:86).

What is significant in this connection is not only the domination of the economy by the state through high investment and consumption expenditure, but also the way in which the oil rent was distributed amongst various classes. I have argued above that the pattern of the distribution of the oil rent is one of the clearest indications of the class character of the state and of the level of the development of productive forces. The distributive policies of the state also play a central role in the formation of the bourgeoisie
and in limiting the latter's economic and political existence.

A large part of the superprofits earned by the oil sector was distributed in the form of easy and liberal credit policies amongst certain fractions of the indigenous and foreign bourgeoisies. Generous fiscal incentives, exclusive industrial licensing, and low or non-existent taxes lowered the price of capital goods and over-valued exchange rates, leading to a rapid accumulation of capital by Iranian capitalists and their foreign counterparts. But these low credit rates were almost exclusively available to large capitalist enterprises. Small shopowners and petty-commodity producers had no access even to unsubsidized bank credit, since their enterprises did not provide sufficient capital for loans. They therefore had to borrow in the bazaar, where interest rates were about 25% to 100% as compared to about 12% normal bank interest rates (Keddie, 1981:171).

Despite the above figures indicating large-scale state investment in the economy, capital investment in productive processes by the state was at best partial, compared to investment in the unproductive areas of the economy; arms purchases and defence budgets, housing, commerce, imports of luxury goods and purchase of bonds abroad consumed a much larger share of the surplus. After the oil boom of 1973, the state launched several programmes, including nuclear energy development, foreign aid to several Middle Eastern and African countries, and equity investment in major industrial countries. In total, $2.38 billion was disbursed in 1974-5 on foreign loans, grants, and investments abroad, more than
twice the amount that Iran spent in the first two 
development plans from 1949 to 1962 (Graham, 1978:112-3). 
Few of these areas directly increased the total social 
capital. Another example of the pattern of the distribution 
of the surplus by the state was the removal of all trade 
restrictions imposed earlier by import-substitution policy. 
The liberalization of trade policy was pursued from 1973 to 
1977. Within this period, loans to private sector increased 
by 289%, but more than half of these credits went into trade 
and imports. Within the same period, the number of private 
commercial banks increased from 24 to 36, and the volume of 
banking transactions increased sixfold (Bashiriyyeh, 
1984:87). Thus the distribution of surplus more through 
consumption and expenditure than production further enriched 
certain fractions of the bourgeoisie: the major 
export-importers, bankers, financiers and urban land 
speculators were those who benefited from the over-expansion 
of the monetary system.

In Iran, the bourgeoisie which grew under the shadow of the 
state was dependent on it in a way distinct from, for 
example, the peripheral bourgeoisie in India or the 
metropolitan bourgeoisie in Japan. The relative autonomy of 
the state was not only derived from the state’s monopoly 
ownership of the oil sector but also from the historical 
weakness of the bourgeoisie. When necessary, the state was 
able to sacrifice the interests of one fraction of the 
bourgeoisie at the expense of another. The state could 
suspend its support for locally-produced consumer goods and 
allow the mercantile bourgeoisie to import similar or luxury 
goods, thus curbing the interests of the industrial
bourgeoisie. The liberalization of trade policy, as mentioned above, led to massive concentration of capital by banks and large traders at the expense of the producers of consumer goods. It is not a contradiction to say that the same factors which enhanced the relative autonomy of the state also inserted it deeper into the class struggle. This point can best be exemplified by the period of fiscal crisis and recession in the 1975-8 period.

The recession of 1975-8 was caused by a fall in oil prices and a reduction of demand for oil on the world market. The 1976-7 budget deficit was $2.4 billion, the government owed a further $3 billion to the contractors, and the rate of inflation was about 200% annually (Bashiriyeh, 1984:89-90; Graham, 1978:98-100). The state responded to the fiscal crisis through measures such as instituting shareholding by workers, 'anti-corruption' and 'anti-profiteering' campaigns, wage-rises, tight credit control, and control over prices and profit margins. These measures, despite the fear, panic and flight of capital they caused, were by no means anti-capital moves. A very small proportion of the working class was affected by share participation scheme as small-scale industry and banks were excluded and the law was never fully enforced. These measures, however, provide significant examples of the relationship between the state and the bourgeoisie and the direct role of the former in the class struggle. They show the extent to which the state was prepared (and able) to intervene in both circulation and production spheres in order to secure the conditions of its own existence. Obviously, the ultimate function of the rentier state is the maintenance of social relations of
production for the requirements of the oil economy. This is also partly the condition of the reproduction of the bourgeoisie as a class, although as this particular conjuncture shows, state intervention is not always tied to, or compatible with, the interests of the bourgeoisie. Consider, for example, the wage rises. The oil revenues enabled the state to pay certain sections of the working class above the value of commodity labour power. This was apparently not compatible with the interests of capital, but necessary, or it seemed so, for the maintenance of the system as a whole. Both wage increases and the share participation scheme were designed to create an illusion amongst wage-earners that they, too, were benefiting from the oil income. Through these measures the state tried to buy the consent of some sections of the working class by penalizing some fractions of the bourgeoisie.

Despite its dependency, and despite these apparently anti-capital moves, the bourgeoisie remained the main beneficiary of the oil surplus. It is almost impossible to establish, quantitatively, the accurate proportions of the surplus distributed amongst various fractions of the bourgeoisie, or consumed in those areas of the economy described here as unproductive. The available statistics cannot be readily translated into the theoretical categories employed in this study. It is, however, possible to determine approximately the pattern of distribution of surplus on the basis of the data on the sectoral growth of the economy. For our purposes, it is particularly the so-called 'services sector' which is important. This sector covers a heterogeneous group of activities such as housing,
insurance, trade, road construction, communications, banking, and education. Diverse economic activities, from those of the big banker to those of the car washer and street vendor, are lumped together in the 'services sector'. In most peripheral economies the share of services in the GNP (which indicates the level of total national income) is generally high; but in oil-based economies, where the provision and use of different kinds of services are encouraged by the availability of the oil revenues, the services sector constitutes a much larger share of GNP. In Iran, the contribution of services to GNP rose from about 10-20% in 1900 to 45% in 1976 and to 55.6% in 1977-8 (Bharier, 1971:61; Katouzian, 1981:260). In terms of employment, the share of services also rose rapidly. The following table shows the share of each sector in employment in the period of 1962-78:

Table 8: Sectoral Distribution of the Total Labour Force 1963-78 (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>1962-3</th>
<th>1967-8</th>
<th>1972-3</th>
<th>1977-8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>55.1</td>
<td>49.0</td>
<td>40.9</td>
<td>32.2</td>
</tr>
<tr>
<td>Industry</td>
<td>20.6</td>
<td>24.7</td>
<td>29.0</td>
<td>33.2</td>
</tr>
<tr>
<td>Services</td>
<td>23.8</td>
<td>25.7</td>
<td>29.5</td>
<td>34.0</td>
</tr>
<tr>
<td>Oil</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Katouzian, 1981:259

As can be seen from the above table, the share of services in employment increased from 23.8% in 1962 to 34% in 1978; higher than the share of employment in any other sector of the economy. The disproportionate growth of this sector,
both in terms of its contribution to GNP and to labour force employment, is the result of the much higher income per worker in this sector (Katouzian, 1981:260-1). Distribution of large amounts of surplus by the state, in the form of high salaries and easy credit policies, led to the disproportionate growth of this sector. Bureaucrats, bankers, insurance brokers, hoteliers, restauranteurs, real estate speculators and financiers were the recipients of this high income.

The disproportionate growth of the services sector is also indicative of the growth of the middle class. It has also been argued earlier that the dynamics of oil-based capital accumulation particularly lead to the over-expansion of the middle class. In the case of Iran, it is impossible to present any accurate statistical analysis of the growth of the middle class as the existing data are vague, scanty and conflicting. However, it is certain that in the 1960s and 1970s the development of the middle class was substantial, to a large part due to the over-expansion of state services and apparatuses. According to Bayat (1987:25, 61) the number of those employed in services, that is, in commercial, insurance and banking services, as well as the state bureaucracy, reached 1.65 million in 1978. About 68% of these 'services workers' were in the state sector, as teachers and clerical workers, and 213,000 were employed in the private sector (Ibid.:61).

It is also significant that within the services sector itself the share of 'state services' was dominant: it grew from one-fifth of the total service expenditure in 1963 to
one-third in 1978 (Katouzian, 1981:258). It is safe to assume that a large proportion of 'state services' covered bureaucratic expenditures and military defense purchases. For example, the expenditure of the surplus on the state bureaucracy rose from R99 billion to R730 billion between 1971 to 1975 (Bashiriyeh, 1984:86). But it was particularly in the area of defense and military purchases where the expenditure of the surplus was substantial. While during the entire period of 1950-72 Iran’s arms purchases amounted to $1.5 million, between 1973 and 1979 they reached $19 billion. The share of defense expenditure in GNP was also massive: between 1968 and 1971 the percentage of GNP that went to military expenditure rose from 5.6% to 18.5%. By the late 1970s, Iran was the largest buyer of American arms in the world; its defense expenditure accounted for 27% to 29% of the total government budget (Falk, 1979:43; Halliday, 1979:95; Race and Class, 1979:93; Ramazani, 1982:47; Sampson, 1978:252; Theberge, 1973:19).

In the 1960s and 1970s Iran experienced high rates of growth; between 1962 and 1978 GNP increased 10-fold, from $4,323 million to $43,365 million (Katouzian, 1981:256). But it was particularly in the period of 1973-8 that the rates of growth of the economy were extraordinarily high: GNP grew by 34% in 1973-4 and by 42% in 1974-5 (Housego, 1976:27). However, as has often been pointed out, national income statistics are misleading in that they tell us nothing about the regional and class division or which classes benefit from the expansion of the economy and which classes provide the surplus-value. They also tell little about the internal structure of the economy and its relationship with the world
market. Moreover, GNP rises generally do not deal with non-monetary sources of value, such as subsistence production or domestic labour, and they could simply reflect the expansion of the monetary system and not a genuine development of productive forces. These statistics are particularly misleading (and high) in the oil-based economies where the oil sector occupies a predominant position in Gross Domestic Product (GDP, which simply measures the total wealth generated within a country) and is the major factor in determining its size. In Iran, as the following table shows, oil revenues formed 12% of GNP in 1962 and 50% of GNP in 1973, due to the fourfold increase in oil prices (Katouzian, 1981:257).

Table 9: Sectoral Distribution of Gross National Product 1963-78 (Percentage)

<table>
<thead>
<tr>
<th></th>
<th>1962-3</th>
<th>1967-8</th>
<th>1972-3</th>
<th>1977-8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>27.4</td>
<td>21.6</td>
<td>10.3</td>
<td>9.2</td>
</tr>
<tr>
<td>Industry</td>
<td>17.8</td>
<td>20.7</td>
<td>12.6</td>
<td>18.5</td>
</tr>
<tr>
<td>Services</td>
<td>40.0</td>
<td>36.4</td>
<td>23.9</td>
<td>34.6</td>
</tr>
<tr>
<td>(state services)</td>
<td>7.6</td>
<td>9.4</td>
<td>7.9</td>
<td>10.9</td>
</tr>
<tr>
<td>Oil</td>
<td>12.3</td>
<td>18.0</td>
<td>50.6</td>
<td>34.7</td>
</tr>
</tbody>
</table>

Source: Katouzian, 1981:257

As the above table shows, the second largest contributor to GNP was the services sector, indicating that this sector was the main beneficiary of the over-expansion of the monetary system, while the lowest share belonged to agriculture, which declined from 27.4% to 9.2% in the 1962-78 period. Corresponding to the extra-ordinarily large share of the oil sector in GNP was the continual decline of the share of
non-oil GDP in the GNP: it fell from about 90% in 1959-63, to 81% in 1972, to 70% in 1973 and to 66% in 1977 (Looney, 1982:60). The growth rates in GNP, therefore, are basically indicative of the increase in oil revenues, and do not reveal the many signs of backwardness in the Iranian economy. National income statistics, however, do show a salient feature of the Iranian economy: Iran in the 1970s was a fully oil-based economy in that a single export, oil, accounted for over one-third of its GNP and 80% to 90% of its total foreign exchange earnings.

The centrality of the oil sector in the economy, and the failure of the state to achieve its industrialization objectives, become even more clear if we examine the input-output structure of the home market and the way in which the sub-Fordist system of accumulation developed. Instead of relying on the export of primary products and foreign loans to develop its manufacturing sector, as is the pattern in most peripheral countries, Iran relied heavily and almost exclusively on the export of oil. A clear indication of this reliance on oil is the economy's export-import structure: in the decade of 1965-75, the value of oil-export income, the value of all other exports, and the value of imports stood in relation to each other in the approximate ratio of 7:1:6, meaning that without oil revenues Iran could finance only about one-sixth of its total imports (Hameed et al., 1975:919). Moreover, the oil revenues enabled the state to increase imports without any necessity to promote internal production. Imports increased extremely rapidly: their value soared fivefold to $15 billion between 1972 and 1976 (Housego, 1976:21). Oil
revenues allowed imports to be continually higher than non-oil exports, as the following table shows:

**Table 10: Excess of Imports Over Non-Oil Exports**

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-5</td>
<td>82</td>
</tr>
<tr>
<td>1910-14</td>
<td>61</td>
</tr>
<tr>
<td>1925-29</td>
<td>63</td>
</tr>
<tr>
<td>1935-39</td>
<td>16</td>
</tr>
<tr>
<td>1946-48</td>
<td>97</td>
</tr>
<tr>
<td>1955-60</td>
<td>263</td>
</tr>
<tr>
<td>1957-60</td>
<td>363</td>
</tr>
</tbody>
</table>

Source: Baldwin, 1967:59

The import-substitution policy did increase industries' production of consumer goods: by 1970 consumer goods output had increased to 68% of manufacturing goods over the 1962 figure of 62%. But the expansion of consumer goods industry did not result in increasing export of manufactured commodities: exports accounted for only 4.7% of the manufacturing sector’s output in 1962, falling to 2.3% in 1970. Moreover, the manufacturing sector’s linkage with other sectors of the economy remained very weak: in 1962 it sold 31% of its output to other sectors and this fell to 19% in 1970, an extremely low percentage (Looney, 1982:30-1). These figures reveal a number of salient structural features of the home market: expansion of industry was based on the development of the means of consumption, while declining export capacity, increasing dependence on imports and the weak sectoral linkages of the economy indicate the underdevelopment of the the means of production. As the following table shows, agricultural commodities (mostly dried fruits, cotton, and raw materials) continued to constitute the bulk of Iran’s non-oil exports, that is,
between 80% to 90% of the total non-oil exports.²²

Table 11: Exports From Iran Excluding Oil, Gas and Minerals. Value in $ Millions.

<table>
<thead>
<tr>
<th></th>
<th>1968-9</th>
<th></th>
<th>1971-2</th>
<th></th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>%</td>
<td>Value</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Agricultural</td>
<td>125.3</td>
<td>59.8</td>
<td>80.9</td>
<td>55.1</td>
<td>18.1</td>
</tr>
<tr>
<td>Produce</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carpets</td>
<td>59.6</td>
<td>29.4</td>
<td>75.4</td>
<td>23.0</td>
<td>40.1</td>
</tr>
<tr>
<td>Other</td>
<td>24.6</td>
<td>11.8</td>
<td>71.6</td>
<td>21.8</td>
<td>40.1</td>
</tr>
<tr>
<td>Manufactures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>209.5</td>
<td>100.0</td>
<td>328.0</td>
<td>100.0</td>
<td>27.1</td>
</tr>
</tbody>
</table>

Source: Hameed and Bennet, 1975:427

Therefore, although an oil-financed import-substitution policy diversified the production of consumer goods for the internal market, the 'virtuous circles' of intensive accumulation could not be established in Iran, and the dependency of the economy on the world market was intensified by the import of productive goods and export of oil. The sub-Fordist system of accumulation does not lead to 'self-sufficiency', especially when it is based on production and export of oil.²³

Class and regional inequalities, which exist in all societies undergoing capitalist industrialization, were further accentuated in Iran by the state's policies of the expenditure of the surplus in unproductive areas of the economy, and by reliance on monetary rather than fiscal policies. The statistics on income inequality do not readily show the existing class inequalities because they are based on income and occupation, which refer to technical rather
than social relations of production. They are, however, indicative of class inequalities and of the way these inequalities are exaggerated in oil-based economies.

According to an ILO study of 1973, 10% of the population accounted for 45% of total private consumption, while 30% at the bottom of the income scale accounted for only 8% of private consumption. The income inequality between the urban and rural areas was even sharper. According to the same ILO study, urban incomes, compared with rural incomes, increased from 4.6:1 in 1956 to 5.7:1 in 1969. The distribution of the oil rent in the urban areas, where higher income groups were concentrated, and the emphasis on urban-based industrialization, were the main causes of income inequality between the two sectors.  

These figures show the concentration of industry and economic surplus in the urban areas, where the bourgeoisie lived. This class also enjoyed a high level of consumption. In a rentier economy where rent tends to be invested in unproductive areas such as construction, import of luxury items, and urban real estate development, where the bourgeoisie has no real economic and political existence independent of the state, and where it is the state which shapes the pattern of capital accumulation, high rates of income and profits earned by a minority tend to be directed more towards consumption than production.  

In this Section I have discussed the structure of industrialization in the 1960s and 1970s in order to confirm the characterization of the rentier state and the economy as
discussed above, and to establish the proposition that, although the superprofits earned by the oil sector provide the best opportunity for industrialization, in effect they promote the dependency of oil-based economies on the external markets.

E. Towards the Internationalization of Productive Capital

None of the characteristics discussed above, investment of oil rent in unproductive areas, failure to develop the productive forces, low level of labour productivity, high degree of dependency on the world market, and extreme regional and class inequalities, imply that no transition to the CMP occurred in Iran. The question of the development of capitalism is primarily a question of the transformation of production relations, rather than the levels of labour productivity. No matter what specificities an oil-mediated link with the world market imposed upon the development of the state and the economy, and despite the substantial amounts of surplus squandered on palaces, bureaucratic consumption, outright corruption, nuclear installations, and ultrasophisticated weapons, Iran in the 1960s and 1970s did experience substantial capitalist transformation. Waste, corruption and arms purchases did act as barriers to capital accumulation, but economic surplus was also invested in the productive sectors of the economy, although to a relatively small extent. The capitalist nature of fiscal and monetary policies of the state was unmistakable, and by the 1970s a fairly diversified manufacturing sector had been established.
The state's economic activity has been shown to have concentrated on three areas: (1) building up a modern infrastructure; (2) promoting a sub-Fordist system of accumulation involving the substitution of manufactured products via local production; (3) direct investment in heavy industries such as petrochemicals, oil refineries and steel mills. As has been indicated above, the state priority in the 1970s was given to investment in heavy industry designed to produce for external markets. Parallel to this support for export industries, credits were re-allocated to the restructuring and merger of industrial enterprises. In 1973 a State Fund to guarantee exports was created which would cover defaulting foreign debtors. The move from import-substitution of consumer goods (sub-Fordism) to production of manufactured commodities for external markets (peripheral Fordism) was greatly assisted by the quadrupling of oil prices in 1973, but would have been unthinkable without the existence of a capitalist ruling class and a state ready to play the export-substitution card. Promotion of export-substitution industrialization signalled the beginning of the internationalization of the circuit of productive capital and a more direct role of the MNCs in the economy.

An indication of this new phase was a number of commercial contracts signed between the Iranian state and MNCs between 1974 to 1976 in which Iran committed itself to provide a base for the production and export of manufactured commodities by MNCs (Bani-Sadr and Vieille, 1978). The promotion of joint-ventures with foreign capital by the Iranian state, either through state-to-state barter
agreements or direct investment by MNCs, should also be seen in the context of the internationalization of productive capital. To induce MNCs to locate themselves in the Iranian economy, the state assured financial, infrastructural, and capital participation, and a guarantee of external markets.

Indeed, after the oil boom of 1973 Iran became an instant paradise for multinationals. It presented indisputable advantages for these firms: investment facilities such as private and especially public participation in industry, industrial credits, profit repatriation, cheap labour power, abundant energy, an expanding market, and political 'stability'. Earlier, in the 1960s, assembly plants had flourished through a sub-Fordist system of accumulation. These plants included automobile assembly plants, and plants producing television sets, refrigerators, buses, and radios. In the 1970s capital investment by the MNCs was especially directed towards oil refineries, gas, petrochemicals, steel, iron, copper, and other industries designed to lead Iran towards export-substitution industrialization.

The development of the petrochemical industry is a good case in point. Petrochemicals were the major projects of the 1970s, and multinationals played an important role in their development because they involve large amounts of capital investment and technological expertise. In 1965 the state had established the National Petrochemical Company (NPC), whose aim was to attract foreign capital and technical assistance for the implementation of petrochemical projects. The state entered into three joint-ventures with three multinationals for petrochemical projects. Two were American
firms, Allied Chemical Corporation and AMOCO International, each holding 50% of the share, with 50% held by the state. The third joint-venture was with B.F.Goodrich on the basis of a 74-26% shareholding, with the larger share belonging to the state. Total combined state and foreign capital investment in petrochemical projects was $675 million in the 1968-71 period (Bartsch, 1971a:260). By far the largest industrial venture was the Iran-Japan Petrochemical Company, concluded in 1976 between the NPC and a Japanese industrial consortium in which Mitsui was the major shareholder with 45% of equity (McLachlan, 1977:162).

Apart from these projects, a number of bilateral economic agreements were also concluded between Iran and West European countries. These contracts were either based on oil-for-goods exchange, which ensured portions of the Iranian market for individual industrial states and multinational firms, or provided for direct capital investment by these firms. These trade agreements included projects for industrial housing, participation in the automobile components industry, construction of nuclear power stations, steel mill industries, oil refineries and arms purchases. Metropolitan countries were thus able to 're-cycle' the oil money through these contracts, and, so to speak, 'captivate' potentially profitable markets in Iran.

The statistics for this period give an idea of the extent of the involvement of the multinationals in the Iranian economy. Between 1965 and 1970, US-based MNCs invested $150 million in Iranian industries other than oil and gas, bringing total US investment to $700 million and total
foreign investment to $1.3 billion. After the 1973 oil price rise, foreign capital investment increased rapidly; investment in industry by US firms, combined with capital invested by the Iranian state reached nearly $20 billion by the end of 1978. In 1976, Iran purchased another $6 billion worth of commodities from the US, and an additional $5 billion in services from various multinational firms (Petras and Morley, 1981:9).

Due to the abundance of foreign exchange provided by the oil sector, the Iranian state almost always held the upper hand in its joint-ventures with foreign capital, apparently controlling and restricting the latter. Especially after the oil boom, the largest amount of capital investment was always provided by the state. In the period of 1973-8, direct investment by the state in the economy as a whole, amounted to $46.2 billion, compared to $2.8 billion invested by foreign capital and $23.4 billion invested by the private sector. Within the same period, $2.7 billion was loaned to the private sector by the state (Halliday, 1979:155). Foreign capital was allowed to invest in Iran only through joint-ventures, and in 1975 the state limited the maximum percentage of shareholding by foreign firms to 25%. But the subordinate position of foreign capital, in terms of its smaller percentage of shareholding, is only superficial. In contrast to other peripheral economies, foreign exchange was not a serious handicap to industrialization in Iran. The dependence of the Iranian economy on metropolitan capital was not so much derived from capital and foreign exchange shortage as from shortages of technical, technological and managerial skills, especially given the low levels of skill
in rentier economies and the monopolistic control of MNCs over advanced technology. As I have discussed in Chapter Two, for the critics of the thesis of the NIDL the internationalization of production is marked by this technological dependency.

Through the development of export industries Iran had hoped to penetrate the markets of neighbouring countries in Pakistan, Afghanistan, Turkey, as well as those of India, and Egypt. In 1974, Iran provided loans worth $300 million to India and $1 billion to Egypt, and signed joint-venture contracts with India, Egypt and Pakistan in order to secure imports of raw materials to Iran and markets for export of Iranian manufactured goods (Burell et al., 1974:12-5). The prospects for the export of Iranian manufactured goods to Eastern Europe and the Persian Gulf states seemed brighter. Iran exported its manufactured goods to Eastern Europe on the basis of state-to-state barter agreements. It seemed that it was only on this basis, when the possibility of competition was removed, that these 'markets' could absorb low quality goods. Iran exported 34% of its industrial output to Eastern Europe in 1972, and 24% in 1974 (Bani-Sadr et al., 1978:33). The lack of infrastructure and the fragmentation of the Persian Gulf states made them ideal markets for commodities produced by the MNCs in Iran, which could be exported to these states at lower costs and higher profits.

A number of writers, (Albrecht, 1979; Ahmed, 1973; Frank, 1981a; Petras et al., 1981) have described Iran in the 1970s as a 'semi-peripheral' economy and a 'sub-imperialist'
regime comparable to the South African and Brazilian states.\textsuperscript{26} The term 'sub-imperialism' is usually used to indicate the necessity of political repression as a prerequisite for the development of an intermediary economy.\textsuperscript{27} Sub-imperialist states are characterized by militarization, over-expansion of the repressive apparatuses of the state, and expansionist foreign policies. They are large, populous, and semi-industrialized countries which possess raw materials of great value to metropolitan centres and provide large markets for Western capital goods and capital investment.

In the 1970s Iran was in the process of being transformed into a 'Brazilian model of development' following the adoption of an export-promotion policy. Indeed, similarities of the pattern of the development of the home market in Brazil and in Iran were striking. The growth of monopoly and finance capital in Brazil had been accompanied by an increasing concentration of income, a greater flow of capital from the metropolitan centres through MNCs, and a stronger alliance between metropolitan and indigenous bourgeoisie. As in Brazil, the development of the peripheral Fordist system of accumulation in Iran excluded the working class and the bulk of the rural population from the benefits of industrialization; the main beneficiaries of the surplus were the Iranian bourgeoisie in partnership with MNCs. The emergence of Iran as the 'regional super-power' and the 'ideal of the Nixon doctrine' was also a parallel development.\textsuperscript{28}
However, despite the important political and strategic role of the Iranian state for US imperialism in the region, it is important to stress that Iran was still far from being a 'semi-peripheral' and 'intermediate' economy in the 1970s, even though it was certainly moving in this direction. The economic strength and expansionism of the Iranian state should not be exaggerated. Iran's search for agricultural raw materials in the 1970s reflected the declining state of its agriculture rather than the strength of its economy. The trade agreements concluded with, and loans provided to, other Third World countries (and a number of advanced capitalist countries) were only possible because of the oil boom which endowed the state with temporary financial power. The repressive apparatuses of the state, the army, the military and the secret police, over-expanded, but Iran basically remained a single-commodity export economy. This is reflected by the fact that, as an 'intermediate' economy, an overwhelming proportion of Iran's non-oil export remained in the category of agricultural raw materials and 'traditional' handicrafts such as carpets. While Brazil, the arch-model of peripheral Fordism, provided 24% of manufactured exports in the Third World between 1966 and 1975, Iran's share for the same period was only 2% to 3% (Frank, 1981a:98).

Despite all the peculiarities of an oil-mediated link with the world market, Iran was certainly moving towards the internationalization of the circuit of productive capital in the 1970s. We may draw the general conclusion that the two decades of capitalist industrialization in the 1960s and 1970s resulted in the expansion of the internal circuit of
capital accumulation and a local realization of a significant proportion of the surplus-value generated. The unprecedented revenues provided by the oil sector led to a deeper incorporation of Fordist sectors of the economy into the circuit of productive capital. The Iranian economy in the late 1970s began to take on functions of intermediation within the international economic system, such as those performed by Brazil and South Africa, but was at too early a stage of such development to be described as 'semi-peripheral'. The whole process of the transformation of the economy along these lines came to a halt following the 1979 Revolution.

The character of peripheral capitalist development in Iran was further complicated by the fact that in the phase of the internationalization of the circuit of productive capital, leading to a fairly rapid real subsumption of labour processes by capital, capitalism remained a non-exclusive mode of production. The non-capitalist relations of production persisted, or were restructured, while they were progressively subordinated to the dictates of capitalism. In the following Section I shall identify these non-capitalist structures and specify the nature of their relationship with the dominant capitalist mode of production.

F. Capitalism and Non-Capitalist Forms of Production

A closer examination of the structure of the industry reveals the specific pattern of the development of capitalism in Iran. The manufacturing industry consisted of two sectors; large-scale, capital-intensive industry
employing wage-labour, and small-scale 'traditional' units. The large-scale sector included the oil sector, state-owned enterprises, multinational firms, joint-ventures and other large-scale units of production which, under state protectionism and the import-substitution policy, produced durable and non-durable consumer goods and some capital goods. As mentioned above, it was this Fordist sector of the manufacturing industry which was the main recipient of the oil-rent in the form of easy credits and the tax exemption policies of the state. According to Bayat (1987:27) there were 923 of these units in Iran in 1973, including 162 multinational firms. Small-scale industry, on the other hand, was divided into those units employing 10 or fewer workers, and those which operated on the basis of simple reproduction and family labour, that is, production processes which do not involve employment of wage-labour and extraction of surplus-value. The statistics indicate that small-scale industry constituted the predominant form of manufacturing in Iran. In 1960, 80% of factories employed 10 or fewer workers, while only 1% of all industrial enterprises employed more than 200 workers (Benedick, 1964:26).

This small-scale industry not only existed side-by-side with modern, capital-intensive industry, but also proliferated throughout the 1960s and 1970s. Thus, in 1967, over 97% of the total number of industrial units employed 10 or fewer workers, while only 0.3% employed more than 50 workers (Looney, 1977a:11). Moreover, although the small-scale industry employed the larger proportion of the labour force, it was responsible for the production of only a small share
of industrial output. In 1967 small-scale industry employed about 68% of the total industrial labour force and produced 32% of the industrial output (Looney, 1973:124). Large-scale industry, on the other hand, employed a small proportion of the labour force but produced most of the industrial output: in 1967, 0.7% of the industrial units, employing only 17% of the industrial workforce, accounted for 65% of the total industrial output (Bartsch, 1971b:16). The following table shows that, in the period of 1964-7, employment in small-scale industry grew at a faster rate than in large-scale manufacturing, 11.8% compared with 9.2% respectively, indicating the greater capital-intensiveness of the large-scale industry and the proliferation of the small-scale. Table 12 also shows that the annual rate of growth of small-scale industry (12.8%) has been higher than large-scale industry (7.9%), although the latter was responsible for a much higher proportion of the total industrial output.
Table 12: Employment and Output of Large and Small Firms in the Urban Areas: 1964-67

<table>
<thead>
<tr>
<th></th>
<th>1964</th>
<th>1965</th>
<th>1966</th>
<th>1967</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Annual Growth 1964-7</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Establishment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>108,920</td>
<td>108,920</td>
<td>108,920</td>
<td>156,233</td>
<td>12.8</td>
</tr>
<tr>
<td>Large</td>
<td>3,219</td>
<td>3,436</td>
<td>3,552</td>
<td>4,042</td>
<td>7.9</td>
</tr>
<tr>
<td>Total</td>
<td>112,139</td>
<td>112,356</td>
<td>112,472</td>
<td>160,265</td>
<td>12.7</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>328,220</td>
<td>326,220</td>
<td>335,410</td>
<td>458,891</td>
<td>11.8</td>
</tr>
<tr>
<td>Large</td>
<td>164,879</td>
<td>198,722</td>
<td>207,193</td>
<td>214,377</td>
<td>9.2</td>
</tr>
<tr>
<td>Total</td>
<td>493,099</td>
<td>524,992</td>
<td>542,603</td>
<td>673,268</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Value of output (million rials)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>45,912</td>
<td>41,798</td>
<td>44,250</td>
<td>60,445</td>
<td>9.6</td>
</tr>
<tr>
<td>Large</td>
<td>63,613</td>
<td>86,024</td>
<td>96,779</td>
<td>119,396</td>
<td>23.0</td>
</tr>
<tr>
<td>Total</td>
<td>109,525</td>
<td>127,822</td>
<td>141,029</td>
<td>179,841</td>
<td>18.0</td>
</tr>
</tbody>
</table>

*Note:* Large Firms - engaging 10 or more persons. Small firms - engaging fewer than 10 persons.

Source: Looney, 1973:116

These figures show a salient feature of the process of industrialization in Iran. Industry was composed, on the one hand, of a Fordist sector, that is, a highly developed sector based on capital-intensive methods, responsible for the employment of a small proportion of the labour force, and accounting for a much larger share of the total industrial output. The huge revenues generated in the oil sector had deeply incorporated these modern sectors of the economy into the international circuit of expanded reproduction, generally via the MNCs. On the other hand, there also existed 'traditional' small-scale enterprises with much lower levels of labour productivity, outmoded methods of production, minimum capital provision, primitive
division of labour and higher rates of employment.

For Barratt-Brown (1974), this pattern of industrial expansion is indeed the very essence of 'neo-colonialism' as experienced in the phase of the internationalization of production in the periphery. Endorsing the fact that most peripheral countries have undergone capitalist industrialization in the present phase of world capital accumulation, Barratt-Brown (1974) argues that this development has taken a 'dualist' form under the domination of multinationals:

What is emerging in the underdeveloped countries is a form of dualism, not between a subsistence sector of agriculture within a feudal framework and a market industrial capitalist sector, but between a high profit/high wage international oligopolistic capitalist sector and a low profit/low wage competitive local capitalist sector. (Barratt-Brown, 1974: 276)

Barratt-Brown (1983) has also described this pattern of development under the domination of multinational firms as 'enclave development':

What is developed today by transnational companies in each of the developing countries is one mineral or primary product or one or two types of manufactured goods to fit into their synergy, as they call their mix of input and outputs. They look for oil or some other mineral in one area, forest and plantation crops in another, cheap labour for manufacturing in a third, and everywhere the world over they look for markets. But this leads to a peculiar kind of development in developing countries - the oil wells, the ore mines, the plantations or the free trade ports. We need to describe this as 'enclave' development because outside of the enclave little or no development takes place. (Barratt-Brown, 1983:155-6)

The structure of industrialization in Iran, as has been shown, is very similar to Barratt-Brown's 'dualistic' or
'enclave' peripheral economies created by the internationalization of production. In Iran, large-scale, capital-intensive high-profit Fordist industry, representing wage-labour employment (on the basis of relative surplus-value extraction), a monopolistic position within the market, and high income per head, existed alongside the low profit/low wage competitive enterprises based on artisan or family labour and low income per head. What is significant is that, despite the hot-house capital accumulation in the 1970s, this 'traditional' sector did not disintegrate but actually proliferated and experienced a high rate of growth.

In addition to the notions of 'dualistic' and 'enclave' development, some writers have employed the distinctions between 'formal' and 'informal' sectors, and 'primary' and 'secondary' markets to characterize this pattern of industrial expansion. I would argue that although these notions are not incorrect in themselves, they are merely descriptive in that they do not go far enough in analysing the particular character of the 'traditional' sector and its relationship with capital. A closer examination of these units of production reveals that the majority of them were based on non-capitalist production relations; and through their formal subordination by capital they were reproduced as integral parts of the reproduction cycle of the dominant CMP. This characterization can more clearly show the particular structure of the home market and the multiple class structure, as well as the failure of the Iranian state to generate the expanded reproduction of capital.
To identify these non-capitalist structures, we should concentrate on the bazaar economy, an apparently coherent and independent economic sector but one deeply integrated into the CMP at both production and circulation levels. Other more 'invisible' areas of the economy, such as the role of unpaid 'family labour' in the reproduction of labour power, usually linked but not confined to the bazaar economy, are also significant in this connection.

The bazaar is a concentrated complex of craftsmen, retailers, wholesalers, merchants, moneylenders, and simple commodity producers. Merchants and moneylenders form the highest strata of the bazaar; then there are shopkeepers and petty-commodity producers, such as cloth sellers, candy makers, carpet weavers, blacksmiths, goldsmiths, carpenters, cobblers, dyers, tailors, and quiltmakers. Each occupation is organized through guilds, and each guild has a leader who is usually a wealthy merchant or shopkeeper. Some prosperous craftsmen and artisans, such as goldsmiths and carpet-weavers, employ wage-labour but in the majority of cases the means of production are owned and controlled by the direct producers who sell their final product on the market.

Despite the substantial capitalist development in Iran in the 1960s and 1970s, the bazaar as a centre of commerce, credit and simple-commodity production did not disappear, although it did lose some of its prominence, and independence, by being subsumed by capital. Rather than abandoning the bazaar for capitalist production, the shopkeepers and small-commodity producers remained a viable
centre of crafts production, commerce and retail sale; and some areas of the bazaar economy actually expanded with the development of capitalism.

The bazaar economy functioned both at the levels of circulation and of production. At the level of circulation, the bazaar remained a tightly-controlled and organized distribution network. Merchants and shopkeepers drew their sources of funds from trading, real estate transactions, moneylending profits and credits obtained from commercial banks. The large merchants were not only retailers and wholesalers, but also moneylenders; the borderline between trade and usury was indistinguishable. The bazaar formed the third important financial market in Iran, in addition to private commercial banks and state banks (Benedick, 1964). Therefore, despite the spread of a sophisticated banking system, the operations of bazaar moneylenders did not die out; the primitive forms of credit and merchant capital co-existed with finance and productive capitals. For instance, at the beginning of the 1960s there were up to half a dozen moneylenders (sarrafs) in Tehran making private loans of over R5 million, 50-60 lending R2 to R5 million and up to 600 to 700 making smaller loans (Benedick, 1964:65-6). Many of these moneylenders were large merchants who borrowed from commercial and state banks and then re-lent this money at higher interest.

Most of the loans were for consumer finance, construction and real estate, but some were also given to industrialists as sources of their capital investment. Dependence on the bazaar as a source of credit was particularly acute for
small factory owners - the characteristic Iranian manufacturing unit - because commercial and state banks, as mentioned before, were not concerned with loans to small-scale enterprises. Small factory owners were also dependent on the bazaar for supplies of raw materials where large merchants had access to the sources of raw materials as landowners sold part of their agricultural surplus through the bazaar system. Likewise, those small peasant-proprietors who managed to accumulate a marketable surplus usually took their surplus to the nearby towns and sold it to the bazaar merchants. Some bazaar merchants and moneylenders were also involved in the practice of advanced purchase of the products of sharecroppers who were usually in debt and in need of cash.30 Although dependency on the bazaar was greatly reduced for larger manufacturers, due to the substantial increase in private banking capital, in the 1960s and 1970s the bazaar still remained an invaluable outlet for smaller factory owners.

The bazaar economy was, therefore, not only an important precapitalist structure of simple commodity production but also a centre of commerce and credit. Usury and primitive forms of credit remained an intrinsic part of capitalism in Iran. In cases of shortages of capital investment in small enterprises, which was quite commonplace, the bazaar more commonly provided loans to such investors than did the commercial and private banks. Therefore, the state control and regulation of financial markets did not eradicate or replace primitive forms of financial and credit markets.
The bazaar was also a centre of subsistence production, that is, petty-commodity production of handicrafts and other ‘traditional’ commodities. For this reason the estimation that 60% to 70% of the total industrial labour force was employed in small-scale industry during the 1970s is misleading, for it virtually excludes hundreds of thousands of those who worked in the bazaar workshops producing rugs, carpets, textiles, and metalwork (coppersmiths, goldsmiths, and blacksmiths). For example, in the case of textile industry we know that while 40,000 workers were employed in factories, 55,000 were engaged in handloom operations in the bazaar (Benedick, 1964:21). By 1970, there were about 45,000 home workshops spread throughout the country (Bartsch, 1971a:261). There are no accurate statistics to differentiate between the two main labour processes within this category: that based on wage-labour and involving a total separation of direct producers from the means of production, which thus cannot be characterized as precapitalist; and those simple-commodity producers and ‘family workers’ who owned their means of production either in the bazaar or physically outside the arena of the bazaar economy but usually connected with it. The following table, however, gives an indication of the size, and significance, of non-capitalist labour organizations within what is generally described as the ‘informal’ or ‘secondary’ labour market.

<table>
<thead>
<tr>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Small-scale industry</td>
<td>602,000</td>
</tr>
<tr>
<td>(Urban)</td>
<td>(333,000)</td>
</tr>
<tr>
<td>(Rural)</td>
<td>(269,000)</td>
</tr>
<tr>
<td>2. Petty-entrepreneurial sector</td>
<td>1,104,455</td>
</tr>
<tr>
<td>Petty-self-employed*</td>
<td>433,783</td>
</tr>
<tr>
<td>3. Domestic Servants</td>
<td>165,000</td>
</tr>
<tr>
<td>Total Wage-labourers</td>
<td>4,745,000</td>
</tr>
<tr>
<td>Total economically active population</td>
<td>8,799,420</td>
</tr>
</tbody>
</table>

* In all sectors except agriculture and hunting

Source: Bayat, 1987:31

The above table shows that while over 1.5 million persons were involved in petty-commodity production or were 'self-employed' (in most cases the term 'self-employed' refers to the same thing: the simple reproduction of capital or petty trade), about 600,000 persons were employed as wage-labourers in small manufacturing enterprises. In other words, 17% of the total labour force within this sector can be characterized as direct producers, as compared with 6.8% who were wage-earners. This estimation, however, is not accurate because not only is the rural areas not included, but also the category of unpaid family workers is not taken into account. This category mostly consists of women and children who are involved in production of rugs and carpets at home. In the absence of statistics, there is no way of determining its size and its significance in the reproduction of labour power or of the household as a whole.
However, scattered evidence suggests that, as a particularly non-capitalist activity, it proliferated in the 1970s.

Carpets have always been a major export item in Iran and carpet weaving has always employed more people than any other sector of the economy. In the 1960s export of carpets regularly earned between $15 and $20 million of foreign exchange annually. With the increase in production and export of carpets in the 1970s, hundreds of thousands of women and children were drawn into this area; and carpets became the next major source of foreign exchange earnings after oil. It is estimated that in 1964 about 125,000 people were employed in carpet-weaving workshops (Baldwin, 1967:135-6) but even an approximate estimation of the number of those involved in carpet-weaving is hard to come by.

According to the semi-official Keyhan newspaper in 1968:

In Mashhad and the region around it, there are about 300 carpet workshops that have altogether 10,000 carpet looms. There are over 30,000 carpet weavers employed in these workshops, and two-thirds of them are children aged between 6 and 10. (quoted by Jalil, 1976:15)

And again:

In Kashan and villages surrounding it there were about 30,000 carpet looms and 45,000 weavers. Only 10% of workers are men and the rest are women and children. The minimum age for a carpet weaver is 7. The seven-year old girls instead of going to primary school sit behind carpet looms and work for 5 rials a day (2½ pence at the 1968 exchange rate). (ibid:150)

These estimates, however, are inaccurate for they take into account only the number of those who worked for a wage in the carpet-weaving workshops but not the number of household
producers. The characterization of wage-earners in carpet weaving workshops is, of course, straightforward. They are engaged in capitalist production of commodities and produce surplus-value for the owners of the workshops, usually on the basis of absolute surplus-value appropriation.

What is of particular interest to us is the production of commodities such as carpets, rugs and textiles not on the basis of wage-labour in the workshops, but at home by the members of the household. Traditionally, carpet weaving has been an urban phenomenon but in the 1970s the production of carpets shifted from urban to rural areas, and hundreds of looms were established in villages. One explanation of this shift could be that both large-scale proletarianization and underemployment in the rural areas, following the land reform and the mechanization of agriculture, created abundant 'free' labour for this enterprise. Many households, both rural and urban, bought their own looms and were engaged in this trade. Bonine (1981) demonstrates how, in the case of the city of Yazd, which is famous for its silk and weaving industry, both workshop and home production of textiles and carpets began to mushroom in the 1970s. There were thousands of wooden handlooms for clothweaving in homes and many more in small workshops. In the case of clothweaving he shows that, although the number of traditional wooden handlooms had declined drastically, hundreds of looms still existed at homes. Moreover, with the decline of wooden handlooms, many households acquired electric looms and weaving continued to provide a 'supplemental income' to the family. The labour was generally performed by women and children at home and the
final product was sold to the bazaar merchants by the male members of the household. In addition to the ownership of the loom by the household and the direct sale of the product on the market, there was also a situation in which a mill was owned by a local middleman, who then sold the final product to the bazaar merchant; or else the mill was owned by the merchant directly. In both cases the family received a wage and had no control on the final product. Although there were about 25 factories in Yazd (the majority employed 5 to 10 persons, and a few employed 20 to 30 persons), the system of household production, either for a wage or as a 'supplemental income' (simple-commodity production) did not die out. We do not know the number of these cases of simple reproduction but the phenomenon seems to have been very widespread. In one case Bonine (1981) observes:

villages soon realized how profitable carpet weaving could be as a supplemental income, and so, by the mid-1970s, thousands of looms were owned by villages themselves. In 1977, the carpet merchants estimated that at least 50,000 looms were operating in the Yazd region. (Bonine, 1981:209)

The data on the growth of the 'services sector' in Iran are also significant for the present argument. We have seen that the contribution of this sector to GNP rose from about 10-20% in 1900 to over 55% in 1978. The structure of the services sector has already been discussed. It has been argued that this sector is a heterogeneous category consisting of both the big banker and the car washer. Therefore, its spectacular growth in the 1970s shows not only the expansion of certain fractions of the bourgeoisie (those involved in banking, finance, insurance, trade, etc.), but also the large size of the 'self-employed',
unemployed, casual wage-earners and outworkers. In this
connection, Petras (1985) maintains:

The growth of both the industrial and 'services
sector' continues roughly at the same proportion
for all capitalist Third World countries. Within
the 'services sector' there are essentially two
groups, the new bureaucratic and commercial
classes that form a distinct minority, and the
huge army of unemployed and underemployed
('self-employed'), street vendors, day labourers,
domestic workers, and other low paid workers in
low-productivity activity. Thus the service sector
is made up in large part of the reserve army of
unemployed ... As capitalism grows, so does the
services sector. (Petras, 1985:85)

The rapid growth of the services sector in Iran further
confirms our view that it is too simplistic to assume that
the development of capitalism in the periphery necessarily
leads to the generalization of capitalist wage-labour, and
the polarization of society between labour and capital. A
great majority of the 'freed' labour force is not subsumed
by capital in real terms, and ekes out a living by being
pushed into labour processes which are not, strictly
speaking, organized along capitalist lines. Bharier
(1971:35) estimates that in 1966, 40% of the total employed
population "worked on their own" while another 10% were
"unpaid family workers". No information has been given on
the exact nature of such economic activities, but we can
safely state that the majority must have been involved in
the most marginal petty-bourgeois activities such as
carpentry, shoemaking, blacksmithing, tailoring, small-scale
weaving and spinning and the like. It has also been noted
that in 1976-7 the number of those who were involved in
non-wage occupations was greater than the number of
wage-labourers within the small-scale industry (table 13).
The following table shows that between 1956 and 1966,
non-wage employment (in sales, services and simple-commodity production) expanded faster than wage employment in the urban areas: 58% and 36% respectively.

Table 14: Distribution of Non-Agricultural Manual Worker Employment by Occupational Group and Broad Worker Status, 1956-66

<table>
<thead>
<tr>
<th>Occupational Group</th>
<th>Worker Status</th>
<th>Nov. 1956 Thousands</th>
<th>Nov. 1966 Thousands</th>
<th>Change Thousands</th>
<th>Change Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Wage</td>
<td>63</td>
<td>104</td>
<td>+41</td>
<td>+65.1</td>
</tr>
<tr>
<td></td>
<td>Nonwage</td>
<td>281</td>
<td>400</td>
<td>+119</td>
<td>+42.3</td>
</tr>
<tr>
<td>Service</td>
<td>Wage</td>
<td>401</td>
<td>413</td>
<td>+12</td>
<td>+3.0</td>
</tr>
<tr>
<td></td>
<td>Nonwage</td>
<td>52</td>
<td>97</td>
<td>+45</td>
<td>+86.5</td>
</tr>
<tr>
<td>Crafts and Production</td>
<td>Wage</td>
<td>977</td>
<td>1,433</td>
<td>+466</td>
<td>+47.7</td>
</tr>
<tr>
<td></td>
<td>Nonwage</td>
<td>351</td>
<td>585</td>
<td>+234</td>
<td>+66.7</td>
</tr>
<tr>
<td>Total for manual occupations</td>
<td>Wage</td>
<td>1,441</td>
<td>1,960</td>
<td>+519</td>
<td>+36.0</td>
</tr>
<tr>
<td></td>
<td>Nonwage</td>
<td>684</td>
<td>1,082</td>
<td>+398</td>
<td>+58.2</td>
</tr>
</tbody>
</table>

Source: Looney, 1973:118

To my knowledge, no study on capitalist development in Iran has accounted for this type of 'unpaid family labour', has considered these direct producers as part of the 'economically active population', and, more importantly, has addressed the question as to why, despite the movement towards the internationalization of productive capital in the 1970s, household subsistence production actually became much more widespread than before. Bearing in mind the approximate number of 1.5 million petty-commodity producers (in the urban areas only), it would be safe to say that in the 1970s together with household producers, the number of non-capitalist producers was only second, if not almost equal, to the number of 'visible' wage-earners.
The mass of 'family workers', 'self-employed', casual wage-labourers and outworkers created a disparate social phenomenon in the urban areas which can be termed the 'labouring poor'. While dependency writers depicted this mass, together with 'lumpen' elements, as 'marginals', others considered them as constituting a separate mode of production - 'petty-commodity mode of production' - articulated with capitalism.\(^3\)

In Chapter Two of this study, I have discussed the non-capitalist character of these producers and their structural articulation with capitalism. I have argued that these units of production cannot be conceptualized in their own terms but only in terms of their subsumption by capital. Only an approach based on social relations of production, providing categories which are both theoretical and historical can specify the complex forms of dependency and subordination outside capitalist wage labour. I have argued that subsistence or petty-commodity production ('self-employment') consists of ownership of the means of production by the direct producers, of low division of labour, and of little specialization in the production process. Furthermore, the breakdown of the reproduction cycles of petty-commodity producers under capitalism means that they cannot reproduce themselves independently of the larger production relations; they combine production of use-value with that of exchange-value. Petty-commodity production exists as a form of production and does not constitute an independent theoretical state. It would therefore be false to consider petty-commodity producers as 'outside' or 'apart' from capitalism, or their products as
belonging to another mode of production articulated with capitalism. It is equally misguided to consider various elements of the 'labouring poor' as 'marginal' to the needs of peripheral capitalism. These elements are all integrated into the dominant CMP and the overall economic system. The reproduction of the labour power of unpaid family workers, outworkers, street vendors, shoeshiners, peddlers and even the lowest, rock-bottom 'lumpenproletariat' does not incur any cost on capital; their 'economic activity' is 'invisible' insofar as capitalism imposes the distinction 'waged/unwaged' on the sellers of labour power. These largely non-capitalist producers are formally subsumed by capital, that is, capital dominates these units of production without transforming their immediate labour processes. In this way, their labour power, reproduced outside generalized commodity production, is nonetheless introduced into it. Given that the full operation of the law of value is hindered by total or partial possession/control of the means of production by these direct producers, it has been shown that their exploitation occurs in the form of devalorization of their labour time, involving 'self-exploitation' and production of absolute surplus-value.

It follows that, for instance, handicraft and household production of commodities within the sphere of subsistence production is more exploitative than wage-labour. In the case of one village, Afshar (1981) observes that the introduction of carpet-weaving did not bring more prosperity; rather, it intensified the exploitation of direct producers, of whom the majority were women and
children. She observes that in most of the households which acquired their own looms, women and children were not working for a wage and received no payment for spinning and weaving. She argues that the contribution of this type of unpaid household labour to the reproduction of labour power could be considerable:

... unlike cultivation, carpet-weaving is a year round employment which has resulted in women earning nearly as much, sometimes more, than men in the household. It takes thirty to sixty days to weave a carpet which is sold by men at 20,000 to 30,000 rials. Thus each woman earns from 6,750 to 17,000 a month or the equivalent of ten to twenty-eight days wages for a man. (Afshar, 1981:83)

One of the consequences of the partial reproduction of labour power by non-capitalist labour processes is the low level of wages in the periphery and the enhanced role of merchant capital. The re-structuration and persistence of formal subsumption of labour by capital means that both merchant’s and usurer’s capital continue to operate under the dictate of the dominant productive capital. Indeed, the bazaar merchants continued to exert a great deal of control in this area. In the 1970s only 5% of the production of carpets for external markets was controlled by the state, and the extent of state control on the domestic trade and production of carpets was even smaller (Baldwin, 1967:135-6). The number of bazaar merchants involved in this trade increased from about 45 to 240 in 1977 (Bonine, 1981:209). Some of these merchants owned about a hundred looms each and established workshops in several villages.

In this Chapter it has been shown that the internationalization of the circuits of money and productive
capital led to a rapid process of capital accumulation in the 1960s and 1970s. The role of the state and the specificities of the oil sector have been particularly emphasized in examining this process. It has been argued that the internationalization of the circuits of money and productive capital did not lead to a generalization of capitalist wage-labour, and non-capitalist labour processes were preserved and integrated with the circuit of the expanded reproduction of capital. In the following Chapter we shall see that the state-induced agrarian transition to capitalism also occurred in the context of the expansion and persistence of noncapitalist structures.
NOTES TO CHAPTER FIVE

1. In discussing the general characteristics of the rentier states in the periphery, I have benefited from the following works: First (1980), Petras and Morely (1983), Hein (1980), and Katouzian (1979-1981).

2. I should stress again that the emphasis on the relative autonomy of the state should not be taken to mean that the state is a disembodied force standing above civil society. In all class societies, the state acts to resolve contradictions engendered by class divisions, and in doing so it ultimately reproduces the conditions of the dominance of a power bloc constituted by different classes and class factions. Relative autonomy of the state does not imply that the variety of forms of state intervention adopt a neutral character, but that the dominant power bloc does not directly organize and regulate the conditions of its dominance in the economic and ideological spheres. In this sense, one may say that the state is autonomous in all class societies. I have argued, however, that certain features of transitional, peripheral and oil-based societies tend to enhance the relative autonomy of the state.


4. My brief discussion of the growth of the Tudeh Party and the formation of the autonomous governments is based on the following works which provide detailed analysis of these issues: Abrahamian (1968-1970-1981-1982), Halliday (1978) and Zabih (1966).

5. For an early history of US-Iranian relationship, see Alexander et al. (1980) and Rubin (1980).

6. An assassination attempt against the Shah by a religious fundamentalist in February 1949 had led to the banning of the Tudeh Party and the CCFTU.


8. In 1949 the first seven-year development plan, providing for a total expenditure of $656 million, was approved by the state. The plan was to be financed by the
oil revenues, by loans from the IBRD and by internal loans from the National Bank of Iran. However, oil revenues disappeared because of the oil nationalization, and the IBRD did not make any loans to Iran. The plan was suspended in 1951.

9. For the concept of class fraction see Chapter Three, note number 18.

10. For details of the development of financial institutions and banks, and their role in stimulating private capital investment, see: Benedick (1964).

11. For details on taxation and licensing policies, see: Najmabadi (1976).

12. There were altogether five development plans in Iran between 1949 and 1977. In discussing the basic features of industrialization in Iran, I have not dealt in a chronological fashion with details of the development plans but have drawn general conclusions. For details of these development plans, see Baldwin (1967) and Razavi et al. (1984).

13. See Chapter Three, Section C, for this point.

14. In this connection, Graham (1978) remarks: "For the most part, the entrepreneurs graduated from trading operations in the Bazaar, frequently transferring from traditional commerce via a dealership or agency for one of the international companies" (Graham, 1978:47). Amongst these 'first path' capitalists who established industrial empires, Graham (1978:47-8) mentions Ahmed Khayami who established Irannational in 1962, which became the biggest company in the automotive sector with one of the largest workforce in the country; and Habib Sabet, whose joint-venture enterprises covered almost 50 companies and employed 10,000 people.

15. For a critique of import-substitution policy, see Griffin and Enos (1973).

16. I have avoided a detailed discussion of the impact of the 1973 oil boom and the expansion of the monetary system on the economy. For details concerning labour shortages, inflation, infrastructural problems, etc., see: Graham (1978), Looney (1982) and Jabbari (1981).

17. For reasons for fluctuations of oil prices and of demand for oil on the world market in this period, see: Graham (1978) and Looney (1982).

18. Fearing increased state intervention in prices, wages and other factors of production and exchange, about $2 billion of private capital was transferred abroad by the bourgeoisie. The rate of private capital investment in industry and construction also fell during this period. Foreign capital reacted in the same way to these state measures. See for details Graham (1978) and Walton (1980).
19. For studies on the development of the middle class in Iran, see: Bill (1972a), Binder (1962), Liaghat (1976-1980) and Young (1952). These studies are basically conducted within the problematic of modernization theory and the serious conceptual problems they represent make even a reinterpretation of the data almost impossible.

20. For details on arms purchases and military build-up see Falk (1979), Paine (1975), Sampson (1978), Race and Class (1979), and The Arms Trade with the Third World (1971), Chapter XIV.

21. In Marx's analysis, expanded reproduction of capital takes place in an abstract form, in two departments of commodity production: Department I, where the reproduction of the means of production takes place; and Department II, where the reproduction of the means of consumption occurs. Both forms of reproduction depend on the redistribution of the means of production in each Department, which consequently depends on the proportion of commodities produced and the surplus-value invested by capitalists. This abstraction enabled Marx to deal with the question of production and realization of surplus-value.

22. The handmade production of carpets in the workshops and on the basis of a primitive division of labour is not considered here as 'manufacturing industry' but as 'traditional handicrafts'.

23. Hein's (1980) discussion of the extreme world market dependency of the Venezuelan economy through the export of oil is also relevant to the Iranian economy. He argues that the enormous extent to which the Venezuelan state subsidized the economy through the oil sector, and protected the internal market through a tariff system, resulted in a high degree of distortion of the law of value:

> Extra economic power determines the development of a particular firm more than competitiveness, i.e., conditions prevail under which capitalist competition cannot stimulate the development of the forces of production nor promote a nationally integrated division of labour. (Hein, 1980:236)

This is to say, the development of a restricted home market based on large-scale capital-intensive industry and leading to the decline of petty-commodity production was not so much the result of free competition on the market but of the imposition of certain policies by the state.

24. For details on income inequality in Iran, see Jabbari (1981) and Pesaran (1976-1982).

25. For corruption, particularly in relation to the Pahlavi Foundation and arms purchases, see Graham (1978) and Sampson (1978).

26. The term 'sub-imperialism' was first used by the Brazilian sociologist Marini (1972) in analyzing the political and economic transformations of Brazilian society.
after the military coup d'état in 1964. See particularly discussions of this concept in relation to Iran in Frank (1981a) and Halliday (1979).

27. For example, see Lipietz (1984) who argues that in order for peripheral Fordism to develop these countries have to have authoritarian regimes. For a critique of this view, see Jenkins (1984).

28. For a discussion of this point, see Paine (1975) and Theberge (1973).

29. For these distinctions, see Looney (1973) and Bayat (1987).

30. Pre-harvest sale of crops, or the practice of salaf-khari, will be discussed fully in the next Chapter.

31. The question of rural subsistence production will be dealt with separately in the next Chapter.


33. Various contributors to the two volumes Casual Work and Poverty in Third World Cities (edited by Bromley and Gerry, 1979), and Peasants and Proletarians: The Struggle of Third World Workers, (edited by Cohen, Gutkind and Brazier, 1979) also develop these points extensively and show the structural relationship between the massive and disparate category of the ‘labouring poor’ and capital.
CHAPTER SIX

THE LAND REFORM

In this Chapter I shall discuss the particular pattern of the development of capitalism in Iranian agriculture as a result of the state-induced agrarian transition. The land reform is of tremendous importance for this study not only because it transformed the nature of production relations in agriculture but also because it demonstrates direct state involvement in the process of capital accumulation.

Generally speaking, the 'agrarian question' is solved when a predominantly pre-capitalist agriculture is transformed into a capitalist one. This means that a home market for the production of the means of production and the means of consumption is created, labour is entirely separated from the means of production (land), and land and labour are both commoditized. Agricultural product, similarly, is no longer produced for the reproduction of the unit of production, but for sale on the market. Commoditization of land, labour and product implies a total separation of agriculture from industry, and the generalization of an economic surplus by the former for the expansion of the latter. The consequence of this process is a structural change in agricultural production relations, the creation of classes of rural bourgeoisie and rural proletariat, and the ultimate domination of the CMP.
The process briefly described above is the 'classical model' of primitive accumulation, that is, a process stimulated by the private appropriation and market forces alone, unfolded over a period of three centuries in Western Europe. The underlying theme of this Chapter is the historical and structural distinctiveness of this process in the periphery. My argument is that while primitive accumulation of capital occurred organically and out of the contradictions of PCMsP in the centre, in the periphery (i) it occurred in the context of integration with the world market and in response to the requirements of metropolitan economies; and (ii) it was promoted by the peripheral state which had a direct interest in accumulation through the spread of capitalist production relations.

In the first two Sections of this Chapter the nature of pre-reform production relations and the class structure in the rural areas are discussed. Section Three examines various stages of the land reform and identifies its main objectives as the creation of a capitalist home market as a prerequisite for the export of capital from the centre. While state intervention into Iranian agriculture transformed the nature of production relations and the mode of surplus extraction, it also led to the re-structuration and perpetuation of non-capitalist forms of production. Placed in the context of the dominant CMP, the survival of these noncapitalist structures partly explains the character of peripheral capitalism in Iran. This argument is elaborated in the last Section of this Chapter.
A. Pre-Reform Rural Class Structure

As has been pointed out in Chapter Three, there existed three types of landownership in pre-capitalist Iran. These were, first, land owned privately by individual landlords (mulk); second, state land (khaleseh); and third, land controlled by religious institutions (vafq). There are various estimations of the extent of the distribution of land amongst these categories, but they all confirm that a vast majority of land was owned by private landlords.

We may recall that the method of land assignment by which the state assigned areas of land and its government to the highest bidder or for services rendered (tuyul) was abolished by the First Parliament in 1906. The abolition of tuyul institutionalized private landownership, and the concentration of land in the hands of private landowners was an on-going process throughout the first half of the 20th century. Thus by the late 1950s about 70% of the total crop land was owned by a small number of landlords (McLachlan, 1968:687). Landowning in Iran was not measured in terms of area but, traditionally, on the basis of the number of villages owned by each individual. Each village was divided into six parts (dangs), and large landlords were those who owned at least one village or six parts equivalent to one village. There are no statistics on the number of large landlords before the land reform, but at most they did not number more than several hundreds. These large landlords, some of whom owned 20 to 40 villages each, were usually members of the royal family, high state officials, high ranking military officials, tribal chiefs, prominent
members of the clergy or wealthy merchants (Hooglund, 1982:12, 154). The extent of concentration of land was indeed extreme; about 37 families owned 19,000 villages, while medium landlords, i.e., those who owned between 1 to 5 villages each, owned 7,000 villages (Halliday, 1979:107). Large landowners accounted for 2% of all landowners and owned 55% of all cultivated land (Hooglund, 1982:12).

Between 18% and 20% of the arable land was owned by the state and religious institutions. The latter category was the second largest landowner, owning up to 6,000 villages or 12% of the total cultivated land. Vafq lands were widely dispersed throughout the country and they were managed by an administrator who was entitled to keep 10% of all annual revenue as personal remuneration. The state was the third largest landowner; it owned over 5,000 villages, or 6% of the total crop land. The remaining 10% of the cultivated land was owned by a large number of small private landowners, whose property equalled less than one village, and probably numbered between 500,000 to 1 million individuals; and a tiny minority of small peasant-proprietors (Hooglund, 1982:155; Lambton, 1953:230-305; 1969:23-30; McLachlan, 1968:687).¹ The following table, which shows the percentage of the distribution of landholding, roughly follows the above estimates. It shows that the predominant trend was towards the concentration of land in the hands of private landowners, particularly if we classify the category of 'tribal holding' as private feudal landownership.
Table 15: Land Distribution Before the Reform

<table>
<thead>
<tr>
<th>Type of Ownership</th>
<th>% of land owned</th>
<th>Number of villages</th>
<th>% of villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Proprietors</td>
<td>56.0</td>
<td>13,569</td>
<td>34.43</td>
</tr>
<tr>
<td>(of whom those owning over 100 hectares)</td>
<td>33.8</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Small Proprietors</td>
<td>10-12</td>
<td>16,522</td>
<td>41.93</td>
</tr>
<tr>
<td>Royal Domain</td>
<td>10-13</td>
<td>812</td>
<td>2.06</td>
</tr>
<tr>
<td>Religious Endowment</td>
<td>1-2</td>
<td>713</td>
<td>1.81</td>
</tr>
<tr>
<td>Tribal Holdings</td>
<td>13.0</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Public Domain</td>
<td>3-4</td>
<td>1,444</td>
<td>3.67</td>
</tr>
<tr>
<td>Other Holdings</td>
<td>--</td>
<td>6,346</td>
<td>16.10</td>
</tr>
</tbody>
</table>

Source: McLachlan, 1968:687

A common characteristic of the Iranian landowning class was that they were usually absentee. They resided in urban areas and only visited their estates at harvest time to collect their dues. They entrusted their economic affairs to a bailiff who received a salary in cash and/or in kind. Sometimes the bailiffs also functioned as village headmen. Village headman, if a person different from bailiff, was chosen by the landlord and was responsible for maintaining internal security. They usually received part of the harvest as their salary.

With regard to the pattern of land tenure in pre-capitalist Iranian agriculture, it should be noted that the rent extracted by the landowning class came in various forms; it either took the form of a portion of the product on the basis of sharecropping contracts, or the payment of a fixed rent in cash or in kind, and sometimes a combination of the two. Demesne and labour service were insignificant forms of
land tenure in the Iranian countryside. In the case of the payment of a fixed rent, landlords rented several villages to an individual renter on a seasonal basis in return for a fixed rent and specified payment. While the rentees did not have legal rights to land, in practice they were the landlord of the villages during the period of their lease. Payment of fixed rent was the logical outcome of the development of private monopoly on land and the concentration of holdings for which landlords could not be directly responsible. It hurt agricultural production since it encouraged high profits on a short-term basis and discouraged investment in land. Almost all of the state land, most of vafq land and some private land were rented in this fashion. In the case of private holdings, payment of fixed rent was limited to the more prosperous northern provinces. On the whole, less than half of the total cultivated land was rented in this way (Hooglund, 1982; Keddie, 1960; Lambton, 1953). The most prevalent form of land tenure was sharecropping. According to official figures, 54% of all arable land in 1960 was based on sharecropping (Demin, 1967, cited in Issawi, 1971:222). Sharecropping arrangements, inherited from the Safavid empire in the 16th century, varied from one region to another but their basic principles had remained unchanged. The crop was divided between peasant and landlord according to the ownership by each of its main productive factors, namely, land, water, seeds, draught animals and labour. Each productive factor was assigned equal value, and the contributor of each received one-fifth of the crop. Thus the landowner automatically received 20% of the harvest in return for the use of his land. In practice, the most common
situation was that the landlord possessed three factors of production (land, water and seeds), so that the peasant's share of the crop was determined by the input of oxen and draught animals. It was not uncommon for landlords to claim 80% of the final product (Lambton, 1953:306-29).

To understand the exact pattern of sharecropping contracts, it is necessary to examine the rural class structure. An exact characterization of precapitalist rural class structure is difficult to render as the term 'peasant' in the context of Iranian agriculture, as elsewhere, does not delineate a homogeneous class defined on the basis of a distinct and specific set of production relations. Here I make a distinction between the absentee landowning class, and the rest of the rural population. Within the latter category, a rather complex differentiation existed. The largest group within this category was the nasaq-holders, those sharecroppers who did not own land but possessed the right to cultivate (nasag) a portion of the landlord's land in return for a specific share of the crop or a fixed rent in kind or in money. In the context of Iranian agriculture, the term 'peasant' is usually used to denote the nasaq-holding sharecroppers, an imprecise usage as we shall see. Most of these sharecroppers provided only labour, while some also contributed other productive factors such as seeds and draught animals. The nasag right was not hereditary or secure; the landlord could easily purchase a sharecropper's right and thus 'dispossess' him. Sharecropping contracts on the whole were insecure, nearly always verbal and designed to keep the sharecropper from accumulating any surplus. Landlords also used to redistribute the plots amongst
peasants annually, so as to prevent them from acquiring any claims on the land. No exact data exist on the size of nasaq-holding sharecroppers, but it is generally agreed that they constituted between 40% to 50% of pre-reform rural population.

The remainder of the rural population were non-cultivating peasants. Although they were internally divided into various groups, they had two characteristics in common: a landless status and the lack of any right to cultivate the land. The largest category within this heterogeneous group were landless agricultural labourers, generally known as khushneshins. They comprised about 40% of the rural population and about 80% of all non-cultivating peasants. The only means of subsistence of this group of landless peasants was casual wage-labour, which was basically seasonal. They were seasonally hired for various tasks such as weeding, tending sheep, threshing crops, picking cotton, etc. They had to move from village to village in search of wage-labour, which was always scarce because nasaq-holding peasants preferred to do most of the work themselves.

Although the only means of subsistence for these landless labourers was the sale of labour power to landlords or peasant-proprietors, they cannot be considered as rural proletariat in the pre-reform period. The position of landless labourer in a predominantly agrarian economy depends strictly on the character of the dominant relations of production in the countryside as a whole. Given the non-existence, or very limited development, of capitalist production relations in pre-reform Iranian countryside, the
landless labourers should not be regarded as proto-proletarian or proletarian as his landless position was not the direct result of the social differentiation of the peasantry. Throughout the 20th century the percentage of landless labourers has been increasing; in most villages before the land reform they constituted 25% to 40% of all residents (Hooglund, 1982:32). This increase was both the result of strict demographic factors, that is, an increase in the rural population and, more significantly, of the socio-economic mode of the transformation of the Iranian countryside, involving as it did an extreme concentration of private holdings, land confiscations, and peasant pauperization. None of these factors was directly related to the development of capitalism in agriculture.

Other groups of landless, non-cultivating peasants consisted of petty-bourgeoisie, that is, non-agricultural workers who owned their means of production and provided services and manufactured products for the villages. They comprised 10% of all the non-cultivating peasants and included blacksmiths, carpenters, coppersmiths, shoemakers, barbers, bathhouse attendants and religious functionaries (Hooglund, 1982:28-18).

The sharecropping contracts were organized on the basis of bunehs, or the basic unit of production and distribution. Only those peasants with a customary right to cultivate the land could work in the bunehs. Each buneh team had 4 to 7 members, and was under the charge of one person known as sar-buneh. The sar-bunehs were usually chosen by the landlords and their function was basically supervisory; they
rarely participated in agricultural tasks such as sowing seeds or ploughing. The division of labour within the bunehs, as well as the division of the final product, was almost always unequal. Nasaq-holding peasants performed almost all of the labour. Yet at harvest time, after the deduction of the share of the landlord, certain other dues and levies had to be paid, such as payment to village headman and religious officials. Moreover, the sar-bunehs usually received a higher percentage than sharecropping peasants. After the deduction of the landlord’s share, the share of sharecropping peasants amounted to only a fraction of the harvest, usually not sufficient to maintain even bare subsistence. Sharecroppers, therefore, had to resort to loans for both consumption and productive purposes to subsist during the year. These loans were provided by local moneylenders, small merchants, wholesale dealers, and village shopkeepers, as well as by the landlords themselves. The loan was usually in the form of advance given to the peasant in kind in winter or before the harvest, when peak prices prevailed. It had to be repaid in summer, or immediately after the harvest, in cash or in kind, when prices were lowest. Thus, in effect, the sharecropper had to pay an exorbitant rate of interest (Lambton, 1953). This practice, known as salaf-khari, or the presale of products, was a persistent feature of the Iranian countryside. Once a consumption loan was taken, it meant perpetual indebtedness for the peasant for he would only be able to repay a fraction of it at each harvest. Apart from consumption loans needed for the reproduction of the household, the sharecropper was also in need of money for the reproduction of the means of production. This money was provided by
usurers and merchants, as well as by other peasants such as owners of rural grist mills and owners of draught animals, village headmen, bailiffs and sar-bunehs. On the whole, usurers and merchants played a significant economic role in the villages and they comprised 6% of the population of non-cultivating landless peasants in the villages (Hooglund, 1982:18). This situation meant that not only there was an almost total absence of marketable surplus on the part of sharecropping peasants, but it also meant practical serfdom for sharecroppers. Compared to the landless agricultural labourers, the nasaq-holders enjoyed a higher status and security, but in reality they each owned only their labour power.

Sharecropper peasants also had to perform compulsory unpaid labour (bigari) for the landlord for a certain number of days each year. This free labour service included agricultural and non-agricultural work, such as the construction and repair of irrigation canals, and care of landlord's gardens (Demin, 1967:222; Lambton, 1953:338-341).

I have so far described the general pattern of rural stratification in pre-reform Iranian agriculture. However, a more accurate picture emerges if the Iranian peasantry is divided into the three categories of 'rich', 'middle' and 'poor' peasants on the basis of their structural position in production relations (Kazemi and Abrahamian 1978; Vali 1980). Rich peasants were those who were able to meet the conditions of the reproduction of the household and to accumulate a marketable surplus. They consisted of bailiffs (mubasher) appointed by the landlord; the oxen-owners
(gayband) who obtained from the landlord the right to lease plough animals; and the village headmen (kadkhuda) who were nominated by the landlord to oversee the process of production. This group of peasants usually accumulated their surplus by means of rent and interest extraction (renting oxen, providing consumption loans, etc.). Some of them also accumulated surplus through service functions. Rich peasants, when they owned land, often hired landless labourers to work on their land.

Middle peasants included those peasants who were able to meet the conditions of the reproduction of the household without resorting to consumption loans, but were often unable to accumulate a marketable surplus. They owned a very small parcel of land, or sufficient capital to cultivate landlords' allotment. Small peasant-proprietors did not hire landless labourers and used family labour to cultivate the land.

The category of poor peasants consisted of those peasants who owned no land at all but enjoyed the right to cultivate the land (nasag-holders), and those who had neither land nor cultivating rights (khushneshins). It has already been mentioned that the former group of poor peasants rarely owned any means of production and was, theoretically, entitled to one-fifth of the final product. This group of peasants, as we have seen, was perennially in debt and unable to subsist without consumption loans.

Although the distinction between the three categories of the peasantry in terms of their position in production relations
is basically clear, their precise size is extremely difficult to determine due to the absence of reliable and meaningful data. It is certain, however, that the vast majority of pre-reform Iranian peasantry fell into the category of poor peasants. We may recall that nasag-holders and khushneshins together formed about 80% to 90% of the total rural population. All specialists on Iranian agriculture agree that small peasant-proprietors, or middle peasantry, played an insignificant part in Iranian villages; at most they did not constitute more than 5% of the total peasant population (Araghi, 1987; Hooglund, 1982; Kazemi et al., 1978; Keddie, 1968; Vali, 1980).

Generally speaking, the absence of a middle peasantry can be attributed to a variety of economic, social and geographical factors. As discussed in Chapter Two, the particular mode of socio-economic transformation of Iran in the 19th century led to the entry of urban classes and groups, such as merchants and bureaucrats, into landownership. Peasant proprietors, unable to compete with urban investors, were squeezed out of the land market. Inadequate rainfall and the consequent reliance on the expensive irrigation systems (qanats), and the constant subdivision of the land resulting from the Ishamic law of inheritance also hampered the development of free peasant proprietorship (Kazemi et al., 1978; Lambton, 1953). On the whole, the middle peasantry owned remote and arid types of land and their holdings barely provided more than a mere subsistence level. I shall later discuss the impact of the land reform on these categories of peasants.
B. The Nature of Agricultural Production Relations

The single criterion adopted in Marxist analysis to characterize agrarian relations of production is the type of ground rent extracted by the landowning class. In *Capital* (Vol.III) Marx distinguishes between three types of rent in agriculture: precapitalist ground rent, differential rent, and absolute ground rent. In the precapitalist (feudal) mode of production, ground rent constitutes the relations of production and defines the essential mode of surplus extraction. The crucial characteristic of this form of rent is that the direct producer is not separated from the means of production and that it is fixed; it is not affected or determined by any direct economic mechanisms. This applies to both rent in kind and rent in money, and also to labour service. Peasants' production is divided between necessary product and surplus product (ground rent), which is paid to the landlord independent of economic mechanisms such as market fluctuations and producer's income.

Differential ground rent, which designates the CMP, does not constitute the relations of production but depends on, a priori, development of capitalist production relations. It arises either as a result of a difference in natural fertility or geographical situation, or as a result of investment of different amounts of capital in land. Capitalist ground rent presupposes that (i) the land and agricultural product are commoditized; (ii) direct producers are separated from the means of production; and (iii) the owner of land and the owner of capital are not the same person. Differential rent does imply the participation of
the agricultural product in the social equalization of the average rate of profit, and is thus fundamentally different from precapitalist ground rent in that it is a form of surplus-value extraction rather than the production relations themselves.

What directly concerns us here is a category Marx (Capital, Vol.III) terms absolute ground rent, as distinct from the other two types of rent. Marx emphasizes that the source of absolute ground rent is private monopoly in landownership under precapitalist production relations. In order to specify the conditions of extraction of this type of rent, it is necessary to discuss briefly the conditions of capitalist development in agriculture.

The basic tendency in both agriculture and industry is concentration and centralization of the means of production. In agriculture, however, realization of this tendency differs from that of industry because production relations and property relations do not necessarily co-incide (Mandel, 1977:278-81). This distinction is essential for understanding the character of absolute ground rent. In contrast to industry, capital faces a twofold monopoly in agriculture: a natural monopoly, i.e., the limited quantity of land and its indivisibility, and a property monopoly, that is, private concentration of land in the hands of a class of landowners who prevent access to land unless a rent is paid. The latter type of monopoly, private monopoly of land ownership, is the source of absolute ground rent. In countries where this monopoly has not existed, such as the USA, Canada and Australia, absolute ground rent has not
developed either. In agriculture, the distinction between production relations and property relations means that private concentration of land is a legal form of ownership and can occur without the existence of capitalist production relations. This is to say, in contrast to industry, the concentration of the means of production is not a precondition of the development of capitalism; capitalism can develop only after the barrier of private monopoly in land is removed, and agricultural production is revolutionalized, i.e., when socially necessary labour time and large-scale machine production are introduced.

Private monopoly of land ownership thus acts as a brake upon the penetration of capitalist production relations; it prevents the free flow of capital in and out of agriculture and, therefore, does not allow the participation of agricultural products in the equalization of the average rate of profit. These are precisely the conditions of absolute ground rent extraction. For Marx, the origin of this type of rent is the lower organic composition of capital in agriculture as compared to other capitalist sectors of the economy. This means that the value of agricultural commodities exceeds their price of production. The low organic composition of capital in agriculture thus generates a 'super-profit' which would not be produced if agricultural commodities could participate in the generalization of the average rate of profit under the conditions of capitalist competition. Monopoly in landownership prevents this process, and the landowning class appropriates this 'super-profit', that is, the difference between the value and the price of production in
the form of absolute ground rent.

While absolute ground rent presupposes a partial separation of the direct producer from the means of production, it also prevents development of capitalist production relations because of monopoly rights in land. This is to say, absolute ground rent entails a situation in which feudalism is essentially eradicated but capitalist production relations have not become dominant. It involves neither a capitalist nor a precapitalist pattern of land tenure. These are exactly the conditions of sharecropping. In relation to the characterization of sharecropping, Cutler (1975) argues:

... we cannot be said to be dealing with feudal rent, for the conditions of tenure in general preclude a right to surplus product of a legal kind other than that defined by capitalist contractual relations. On the other hand, it is clear that peasant production is distinct from capitalist conditions of production both in terms of the labour-process and the conditions of calculation. It is this distinction which forms the basis for an equivalent to Marx's ground rent ... (Cutler, 1975:86)

The pattern of land tenure in sharecropping, as Cutler suggests in the above passage, seems to correspond with the conditions of absolute ground rent extraction. The unit of production in sharecropping is neither fully capitalist nor precapitalist. On the one hand, the direct producer is only partially separated from the means of production, and sells not only his labour time but also an element of production on a contractual basis. The income of the sharecropper, in the case of the Iranian countryside, originates from the ownership of the means of production such as seeds, draught animals and sometimes working capital. The partial possession of the means of production by the sharecropper
enables landlords to intervene in the process of production. The landlord's share of surplus is not only derived from his monopoly ownership of land, but also from the interest on capital advanced in the form of the means of production.

Marx (Capital, Vol.III) characterizes sharecropping as transitional, that is, the rent extracted under these conditions is a precapitalist form of rent in a state of transition to capitalist ground rent. This is implied in the following passage:

As a transitory form from original form of rent to capitalist rent, we may consider the metayer system or share-cropping, under which the manager (farmer) furnishes labour (his or another's), and also a portion of the working capital, and the landlord furnishes, aside from land, another portion of working capital (e.g., cattle), and the product is divided between tenant and landlord in definite proportions which vary from country to country. On the one hand, the farmer here lacks sufficient capital required for complete capitalist management. On the other hand, the share here appropriated by the landlord does not bear the pure form of rent. It may actually include interest on the capital advanced by him and an excess rent. It may also absorb practically the entire surplus-labour of the farmer, or leave him a greater or smaller portion of this surplus labour. But, essentially, rent no longer appears as the normal form of surplus-value in general. On the one hand, the sharecropper, whether he employs his own or another's labour, is to lay claim to a portion of the product not in his capacity as labourer, but as possessor of part of the instrument of labour, as his own capitalist. On the other hand, the landlord claims his share not exclusively on the basis of his landownership, but also as lender of capital. (Marx, Capital, Vol.III:803)

However, sharecropping in the periphery does not have to be a transitional situation in the sense specified by Marx. Capitalist differentiation of the peasantry could take forms different from the 'classical model' of English experience which Marx had in mind in the above passage. In the Iranian
case a number of factors imposed serious limitations on the social differentiation of the peasantry and their ultimate separation from the means of production. In both sharecropping arrangements and payment of fixed rent, the landlord's economic control over production process was extreme. The periodic or annual redistribution of land by the landlord, the rarity of the payment of fixed rent (or privately owned land) and free peasant proprietorship, the type and extent of sharecropper's involvement in market relations, the distribution of land and products within a communal framework (buneh), the predominance and independent development of primitive forms of credit such as usurer's and merchant's capital, the feudal forms of division of land allotment such as land rented from the state or religious institutions, all inhibited capitalist differentiation of the peasantry and imposed limitations on the evolution of absolute ground rent into more superior types of rent. These factors almost always left the peasant-tenant and the sharecropper without a marketable surplus and thus limited development of commodity relations amongst them.

In the previous Chapters I have placed major emphasis on factors 'external' to the Iranian formation in explaining the absence of an organic transition to capitalist commodity production: the peripheral position of the Iranian economy within the capitalist world market under semi-colonial domination. I have argued that factors 'internal' to Iranian social formation, such as the existence of tribal-nomadic structures and Islamic laws leading to constant redivision of land, were of secondary importance. The same argument is relevant for an understanding of the persistence of
precapitalist production relations in the first half of the 20th century. The incorporation of the Iranian economy into the circuit of merchant capital consolidated and expanded monopoly ownership in land, which in turn acted as a brake upon the penetration of capitalist production relations. Absolute ground rent was not reinvested in agricultural production, and agricultural products did not participate in the equalization of the average rate of profit. Peasants' production, in both sharecropping and payment of fixed rent, was of a subsistence nature, despite the conversion from subsistence to cash-crop production from at least the mid-19th century onwards. This is to say that commodity production (for external markets) developed without affecting the internal labour process in agriculture, thus ensuring the increasingly high rates of rent and the conditions of maximum exploitation. The objective of production was reproduction of the household, rather than accumulation of surplus and expansion of production. Peasant proprietors and those paying a fixed rent were probably more affected by entrance into the world market, but these categories constituted an insignificant proportion of the peasant population and their living conditions were hardly above the bare subsistence level.

The conclusions to be drawn from the above analysis are twofold. First, the ground rent extracted by the Iranian landlord class was absolute ground rent. This was particularly the case in the post-constitutionalist era when monopoly ownership in land became more effective owing to the laws of competition in market for land. Therefore, not only political but also economic conditions acquired an
importance in conferring monopoly rights to land (Vali, 1980). Absolute ground rent was extracted in both sharecropping and fixed-rent-payment, in which the direct producer was not entirely separated from the means of production. This type of rent, as discussed above, is a direct consequence of the existence of private monopoly in land under the dominance of pre-capitalist production relations. In other words, while the integration of the Iranian economy with the capitalist world market created economic effects which seemed capitalist in character, precapitalist private monopoly in land was consolidated in conjunction with the formation of a competitive market for land and the commoditization of agricultural product. Secondly, although the sharecropping pattern of land tenure is considered as transitional, it has been argued that the particular mode of transformation in the periphery does not necessarily lead to a capitalist differentiation of the peasantry, as specified by Marx. I have already discussed the factors which blocked the social differentiation of the peasantry in the Iranian countryside.

The above analysis reinforces the conclusions drawn in the previous Chapters. Commodity production, monetization and wage-labour, although signs of a gradual dissolution of the existing structures, do not amount to the development of capitalist production relations. The Iranian agriculture remained predominantly precapitalist while undergoing a cycle of commoditization under the domination of merchant capital. This analysis also demonstrates the uneven character of capital accumulation on the world level. Integration with the world market reinforced rather than
disintegrated the existing pre-capitalist production relations, a requirement of capital accumulation at this stage. The logic of the global expansion of the CMP necessitated growth at certain sectors and underdevelopment at others.

C. The Land Reform

By the 1950s, when incorporation of the Iranian economy into the circuit of money capital had began in earnest, the old pattern of land tenure had become a fetter upon the development of capitalism in agriculture. The precapitalist structures had left vast areas of land untouched, and the labour was still tied to land. As late as 1960, 66% of the total population remained in the countryside, involved in subsistence production in a rural economy with a very limited degree of monetization and contact with the market. The methods of production were likewise outmoded: 75% of arable land was cultivated with animal power and 5% with human power. Only 4% of the total landholding was fully mechanized (Bharier, 1971:141). Feudalism was a barrier to the investment of capital at the point of production and to the creation of a capitalist home market; its logic was incompatible with the dynamics of the internationalization of money capital. The objective of the Iranian land reform was precisely to remove this barrier.5

The land reform, which began in 1962 and ended in 1971, was carried out in three phases. The basic objective of the first phase of the reform was to break up large-scale landownership by reducing it to the equivalent of one
village. Individual landownership was therefore limited to one village, or to six dangs in separate villages. Landlords were free to choose the village, or the dangs in each of six different villages which they wanted to retain. They were required to sell their excess holdings to the state, which would reimburse them over a period of 15 years. The state would then sell this land to the peasants, who had to repay the value plus 10% administrative costs over a period of 15 years.

However, this phase of the land reform resulted in inevitable inequalities not only because small landowners, those owning one or less than one village, were not affected but also because a number of loopholes allowed large landowners to retain their property. Certain categories of land were exempted from redistribution altogether, including orchards, woodlands, mechanized land worked by wage labourers and religiously endowed property (vaft). This allowed large landlords to select their most fertile land and declare it as 'orchard', or else obtain a tractor and employ wage-labourers and declare their land as 'mechanized'. Moreover, the law also stated that wives and dependent children of landowners were entitled to the upper limit of land. Thus a large number of landlords transferred their excess holdings to their wives and children (Lambton, 1969:101). These various clauses helped large landowners to retain vast areas of their land, and so remain largely unaffected by the reforms.

More importantly, the law stated that land could be sold only to those peasants who had a customary right to
cultivate the land (nasag-holders), or to those who owned one of the factors of production such as draught animals, grist mills or tools. The landless wage labourers (khushneshins), with nothing to sell but their labour power, were totally excluded from the land reform. Thus, by excluding 40% of the rural population, legalizing their landless position, and giving priority to those who were either sharecroppers or owners of agricultural means of production, the land reform accentuated the existing differentiation within the peasantry. Permanent proletarianization of landless agricultural labourers was also a necessary prerequisite if capitalist production relations were to develop in the countryside.

The law made membership of rural co-operatives mandatory for peasants receiving land. The rural co-operatives were created to assist peasants in obtaining credit, marketing surplus, and purchasing agricultural supplies. As will be discussed later, cooperatives failed to perform this role and became agencies of state control.

The exact number of villages in Iran is a matter of controversy. According to 1966 census data, which defined a village as a permanent settlement inhabited by at least 5,000 people, there were 67,000 villages in Iran (Hooglund, 1982:4-5). Estimations of the number of villages and peasants affected by the first phase of the land reform are equally conflicting. However, given the unequal distribution of land amongst the peasantry and the various escape clauses allowing landlords to retain their holdings, the impact of this phase of the land reform was limited. The approximate
estimation would be that about 30% of all villages were affected by the first phase of the land reform. Only a third of these villages were wholly distributed, while the remaining two thirds were partially affected by land redistribution. On the whole, between 25% to 33% of all peasant families received land under this phase of the reform. It should be noted that this estimation includes only the sharecropping nasag-holders and owners of agricultural means of production. Given that 40% of the rural population were excluded from land redistribution, the percentage of the total rural population affected by this phase would be much lower.

The second stage of the land reform, which began in February 1965, was designed to regularize the existing land tenure system rather than to further redistribute land. It basically amounted to an institutionalization and increase of the existing tenancies. This phase dealt with those villages which had been exempted from redistribution under the first phase. The law provided for all land cultivated by sharecroppers to be settled according to one of the following 5 options:

1 - Rent the land to peasants on the basis of 30-year leases. The landowner would receive an annual cash rent determined by the net income of the past three years and subject to 5-year revisions.

2 - Sell the land to peasants at a mutually agreed upon price.

3 - Divide the land with peasants according to the prevailing sharecropping arrangements.

4 - By mutual agreement, establish an owner-cultivator
joint-stock company. Each member would receive shares according to the number of the means of production contributed (land, tools, etc.). Profits from the sale of the crop would be distributed according to the ownership of shares.

5 - Purchase the peasants’ cultivation rights.

Religiously endowed properties (vafq), which had been exempted in the first phase of the land reform, were also subject to tenancies lasting for 99 years. As in the first phase, landless agricultural labourers were excluded in this phase of the reform and only share-cropping nasag-holders were allowed to purchase or lease lands (Lambton, 1969: 200-2). Large landlords could exempt 500 hectares of their property from these methods of settlement by declaring them as ‘mechanized’, that is, by acquiring a tractor and employing wage-labour.

The second stage was completed in January 1967. Overall, 54,032 villages (including some of those partially affected by the first phase) and 21,919 farms were affected by it (Hooglund, 1982:64). From a total of 1.7 million sharecroppers, only 57,164 (3.64%) peasants bought landlords’ land; another 156,279 (10.04%) peasants became landowners through division of land according to sharecropping arrangements; another 83,267 received shares in agricultural corporations, while only 17,157 (0.87%) peasants agreed to sell their cultivation rights. Therefore, the most popular method of settlement was the conclusion of 30-year tenancies between peasant sharecroppers and landlords. By the end of 1971, over 80% of all peasants
transferred their sharecropping arrangements to tenancies (Halliday, 1979:111-2; Hooglund, 1982:64-7; Richards, 1975:8). Although a large number of peasants were affected by this phase of the reform, a smaller number actually acquired land; 200,000 peasants received land under the second phase compared to 750,000 under the first phase (see Table 16). The predominant result of this phase was the transformation of previously insecure and verbal sharecropping arrangements into written and legally binding tenancies, which also prevented further division of landholdings. Tenancy arrangements were welcomed by landowners, for they essentially preserved their property rights. This protection of landlords' property rights prevented the replacement of the power base of landlords by a strong, independent peasantry, while the independence of landlords as a class was significantly eroded by the state.

The predominance of tenancies under the second phase only gave legal sanction to the previous sharecropping arrangements. In 1968 the government decreed a new set of regulations, known as the third phase of the land reform. These regulations provided for the sale of all land held on 30-year leases to peasant-tenants. This phase was thus designed to convert the tenancy arrangements, brought into being by phase two, into ownership by selling the land to tenant-farmers. The sale of land did not apply to religiously endowed property, leased for a period of 99 years, nor did it affect 'mechanized' land, exempted under the previous two phases. However, landlords still had the choice of dividing their lands with peasant-tenants according to sharecropping arrangements, or buying their
cultivation rights. This phase ended in September 1971 when the land reform programme was officially terminated.

There are no accurate statistics on the number of tenant-farmers affected by the third phase. As can be seen in the following table, about 800,000 peasants acquired land by purchase or transfer, that is, about two-thirds the number of those receiving tenancies under the second phase. Therefore, roughly, 450,000 to 50,000 peasants lost the right they had acquired previously under phase two and became landless labourers or migratory workers. Taken together, 92% of all 2.1 million pre-reform sharecroppers were transformed into peasant-proprietors within the period of 1962-71. Over one-third of the total, or about 750,000, of sharecroppers received land under the first phase of the land reform. Under the second phase, approximately another 200,000 peasants became landowners, and in the third phase about 800,000 tenants were able to obtain land. The following table summarizes the results of the land reform in the period of 1962-71.

Table 16: Land Redistribution 1962-1971

<table>
<thead>
<tr>
<th>Total Nasag-holders, 1962</th>
<th>2,100,028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peasants Acquiring Land</td>
<td></td>
</tr>
<tr>
<td>Under Phase 1</td>
<td>753,258</td>
</tr>
<tr>
<td>Under Phase 2</td>
<td></td>
</tr>
<tr>
<td>Owner Sale to Peasants</td>
<td>57,164</td>
</tr>
<tr>
<td>Owner Division With Peasants</td>
<td>156,279</td>
</tr>
<tr>
<td>Under Phase 3</td>
<td></td>
</tr>
<tr>
<td>Purchase of 30-Year Tenancies</td>
<td>738,119</td>
</tr>
<tr>
<td>Owner Division With Peasants</td>
<td>61,805</td>
</tr>
<tr>
<td>Total</td>
<td>1,766,625</td>
</tr>
<tr>
<td>Peasants Holding 99-year Vafq</td>
<td>172,103</td>
</tr>
<tr>
<td>Leases</td>
<td></td>
</tr>
<tr>
<td>Total Beneficiaries of Land Redistribution</td>
<td>1,938,728</td>
</tr>
<tr>
<td>Peasants Not Obtaining Land</td>
<td>161,300</td>
</tr>
<tr>
<td>Percentage of Nasag-holders Obtaining Land</td>
<td>92%</td>
</tr>
</tbody>
</table>

Source: Hooglund, 1982: 72
I shall later discuss the implications of the transformation of 92% of sharecroppers into a class of peasant small-owners for the development of capitalism in Iranian agriculture. At this point it is necessary to emphasize that one reason for the inability of this class of peasant-proprietors to sustain their holdings was the failure of rural cooperatives to perform their role as credit organizations. Although membership of cooperatives was made mandatory for peasants receiving land, by 1972, 8,450 societies had been created, registering only 54% of those eligible for membership (Katouzian, 1974:234). It is important to note that the main reason for the slow growth of cooperatives, especially during the first phase of the reform, is that they were seen as developing into autonomous peasant bases, and particularly into a stronghold of support for the Agricultural Minister Arsanjani. Appointed as Minister of Agriculture in 1961, Arsanjani was considered as a radical reformer, and his National Congress of Rural Cooperatives was seen as underplaying the role of the monarch. In 1963 he 'resigned' over the question of cooperatives. The Ministry of Land Reform and Rural Cooperatives was established in 1965, and in 1967 the Central Organization of Rural Cooperatives (CORC) was incorporated into this Ministry. The function of CORC was to borrow from government banks and the Plan Organization and to provide credit to small peasant-proprietors through cooperatives. The incorporation of CORC into the newly-instituted Ministry, and later in 1969, the takeover of its financial functions by the Agricultural Cooperative Bank, were aimed at preventing the development of cooperative societies into autonomous peasant bases and increasing state control of rural areas. Even
after the removal of Arsanjani and the establishment of a firm control of cooperative movement, the Shah was wary of substantially increasing the flow of funds into cooperatives. Compared with the real credit needs of the peasantry, the total amount of sums going into coops remained insignificant. Therefore, from semi-autonomous institutions cooperatives were transformed into agencies of the state, which utilized them to provide credits to mainly 'rich peasants'. For the majority of small peasant-owners, traditional dependency on moneylenders and usurers, and the practice of salaf-khari, continued as before.

I have so far discussed the land reform without any direct reference to its impact on nomadic societies. As I have argued in Chapter Three, tribal structures represent a set of production relations different from that of sedentary societies due to the communal nature of land ownership, the centrality of the kinship system and the mode of surplus extraction. At a more general level, however, they express the conditions of natural economy in that they are involved in simple reproduction. As has been previously argued, commoditization of the economy and the development of private property rights in land also affected tribal societies by introducing production of exchange-values and gradually dissolving their internal structures, although to a much smaller extent. There are no meaningful data on the size of nomadic population and the extent of the commoditization of their economies. Issawi (1971:20) estimates that nomadic tribes made up about half the Iranian population in the early 19th century, and a quarter at the end of the century. In the period before the land reform, it
is estimated that 2 million out of 18 million of rural population was constituted by tribes; they formed between 11% to 12% of the non-urban population of Iran (Hooglund, 1982:5; Brun et al., 1978:18).

In relation to tribal societies, the land reform had a similar objective as it did in relation to sedentary societies: undermining the subsistence nature of their economy, thus allowing for capitalist production relations to develop. The land reform broke up the communal pattern of land ownership in tribal units by allocating land to individual tribal households and undermining the economic and social role of tribal chiefs. The accompanying law of the nationalization of pastures aimed at preventing the communal use of grazing land. Their settlement was not beneficial to non-urban economy; meat production, for example, declined substantially (Brun et al., 1978:19). Tribes were assigned the worst land, and received no support or loans. Inexperienced as farmers, lacking capital, skills or a trade, the land reform and the nationalization of pastures were steps towards their proletarianization (Brun et al., 1978; Keddie, 1981; Fazel, 1985). Although no data on the extent of the transformation of tribal societies are available, it is safe to assume that land reform policies led to the penetration of exchange-value production of tribal units more systemically than before. I shall later deal with the question of the incomplete dissolution of tribal economies in the post-land reform period.
In the sedentary agriculture, two new phenomena of farm corporation and agribusiness reinforced the dispossession of the peasantry and consolidated state control in the late 1960s and 1970s. The legislation for the establishment of farm corporations was passed in 1967. These corporations were collectively-owned agricultural units which incorporated up to 10 villages into a single unit. All capital investment was provided by the state and no private capital was involved. Peasant-proprietors, tenants and owners of agricultural means of production were required to turn over their land and property in return for land shares in farms equivalent in value to the property contributed. Peasants would obtain a portion of the annual profit on the basis of the number of shares they held. They could also supplement their income by working for the corporation for a daily wage. In this sense, peasant-proprietors were not exactly dispossessed, and their ownership of land was converted into ownership of shares. In reality, their position changed from peasant-proprietors and tenants into proto-proletarians. Membership of farm corporations was confined to peasants who had acquired land through purchase or division of land under any of the three phases of the land reform, to cultivators of plantations and orchards which had been exempted from distribution, to small landowners living in the villages, and to those landowners and sharecroppers who had not been affected by the land reform. According to the 1967 Act, farm corporations could be established only if 51% of those deemed 'eligible' by the state gave their consent (Richards, 1975:10). The landless labourers, constituting 40% of the rural population, were neither entitled to vote for the formation of farm
corporations nor to become members.

The main objective of farm corporations was to accelerate capitalization of agriculture through specialization and mechanized production of cash crops, high rates of capital investment, and by concentrating fragmented individual holdings into vast corporate tracts. Farm corporations also increased the state's economic and social control in the rural areas. The state invested large amounts of capital in these agricultural units in the form of low interest rates and long-term loans. By 1978, a total of 94 farm corporations, encompassing 850 separate villages with a population of over 300,000, had been established. The typical farm corporation embraced 8 to 10 villages (Hooglund, 1982:86). Despite heavy state investment, farm corporations did not lead to increased agricultural productivity. By the mid-1970s, they accounted for only about 5% of the total agricultural output (Richards, 1975:12).

As a result of the establishment of farm corporations, peasant-proprietors increasingly lost their control over the land. Those sharecroppers who had received land in the first phase of the land reform, and those who had become tenants in the second phase, found these arrangements void of any meaning. They were hostile to farm corporations and considered working on these farms as wage-labourers and share-holders as next to virtual proletarianization. The sense of insecurity, resentment and resistance on the part of peasants was so strong that a bill, enacted in 1975, authorized the forced expropriation of the land belonging to
those peasants who refused to join the farm corporations (Halliday, 1979:113). These corporations, by promoting differential shareholding and excluding the landless labourers from membership and shareholding altogether, perpetuated class divisions in the rural areas. Some of the rich peasants did prosper as a result of receiving dividends from their shares, but such peasants formed an extremely small minority. The pattern of shareholding widened the gap between them and the majority of peasant-proprietors on the one hand, and between these two groups and landless labourers on the other hand. The landless labourers found themselves permanently driven out of the rural areas as farm corporations reduced demand for casual wage-labour.

The introduction of agricultural joint-venture investment, known as agribusiness, completed this phase. The origin of agribusiness dates back to the mid-1950s when an American firm began the construction of Dez Dam, which irrigated 20,000 acres of land, in the southwest province of Khuzestan (Theberge, 1973). In 1968, agribusiness projects began in earnest when the state bought large tracts of land from peasant small-owners at nominal prices to promote agribusiness complexes over 5,000 hectares. The objective of agribusiness policy was similarly the creation of large-scale, mechanized capitalist farms. The investors in these projects were the state and foreign and domestic private capital, although in practice the Iranian state owned more than 60% of the shares of all agribusiness firms altogether (Katouzian, 1983:318). In addition to large-scale direct capital investment, the state made every effort to attract foreign capital investment, including tax relief,
low interest long-term loans, cost-sharing of major
construction projects, and guarantees for repatriation of
profits to foreign countries. In the case of Dez Dam in
Khuzestan province, the state compelled all of the
peasant-proprietors in 58 villages to sell their land,
amounting to a total of 67,000 hectares. Subsequently,
55,000 persons were evicted and the villages were bulldozed
away. The state then leased the land for 30 years to 11
domestic and foreign companies, including MNCs such as
Mitsui of Japan and Shell International, and international
banks such as Bank of America, Chase Manhattan Bank and City
Bank of New York. By 1978 a total of 36 agribusiness firms
controlled an aggregate of 200,000 hectares of irrigated
land. The total number of displaced persons is unknown, but
as many as 75,000 people are estimated to have been evicted
as a result of the formation of these firms. By the late
1970s only 10,000 to 20,000 of these dispossessed villagers
were 're-settled' in the government-built shanty towns on
the fringes of the cities (Hooglund, 1982:85; Richards,
1975:14)."

Although the three phases of the land reform, and the
subsequent farm corporations and agribusiness projects,
achieved their principal objectives of reducing the size of
private feudal holdings, creating a class of capitalist
farmers and 'freeing' labour, they failed both to expand a
home market which could absorb the dispossessed labour and
to raise agricultural productivity; both necessary
prerequisites if a successful capitalization of agriculture
was to be accomplished. Essentially, land reform policies
created two types of landholding: large-scale capitalist
holdings of agribusiness firms, farm corporations and private firms, and the small holdings belonging to peasant-proprietors. Apart from differences in the quality of land, scale of production, choice of technique, and managerial organization, they also entailed significantly different types of landownership and production relations, which will be analyzed below. Farm corporations and agribusinesses together accounted for only 2.8% of the crop land; the remaining 97.2% of landholding was owned by private capitalist farms and peasant small-owners. Within the latter category, 15.2% of the total landholding was owned by private capitalist farms, and thus peasant-holdings accounted for 82% of the crop land (Katouzian, 1983:331).

The following table shows the distribution of land amongst these categories.

Table 17: Distribution of Land Amongst the Main Categories of Landholding

<table>
<thead>
<tr>
<th></th>
<th>Million Hectares</th>
<th>(%) Share in Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Traditional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(non-corporate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Peasant</td>
<td>17.2</td>
<td>97.2</td>
</tr>
<tr>
<td>(ii) Independent Capitalist</td>
<td>(14.5)</td>
<td>(82.0)</td>
</tr>
<tr>
<td>(ii) Independent Capitalist</td>
<td>(2.7)</td>
<td>(15.2)</td>
</tr>
<tr>
<td>2. Modern (corporate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Farm Corporations</td>
<td>0.5</td>
<td>2.8</td>
</tr>
<tr>
<td>(ii) Agribusinesses</td>
<td>(0.3)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>(ii) Agribusinesses</td>
<td>(0.2)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>3. Total</td>
<td>17.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Katouzian, 1983:332

The failure of both corporate land and peasant small-holdings in raising the productivity of labour is directly related to the state’s credit policies. In general, state policy favoured extensive, large-scale private
mechanized farming against small and medium peasant-proprietors. Most state economic and technical aid from the late 1960s onwards went into a small number of large-scale capitalist agricultural units. On average, only 10% of the state plan funds were allocated to agriculture in 1963-76. More than 50% of these funds was spent on farm corporations and agribusinesses covering only 2.8% of the total crop land and producing crops such as sugar cane, cotton and opium for export markets. A consequence of the lack of access to long-term credit was the low capital investment by small peasant proprietors. In 1978, one-third of total capital was owned by just over 1% of the landowning peasants (Katouzian, 1978:333-4, 359). This figure shows the gross inequality in the distribution of both state credit and land. Moreover, the provision that only landowning peasants could be members of cooperatives and receive loans accentuated the class divisions in the rural areas. The inequality increased between nasaq-holders who had received land, and those landless wage-labourers who had not, as did the inequality among the peasant-proprietors themselves.

The concentration of ownership of land and the mechanization of agriculture, as well as the state’s credit policies, led to tremendous unemployment in the rural areas and to rural-urban migrations. Between 1966 and 1976 at least 2 million villagers migrated to the cities (Carey, 1976:360). In contrast to the 1930s and 1940s, rural-urban migration in the 1960s and 1970s was related to ‘push’ factors, i.e., to landlessness and limited employment opportunities in the rural areas (Bharier, 1971:31). Rural-urban migrations due to ‘push’ factors signalled the beginning of a large-scale
and systematic process of real subsumption of labour by capital. Between 1955 and 1966, 80% of the decline in the agricultural labour force was attributable to the departure of dispossessed peasants. Between 1969 and 1976 the percentage of the total labour force employed in agriculture fell from nearly 46% to 33% (Amuzegar et al., 1971:97; Bharier, 1971:140-1).

Another consequence of these agricultural policies was that peasant-proprietors consumed most of their production and could not produce a marketable surplus. The little credit which small producers could obtain was spent mainly on their immediate consumption needs or was used to repay old debts. Peasant-proprietors had to resort to traditional sources of credit, obtaining loans at high interest rates from moneylenders, merchants and usurers in the villages; foreselling their harvest at low prices, cutting back on household consumption, and leaving a large part of their land fallow. This point brings us to the important question of the nature of production relations in small peasant holdings and their relationship with other types of landownership.

D. Post-Reform Class Structure: Development of Capitalism and Non-capitalist Forms of Production

In Chapter Two of this study, I have argued that precapitalist production relations are transformed by capital exercising different degrees of control over production and exchange. This has been shown through the distinction between direct or real subsumption of labour
through the process of production, and indirect control or formal subsumption of production relations through markets. It has been argued that different types of subsumption, and different forms of capital, can co-exist in a single area and can be mutually dependent. In the following analysis I argue that state-induced agrarian transition in Iran has resulted in different forms of control and penetration by capital, and then consider the implications of this particular type of capitalist development for the agrarian class structure.

At a very general level, the result of nearly one decade (1962-71) of agrarian structural changes was the removal of the barrier of precapitalist private monopoly on land, which allowed the introduction of capitalist production relations. The first important impact to consider is the structural change in the nature of private land ownership. We may recall that before the land reform about 70% of the country’s total of 17.7 million hectares of crop land belonged to absentee landlords. After the reform, it has been argued that three types of land ownership came into existence: privately-owned capitalist farms, covering 15.2% of the crop land; corporate land (farm corporations and agribusinesses) covering 2.8% of the crop land; and peasant small-holdings covering 82% of the crop land. Therefore, the size of the privately-owned crop land was reduced substantially by land redistribution: from 70% to less than 18% of the crop land. The number of large absentee landowners was similarly reduced. During the 1970s, there were some 200,000 absentee owners, that is, approximately half of the number of non-cultivating owners before the land
reform (Hooglund, 1982:78-9). In other words, 52% of privately-owned crop land (excluding orchards and pastures) was sold or leased to share-croppers and owners of agricultural means of production; while 50% of prereform absentee landlords continued to own nearly 18% of the crop land (or 50% of the total land, if orchards and pastures are taken into account - see note No.15). Moreover, the extent of concentration of land amongst the large landowners decreased. The holdings of at least 90% of private landowners were between 20 to 100 hectares, while truly large land ownership, that is, ownership of land from 100 to 500 hectares, was limited to approximately 7,000 individuals (Hooglund, 1982:81-2).

The land reform, therefore, not only reduced the number of absentee landlords to one-half but it also decreased the extent of concentration of land within the remaining members of this class. Large private estates, embracing several villages each, were eliminated. But what is particularly significant is that, after 1971, the nature of landownership in these large private estates was fundamentally transformed: precapitalist landowners were transformed into capitalist farmers. Within these large estates, sharecroppers lost their traditional right to cultivate the land. The landowners exploited the land on the basis of two methods: they either leased out their land seasonally and in return for a fixed rent in cash, payable either in advance or after the harvest, or they employed wage-labour. As wage-labour employment proved more profitable than leasing the land, it became the predominant method of cultivating the land.
Corporate lands (farm corporations and agribusinesses) were also based on capitalist land ownership, with the difference that instead of individual capitalist farmers, these farms were controlled, managed and largely owned by the state. The wage-labour employed on both private and state-owned farms was provided by landless agricultural labourers. The effect of excluding this group of the rural population from land redistribution was to create a class of rural proletariat whose only means of subsistence was the sale of its labour power. In 1971 there were about 1 million agricultural labourers who depended almost entirely on wage-labour (Hooglund, 1981:115-9).

So far, we can conclude that the land reform substantially altered the feudal nature of landownership by transforming feudal estates into capitalist farms predominantly based on wage-labour employment and production of cash-crops for the market. The capitalist farms were owned by private individuals, foreign capital or the Iranian state. Some of the privately-owned capitalist farms were over 50 hectares, while others were between 50 to 10 hectares. The ultimate objective of production in these farms was to maximize profitability by reinvestment of the surplus in production processes, such as in advanced agricultural machinery and fertilizers, and by reducing the cost of production through exploitation of cheap labour power. With the removal of the precapitalist private monopoly on land, products of these farms began to participate in the equalization of the average rate of profit, and a capitalist type of calculation came to dominate these enterprises. New classes of agrarian bourgeoisie and proletariat emerged.
The land reform also transformed approximately 98% of pre-reform sharecroppers into a class of peasant-proprietors, numbering about 2 million peasants. As mentioned above, the pattern of land redistribution amongst this class of peasant small-holders was extremely unequal. The land reform law gave priority to 'rich peasants'. On the whole, out of the 2 million peasant-proprietors, about 75% acquired land of less than 7 hectares; and about 35% within this category obtained land of less than 1 hectare (Hooglund, 1982:90-1). Given that the minimum of subsistence level in Iranian agriculture is ownership of 8 hectares of land, the fact that 75% of peasant-proprietors owned land below subsistence level had significant implications for the development of capitalism in agriculture and rural class formation. The nature of production relations within these households and their relations to capital (i.e., private capitalist farms, farm corporations and agribusinesses) indicate the particular character of agrarian transition to capitalism.

In *Development of Capitalism in Russia*, Lenin (1956) distinguished between two paths of transition to capitalism. The first path, called the 'Prussian path', consisted of the transformation of the landlord class into capitalist farmers by means of internal evolution of the estate. This form of transition has also been called one of 'internal proletarianization' as it is marked by the transformation of tenants into wage-labourers within the boundaries of the estate. The second form of transition is that of the 'American path', or 'external proletarianization', based on the capitalist differentiation of the peasantry or direct
producers. This differentiation arises when tenants obtain the title to their land and begin to work it independently of the landlord. The capitalist differentiation divides peasants into the three groups of 'rich' ('kulaks'), 'poor' and 'middle' peasants.

In the Iranian case, we can observe that the state's intervention in agriculture has resulted in a combination of both 'internal' and 'external proletarianization'. The transformation of large feudal landlords into capitalist farmers employing wage-labour provided by previous tenants and sharecroppers of the estate is analogous with the 'internal proletarianization' path. The feudal estates transformed along this line, we may recall, covered only a small proportion of the crop land if we disregard orchards and pastures, but about 50% of the total land if we take them into account. The transformation of sharecroppers-tenants into peasant-proprietors can be interpreted as a movement towards 'external proletarianization'. A minority of these employed wage-labour; about 8.6% of peasant-proprietors owned between 10 to 50 hectares of land, and we can assume that employment of wage-labour occurred amongst this small group of 'kulaks'. But this is not an accurate picture. It would be erroneous to assume that a general theory of agrarian transition can be drawn from Lenin's analysis of one conjuncture, and that the changes which took place in 20th century Iran were exact historical parallels of those which Marx or Lenin described. I argue that the capitalist differentiation of the peasantry ('external proletarianization') took a specific form in the Iranian
agriculture. A closer examination of the class of peasant-proprietors, and their relationship to capital, clarifies this point.

As mentioned above, an overwhelming majority of peasant-proprietors, that is, 75%, acquired land which was below the subsistence level. Thus, compared to a small minority of private capitalist farmers, the reform created a rather large class of owner-cultivators who were unable to subsist through their holdings. In order to specify the nature of production relations and the relationship of peasant-proprietors to capital, I have to refer to another distinction made by Lenin in the *Development of Capitalism in Russia*. Lenin argues that the movement of capital to determine the conditions of precapitalist production and exchange can be described broadly in terms of 'horizontal' and 'vertical' concentrations of direct producers. Horizontal concentration occurs with direct expropriation and proletarianization of the peasantry and the formation of enterprises which are capitalist in their organization of production and mode of economic calculation. This is the 'classic model' of transition, in which agriculture is characterized by large-scale capitalist farms and wage-labour. This model also implies the real subsumption of labour by capital. Vertical concentration, on the other hand, occurs when capital comes to dominate the production of numerous small producers without transforming their internal structures. Labour processes are formally subsumed by capital in this mode of capital penetration.
In the periphery, as Goodman and Redclift (1981) observe, the state's intervention in agriculture has usually resulted in the 'vertical concentration' of the peasantry. To be more precise, state intervention in the Iranian agriculture resulted in the 'vertical concentration' of an overwhelming majority of sharecroppers. The nature of production relations within these households was subsistence production, that is, production of use-values through family labour for immediate personal consumption and reproduction of the household. But since the size of their allotments was much below the subsistence level, peasant-proprietors had to resort to other sources of income to meet the conditions of reproduction of the household. One such supplementary means of support was casual wage-labour on private capitalist farms or state-owned/controlled corporate lands. But wage-labour within villages did not amount to more than several days' wages per year. After 1971, the majority of these small-holders had to find wage-labour outside villages, that is, they had to travel to urban centres on a daily or seasonal basis. This situation clearly shows that the majority of small-holders were not fully dependent on wage-labour, nor could they meet the conditions of the reproduction of the household without it. It has been argued in Chapter Two that under the conditions of combined production of use-value and exchange-value, and partial possession and control of the means of production by direct producers, capital dominates these direct producers without altering their internal labour process. These direct producers are thus formally subsumed by capital. More precisely, the relations of production in which these direct producers are engaged represent particular and determinate
combinations of precapitalist and capitalist relations of production. The reproduction cycle of these direct producers has been broken and so production of exchange-value has become an economic necessity. In this sense, they do not constitute a distinct, separate mode of production.\textsuperscript{16} The form of capital dominating these households is no longer merchant's capital operating in the sphere of exchange only, but money capital intervening at the point of production. In this sense, these subsistence producers are fundamentally different from pre-reform subsistence producers. Placed in the context of capitalist production relations, it is not possible to suppose that these subsistence producers exist in a state of 'natural economy', operating independently of the larger relations of production which engulf them. Indeed, the term 'peasant-proprietor' is descriptive rather than analytical in that it does not specify the internal organization, the mechanisms of surplus appropriation and the mode of subsumption of these production units by capital.

In their competition with the farm corporations, agribusinesses and private farms, which represented the interests of capital, small peasant-proprietors had to cover costs of their reproduction, both individual and productive, characteristically through 'self-exploitation', resulting in the devalorization of their labour time and production of absolute surplus-value. One form of this 'self-exploitation' was domestic production of carpets and textiles. As I have discussed in the previous Chapter, carpet weaving spread in both rural and urban areas in the 1970s. It has been argued that domestic production of carpets and textiles, especially
by female members of the household, contributed to the reproduction of labour power and was therefore a source of subsidy for capital. According to Bharier (1971):

> Throughout the twentieth century many farmers and their families supplemented their incomes not only by production of livestock products but also by small-scale manufacturing or processing activities. For the most part, such activities were for self-consumption but some products, particularly carpets, were marketed. (Bharier, 1971:141)

As mentioned earlier, greater reliance on cash-income and pre-sale of products are characteristic features of devalorization of labour time. This is particularly evident in the continued dependence of peasant-proprietors on credit advanced by village shopkeepers, moneylenders and middlemen; and the persistence of the practice of salaf-khari (pre-sale of products) in the post-reform period in the rural areas. The subsistence nature of these production units, in competition with capital, forced peasant-proprietors to remain dependent upon consumption loans as well as on loans for the reproduction of the means of production from village shopkeepers and moneylenders. Through various policies such as high interest loans, food credits and pre-harvest purchase of products, shopkeepers and moneylenders kept the majority of small producers perennially in debt. Indeed, with the abolition of sharecropping, shopkeepers and moneylenders became the indirect beneficiaries of the share of the harvest which formerly belonged to the landlord. Although their monopoly over credit and finance had apparently been eroded by the formation of the Agricultural Bank and cooperative societies, these state institutions did not represent a serious threat to small traders and
moneylenders because state policy channelled state-loans to large-scale capitalist farms. Therefore, shopkeepers and moneylenders continued to be the main source of high-interest short-term consumption loans. By the 1970s, they had increased their business with peasants by 25% by comparison with the previous decade (Hooglund, 1982:95). This is an illustration of the point made earlier that different forms of capital can co-exist and be mutually dependent within a social formation. Rather than eradicating merchant’s and usurer’s capital, the introduction of capitalist production relations consolidated them, albeit in a subordinate position.

With regard to class characterization, I have argued in Chapter Two that these direct producers are neither ‘semi-proletarians’, nor ‘disguised proletariat’. They are, rather, ‘wage-labourer equivalents’, implying that their full proletarianization is an open question rather than an inevitable destiny. In their relationship with capital, these direct producers may continue to be reproduced for a long time, or they may eventually be proletarianized; the final outcome would depend on the particular local conditions of class struggle. In the Iranian case, the conversion of sharecroppers into a class of peasant-proprietors meant that the same individual came to play a new role (wage-labour) in the labour market without implying the necessary disappearance of subsistence production. Owning 2 or 4 hectares of land could be a prelude to eventual landlessness, or it could result in the same individual playing multiple social roles created by the labour market.
With regard to nomadic societies, it has been argued earlier that the land reform, and particularly the law of the nationalization of pastures, broke up the communal use of grazing land and undermined the subsistence nature of their economy. The distinction made here between pastoral and sedentary societies is based on two different sets of production relations rather than two essentially distinct 'peasant' and 'nomadic' modes of production. In the post-reform period capitalism was developing in Iranian agriculture but less rapidly and systematically so in tribal structures as their integration with the larger economy was slower. Capital penetration of tribal societies was not thorough as it did not lead to a complete separation of direct producers from the means of production. Brun et al. (1978:18), for example, show that in the post-reform period tribes came to be increasingly dominated by merchants and usurers from the urban areas, who bought their lambs very cheaply and sold them items such as sugar, tea and cloth at exorbitant rates. In competition with capital, therefore, the labour of nomadic producers was similarly devalorized, leading to their self-exploitation and semi-proletarianization. To the extent that the dissolution of the subsistence economy of nomadic tribes was incomplete and they combined production of use-value with that of exchange-value, nomadic societies can also be characterized as non-capitalist structures formally subsumed by capital.18

The above analysis of the impact of penetration of capital on the rural class structure can be summarized in the following terms:

1 - The land reform not only abolished the ownership of
large feudal estates by their redistribution and by reducing the number of absentee landlords to nearly one-half, but it also structurally transformed the nature of landownership. Large feudal landlords were transformed into capitalist farmers, employing the previous sharecropper-tenants on the estate as wage-labourers (‘external proletarianization’).

2 - The reform transformed the majority of sharecroppers into a large class of peasant-proprietors. While this transformation could potentially lead to capitalist differentiation of the peasantry (‘internal proletarianization’), the ownership of land below the subsistence level by a large proportion of this class, as well as the state’s credit and price policies, hindered this differentiation. I have interpreted small peasant proprietors, together with nomadic tribes, as non-capitalist producers, formally subsumed by money and productive capitals and exploited through the devalorization of their labour time. I have emphasized that the subsistence nature of these units is fundamentally different from pre-reform subsistence production for, with the penetration of money capital into agriculture, they no longer are isolated self-sufficient economies.

3 - The impact of the land reform on the khushneshin population was uneven. The landless agricultural labourers, comprising about 40% of the rural population, were permanently and legally proletarianized. While the position of the rural petty-bourgeoisie was undermined, the land reform consolidated the position of the wealthiest group of khushneshins: shopkeepers, middlemen and moneylenders. Therefore, merchant’s and usurer’s capital continued to operate, although they were subordinated to money capital.
The general conclusion to be drawn from the above analysis is that state-induced agrarian transition eradicated the dominance of the feudal mode of production over agrarian life. But did this lead to its total replacement by capitalism? I have argued that the state created a class of peasant small-owners who were not, strictly speaking, involved in capitalist production. The state’s credit and price policies, as well as ownership of land below subsistence level by peasant-proprietors, erected barriers to viable operation of these units and so made accumulation of capital almost impossible for these direct producers. In 1973, only 22.3% of the total agricultural units marketed over half of their agricultural products; 26.7% marketed less than half of what they produced; and 51% marketed a very small or no agricultural surplus. We can assume that those units which produced a marketable surplus were farm corporations and private capitalist farms whose size was over 10 hectares of land. Over half of the agricultural units unable to produce a marketable surplus would be composed of the small and fragmented holdings of owner-cultivators. According to input-output statistics for 1965, 15% of the total inputs for production in agriculture, consisting mainly of consumption goods, machinery, and fertilizers, were purchased from industry, while industry purchased 30% of its total input from agriculture. In 1972, industry’s purchases from agriculture had fallen to 1.2%, while agriculture purchased 46.4% of its total input from industry. In 1977, industry’s inputs to agriculture were reduced to 40%, while agriculture continued to supply only 1.2% of industry’s purchases (Ghorayshi, 1981:29). These figures indicate the creation of a capitalist home market,
restricted and distorted by increasingly low levels of rural income and agricultural productivity. It has been shown in the previous chapter that the home market developed on the basis of the production of the means of consumption (Department II). The absence of the production of the means of production (Department I) linked the home market with the metropolitan economy. The import, rather than production, of capital goods and machinery meant that the 'freed' superfluous labour could not be absorbed and transformed into a proletarian position per se.

It is essential, however, to distinguish between the question of the nature of production relations and that of the level of capital accumulation. It is erroneous to argue that capitalism failed to develop in Iranian agriculture because of factors such as the restricted home market, lack of integration between Departments I and II, unequal income distribution, the limited demand for wage-labour, shortage or lack of capital, or credit. These factors are related to the level of capital accumulation and labour productivity rather than to the nature of production relations. It is possible to have a capitalist sector which is marked by low level of labour productivity or stagnation. My point is that, in analyzing the character of non-capitalist units of production, I have not based my argument on the quantitative or technical aspects of the capital accumulation process but on the nature of production relations. While the 'point of domination' of capital is an issue of controversy, I have argued in Chapter Two that capitalism becomes the dominant mode of production only when the following conditions are met: (1) labour is entirely separated from the means of
production; (2) commodity production is generalized; and (3) the expanded reproduction of capital dominates the whole social formation. The last point implies that the ultimate end of capital accumulation is production and furthering of surplus-value by reinvesting it in the process of production. It also implies real subsumption of labour by capital and the appropriation of relative surplus-value. In the light of the above analysis it seems plausible to argue that the state's intervention in Iranian agriculture led to both formal and real subsumption of labour by capital. I have argued that these forms of subsumption are not mutually exclusive and that they can co-exist within a social formation. This analysis also shows that the principal function of state intervention is to re-define the relations under which labour is subsumed by capital, and to secure the conditions of reproduction of these relations. While in the 'classical model' the conversion from formal to real subsumption of labour occurred through 'natural' forces of the market and private appropriations, this conversion in the periphery has been effected through the state. Farm corporations and agribusinesses in Iran were significant steps towards this conversion.

There is no doubt that the primary objective of the land reform was the eradication of precapitalist production relations and the capitalization of agriculture. Agrarian transition to capitalism in Iran took a specific form: while it dissolved the feudal mode of production and fundamentally transformed the mode of surplus appropriation from non-monetary precapitalist ground rent to one based on wage-labour, it also perpetuated the conditions of formal
subsumption of labour by capital. The final conclusion to be drawn is that Iranian agriculture in the 1970s was predominantly capitalist, but a type of capitalism which perpetuated non-capitalist forms of production and restructured them as integral parts of the expanded reproduction of capital. The decline of Iranian agriculture in the 1970s was partly the outcome of the formal subsumption and absolute surplus-value production by these agricultural units.
NOTES TO CHAPTER SIX

1. All of these estimations are approximate as the statistics on the distribution of various categories of landholdings in Iran are frequently contradictory. Hooglund (1982:12-3), for example, estimates that in 1960 villages owned by the state numbered at least 1,500 in whole or in part, while vafq land amounted to 40,000 properties distributed as fractional parts of villages. These estimates do, however, show the general trend of the sale of state lands and the concentration of private landed property. For details on state and vafq lands, see Lambton (1953-1969) and Akhavi (1980).

2. By 'rural population' I am referring, strictly speaking, to those involved in sedentary agriculture. A discussion of nomadic tribes in the present context presents theoretical problems as the pattern of landholding, the mode of surplus appropriation and the nature of production relations tribal societies are engaged in differ from those of sedentary societies (see for a discussion of these points, Chapter Three, Section A). The impact of the land reform on tribal units, however, will be discussed later in this Chapter.

3. There are various estimations of the size of both nasag-holders and khushneshins. The figures given in this and the preceding paragraph are based on the following sources: Hooglund (1982:28); Katouzian (1974:227); Keddie (1973:162); and Richards (1975:8). Generally speaking, estimations given in the literature on the percentage of the nasag-holders and khushneshins of the total rural population vary between 40% to 50% and 30% to 50% respectively.

4. The insignificant role of the middle peasantry in Iranian agriculture is fully discussed by Kazemi and Abrahamian (1978).

5. For a different, and 'politician', interpretation of the land reform, see Bill (1972a) and Hooglund (1982). According to this interpretation, which dominates the study of the land reform in Iran, the land reform was initiated primarily for political rather than economic reasons. The political objectives of the land reform are cited as the elimination of the political power of large absentee landlords, its replacement with state control in the rural areas, and a broadening of the social base of the state by creating a class of peasant-proprietors. While these political objectives, as well as international factors such as the Chinese and Cuban Revolutions, were important in promoting the land reform, this study sees them of secondary importance and is basically concerned with an identification and analysis of major economic trends. The internationalization of money capital is seen as the central factor necessitating the removal of precapitalist monopoly ownership in land. For a critique of politician interpretations of the land reform, see Tabari (1983).
6. Keddie (1973:165) estimates the total number of villages in Iran as 49,000, while according to Katouzian (1974:229) there were over 71,000 villages in Iran before the reform.

7. As I have said above, this is an approximate estimation. It is not possible to give an accurate figure because there are conflicting estimations of both the number of villages and the number of peasant households. I have arrived at the above average estimations on the basis of the following sources: Hooglund (1982:72) estimates that one-third of all sharecroppers received land under the first phase; the number given by Katouzian (1983:341) is 23% of all peasant households receiving land; Bharier (1971:138) gives 25% to 30% as the percentage of those receiving land; Halliday (1979:111) estimates that one-fifth of the rural population acquired land and Keddie (1981:162) estimates that something like 9% of the total peasant population received land. Keddie's much lower estimation seems to be the result of taking into account the khushneshins. The percentage of villages affected given above is based on Keddie (1973:166), Bharier (1971:138) and Halliday (1979:110).

8. According to a study undertaken in 1970 by the Institute of Social Studies and Research (Tehran University), only 56.2% of peasant households had been affected by land redistribution by 1970 (quoted by Momeni, 1980:305). This figure, however, does not contradict the estimation of 92% for the same category because of the following reasons: (1) it seems that the figure of 56.2% of peasants affected by the reform is based not on the size of the entire population of the sharecroppers, but, as the study states "...154 villages and 8,021 households from 7 different parts of the country which have all been affected by the various phases of the land reform..." (ibid, p.304). This is to say that the study arrives at this estimation on the basis of land distribution amongst 8,021 peasant households only; (2) the estimation of 92% of sharecroppers affected by the land reform is based on the size of the entire population of sharecroppers affected by the three phases of the land reform, that is, 1,750,000 individuals receiving land out of the total population of 2,100,000 sharecroppers; (3) the large discrepancy between 56% and 92% is obviously the result of the different estimations initially employed, i.e., 8,021 households and 2,100,000 sharecroppers respectively. Equally important is the bases of these estimations. The unit of analysis in the former study is peasant household, while in the latter study it is individual sharecropper. This difference renders any attempt to compare the two figures misguided and problematic; (4) the conclusion to be drawn is that while the figure of 56% could be a valid estimation for the 8,021 households studied, it by no means contradicts, or is even relevant to, the estimation of 92% arrived on the basis of the total population of sharecroppers. As I have repeatedly mentioned throughout this Chapter, studies undertaken on the land reform are marked by conflicting and vague statistics. Almost every study gives a different set of figures for not only the size of post-reform peasant-proprietors but also
for the size of the redistributed land, the percentage of sharecroppers affected by each phase, etc. The conflicting figures are the result of difficulties in obtaining reliable and precise data, as well as various theoretical categories and units of analysis adopted by individual researchers. For example, the above-mentioned study estimates that 7.9% of all peasant households received land under the first phase of the land reform (ibid, p.305), while in this study 25% to 30% of all peasant families are seen to have been affected by land distribution during the same period. For the basis of the latter estimate and conflicting interpretations of this point, see note No.7, this Chapter.

9. For a full discussion of cooperative societies, see Lambton (1971a). Richards (1975) discusses in detail the relationship between the Shah and Arsanjani, and the perception of the cooperative movement by the former as potentially threatening to the stability of the monarchy.

10. The law of the nationalization of pastures and forests was part of the six-point (later increased to twelve points) reform programme of 'White Revolution' introduced by the Shah in 1963. The land reform, of course, was the core of the programme.

11. Brun and Dumont (1978) discuss the economic effects of state's tribal policies in more detail. For other studies on nomadic tribes in Iran, see Beck (1984); Helfgott (1977); Garthwaite (1978); Fazel (1985); Loeffler (1978); and Smith (1978).

12. The reasons for the failure of these projects have been extensively discussed in the literature. See, in particular, Halliday (1979), Hooglund (1982), and Richards (1975).

13. In this connection it is noteworthy that a study by Van Ginneken (1980) argues that, except for certain regions, 'poverty' as a whole and in the rural areas diminished between 1971 and 1976 in Iran. Based on statistics provided by the Statistical Centre of Iran, Van Ginneken shows that the percentage of poor peasant households decreased from 68% in 1971 to 41% in 1976. Within the same period, the percentage of middle and rich peasants increased from 30% and 2% to 35% and 6% respectively. It is extremely problematic to relate these data to the present discussion because of the theoretical approach adopted here. In this study, rural class structure is discussed on the basis of the structural position of producers and non-producers in the overall production relations. Van Ginneken's distinction between 'poor', 'middle' and 'rich' peasants is based on annual household expenditures. 'Poor peasants' are defined as those with annual expenditures of under $800 (1971-2) and $1200 (1975-6), and 'rich peasants' are those with annual expenditure of over $3150 (1971-2) and $4725 (1975-6) (ibid, P.645). Obviously, the categories of household income and expenditure are fundamentally different from Marxian concepts of ownership and property relations. These data do not lend themselves to any direct class analysis; those peasants defined as 'poor' on the basis of household expenditure would not necessarily fall into the same
category once placed in the context of production relations. Van Ginneken's study does indicate that sections of the rural population prospered as a result of land reform policies, but a more accurate interpretation of the data presented by Van Ginneken would be possible only if the central categories of his study are deconstructed: large sections of 'middle' or even 'poor' peasants are probably 'rich' peasants of this study who benefited from the differential pattern of shareholding promoted by the farm corporations. They had access to credits and loans, borrowed from the corporations and relent them at high interest rates to those who were only one step away from virtual proletarianization. Van Ginneken's hypothesis cannot be established with any degree of certainty unless additional information is available on the three categories of the peasantry. His conclusion that 'poverty' as a whole diminished in Iran between 1971 and 1976 needs to be considered in light of the fact that in 1972 alone, at least 8% of the total rural population migrated to cities as a result of ownership of land below subsistence level (Carey, 1976:360). The only general conclusion which can be drawn from Van Ginneken's study is that certain sections of the rural population benefited from agricultural policies in the 1970s. In broad terms, this could mean a decline in poverty for certain sections, but also an accentuation of class divisions - a point made in this study.

14. See Table 17, this Chapter.

15. In estimating that 18% of land was held by private landowners after the land reform, Katouzian (1983:332) has not taken the ownership of pastures and orchards by absentee landlords into account as these categories of land have been exempted from land redistribution. Hooglund's (1982:78-9,81) estimation of 50% of land owned by post-reform absentee landlords, on the other hand, includes the size of pastures and orchards. Generally speaking, studies on the land reform do not consider pastures and orchards in estimating the size of private holdings after redistribution. Hooglund arrives at the figure of 50% only by assuming that, after the land reform, the size of these categories of land was larger than crop land held by the landlords (because they were exempted from the reform). All figures on the size of land used throughout this study refer to crop land only. The size of pastures and orchards have not been taken into account; not only have they been excluded from redistribution but also no statistics have been found on their size before or after the land reform. The estimate of 70% of land owned by private landlords before the land reform, for example, refers to crop land only. Therefore, although in absolute terms the land held by private landlords must have been larger than 18% of the total land, 18% is a correct figure when referring to redistributed crop lands. In other words, both figures are acceptable, depending on whether only crop lands or crop lands and pastures and orchards are taken into account. The figure of 18%, however, is a more relevant estimation to employ here because this study has dealt with redistributed crop land only. I should also point out that it is neither significant nor does it affect the present argument whether the figure of 18% or 50% is used. The
argument here is that the nature of production relations within privately-held land was transformed following the land reform and that the size of the crop land held by absentee landlords was considerably reduced, whether or not we take into account the size of the category constituted by pastures and orchards.

16. See, for example, Ghorayshi (1981) and Nima (1983) who analyze this class of peasant-proprietors in isolation from the dominant capitalist production relations. In this mode of analysis, these direct producers are characterized as somehow self-sufficient, reproducing themselves independently of capital. Nima (1983:40) argues that had sufficient credit and capital been channelled to this 'peasant class', agriculture would have been transformed not into capitalism but into a 'petty-commodity mode of production'.


18. This theoretical point has also been developed by Asad (1978) in relation to the Bakhtiyari tribe in Iran.

19. For a brief discussion of the two Departments of production, see Chapter Five, note no.21.
CONCLUSION

A principal claim of this study has been that there is a fundamental difference between the dynamics of transition to capitalism in the peripheral areas and the dynamics of transition in the core areas of the world market. In the 'classical' model, transition to capitalism and development of capitalist production relations occurred endogenously, out of the internal contradictions of feudalism, and without competition from other industrial powers. The endogenous model of transition, however, cannot be transposed to peripheral formations where capitalism was introduced by external imposition and colonial domination, and where competition from advanced capitalist countries played a major role. A given level and mode of integration with the world capitalist system has resulted in the periphery's subordinate position in that system, has imposed certain structural limitations on the periphery, and has influenced its pattern of transition to capitalism. The objective of this study has been to substantiate this proposition through an historical examination of the process of peripheralization in Iran.

In order to specify the different trajectory capitalism has taken in the periphery, this study has adopted a periodization approach to the development of capitalism as a world system. Distinguishing between the three circuits of merchant capital, money capital, and productive capital, and the dynamics of their successive internationalization, it has been argued that the worldwide expansion of capitalism
has proceeded unevenly in time and space, and through various stages, with each stage having a corresponding impact on the periphery. The systemic position of the periphery, therefore, is not fixed; it is subject to changes depending on the historical stage of world capital accumulation and on the dynamics of the internationalization of the dominant circuit of capital. Despite the complexities of capitalist development in different peripheral formations, this approach has identified certain modes of integration with the world market and certain economic trends which have been taken to constitute the history of peripheralization and the pattern of transition to peripheral capitalism.

In the phase of the internationalization of merchant capital, the development of the world capitalist system blocked the 'first path' of capitalist transition in the periphery, the direct producer/capitalist path which is the organic transition from the pre-capitalist to the capitalist mode of production experienced in Europe, and it imposed the 'second path' of transition, the merchant/capitalist path. Internationalization of the circuits of money and productive capital has led to the capitalist transformation of the periphery and the formation of new centres of capital accumulation. However, the assumption that, with the expanded reproduction of capital, subsistence producers in the periphery will inevitably disappear, in a manner similar to that of 'classical' model of transition, has been questioned. The capitalist mode of production has become dominant in the periphery without the full expropriation and real subsumption by capital of large sectors of the
workforce in the periphery. Peripheral capitalism has not led to 'internal proletarianization' but to the maintenance and reproduction of non-capitalist forms of production incorporated into the circuit of the expanded reproduction of capital.

These specificities of peripheral capital accumulation – the 'second path' of transition to capitalism and the present-day survival and reproduction of non-capitalist producers – have led us to question formulations of capitalist transition in terms of general and universally necessary processes.

This approach also claims to provide a synthesis for conflicting neo-Marxist interpretations of the history of the world capitalist market: 'circulationism' and 'productionism'. The spheres of production, circulation and distribution are shown to form an 'organic whole' rather than distinct areas. However, by specifying the dynamics of the internationalization of each circuit of capital, it is possible to determine at what phase the sphere of circulation and at what stage the sphere of production each play a determining role in the structure of the periphery and the mode of its integration with the world market. It has been argued that, during the initial incorporation of the periphery into the world market, exchange relations were the mechanisms through which the precapitalist modes of production in the periphery were restructured and consolidated. In this phase the sphere of exchange played a dominant role while production relations were determinant. Internationalization of the circuits of money and productive
capital subordinated the sphere of exchange and led to the dissolution of precapitalist modes of production. At this stage, the sphere of production has become both dominant and determinant in incorporating the periphery into the world market.

The case-study undertaken here has provided an example of the process of peripheralization within this theoretical framework. A study of peripheral structuration in Iran has required an investigation of three areas: (i) the nature of the mode of production and of the social structure prevailing in Iran before its integration with the capitalist world market; (ii) the modes and character of capitalist penetration at each stage of world capital accumulation; and (iii) the nature of the social structure after its incorporation into each circuit of capital.

This study has covered the period of 1800-1978 in Iran, identifying two approximate phases of capital accumulation: the period of 1800-1950, or the phase of the internationalization of merchant capital, and the period of 1950-78, corresponding to the internationalization of the circuits of money capital and productive capital. However, it has not been possible to investigate fully all aspects of this complex, protracted and uneven process of peripheralization. For example, the exact character of the precapitalist mode of production in Iran before contact with the world market, and the precise nature of the social structure have not been fully discussed. The non-economic moments of society such as the structure of the state and the nature of class struggles during the major political
events have been dealt with only insofar as they have influenced the major trends and changes in the structure of the economy identified here. It is, however, argued that the period under consideration, and the trends identified, do constitute major and basic turning points in the peripheralization of the Iranian economy.

In all historical case-studies there are specificities which have to be identified and isolated if certain trends are to be discovered. In discussing the initial incorporation of the Iranian social formation into the circuit of merchant capital, I have emphasized the specific mode and character of this integration. The foreign capital which initially incorporated Iran into the world market was not only mercantile in form but also divided and competing. As an area of rivalry throughout the 19th century between the two major imperialist powers of Russia and Britain, Iran was never formally colonized but assumed a semi-colonial position. During the first few decades of the 19th century a number of wars and military confrontations established this semi-colonial position, which was then consolidated through economic concessions. From the 1850s onwards economic concessions became the major mechanism through which commoditization of the economy on a precapitalist basis was accelerated. Iran was drawn into deeper and more extensive contacts with industrial capitalism of the centre which was expanding in search of raw materials and markets. It has been argued that this particular mode of mercantile capital penetration had significant long-term repercussions on the nature of the state and the pattern of class configuration, class struggles and class alliances.
Incorporation into the circuit of merchant capital restructured and reoriented the existing precapitalist mode of production in Iran to the requirements of metropolitan capitalism, and blocked an organic transformation of petty-commodity to capitalist production. The major political events of the 19th and early 20th century have been analyzed in relation to the specific mode and character of mercantile capital penetration. Merchant capital not only consolidated the precapitalist mode of production in Iran, but, by its divided and competing nature, it is also seen to have created fractions within the dominant landowning class. The Constitutional Movement of 1905-11 has been analyzed in the context of these socio-economic transformations of Iran. Incorporation into the world market led to the formation of a merchant class that grew and declined as alterations were made in the form and degree of mercantile capital penetration. The failure of the Movement to accomplish its goal of establishing a bourgeois-democratic state has been seen as the result of the particular character of this merchant class, its non-antagonistic contradiction with the landowning class and metropolitan bourgeoisie, and, in general, of the semi-colonial position of Iran within the world market. These same features brought about nearly two decades of political crisis, continuing from the Constitutional Movement until the early 1920s and culminating in the emergence of the peripheral absolutist state. Reza Shah's state is seen as the first centralized state in Iran to regulate and generalize the (largely) precapitalist commoditization of the economy. Iran, by the early 20th century, had been transformed into a peripheral formation with specific social structural features unique to
its particular experiences in the 19th century.

By the 1950s not only had the inter-imperialist rivalry long been ended and the USA emerged as the hegemonic imperialist power, but the mode of integration of the Iranian economy with the world market had also changed. Following the export of capital from the centre, and under the auspices of a directly interventionist state, the internationalization of money capital led to the development of capitalist production relations and the formation of a capitalist home market, albeit 'disarticulated' and 'extroverted' in many ways. Iran in the 1970s was dominated by a single capitalist mode of production; its peripheral character is seen not only in the distortions fomented by the initial incorporation into the circuit of merchant capital but also in the persistence and maintenance of non-capitalist labour processes. An investigation of various sectors of the economy, in both rural and urban areas, has shown that the internationalization of the circuits of money and productive capital led not to disintegration but to reproduction of non-capitalist labour processes incorporated into the capitalist mode of production.

I have considered the 'second path' of transition to capitalism imposed by merchant capital under the semi-colonial condition of the Iranian formation, and the 'inability' or 'unwillingness' of money-productive capitals to wipe out and replace all other modes of exploitation by capitalist wage-labour, and thus generalize the extraction of relative surplus-value, as the defining features of peripheral capitalism in Iran. These two features also
indicate the different trajectory which capitalist transition has taken in Iran.

In this study I have attempted to show how a given level and mode of integration with the world market has resulted in the peripheralization of a specific social formation, and how this hierarchical ordering has conditioned the subsequent development of that formation. The process of capitalist transition in Iran, of course, had its own specificities, not only due to the particular precapitalist social structure of Iran but also because of the particular mode of mercantile capital penetration. The experience of capitalist transition in Iran was not only unlike the experience of the centre countries transforming from one mode of production to another, but also unlike the experience of peripheral formations that underwent direct colonization.

To conclude, the Iranian case shows that: (i) the dynamics of transition to capitalism in the periphery are fundamentally different from those of the centre, and there is no justification in extending the 'classical' model of transition into a general theory of capitalist development; and (ii) the centre/periphery relationship cannot be characterized either in terms of perpetual stagnation and underdevelopment, as the 'circulationist' variant of neo-Marxism has defined it, or in terms of the development and eventual homogenization of relations of production, as the 'classical' Marxist view holds. An examination of nearly two centuries of capital accumulation in Iran shows that both 'underdevelopment' and 'growth' have been experienced, and
that there is no linear homogeneous process of imperialist domination in which peripheral formations are either progressively transformed or perpetually underdeveloped. A diversified treatment of both capital and pre-capitalist modes of production, and of the historical periodization of world capital accumulation, has provided a synthesis which cuts across these overly simple classifications.
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