

Nowshirvani, Vahid F.

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YALE UNIVERSITY

Box 1987, Yale Station  
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THE BEGINNINGS OF COMMERCIAL AGRICULTURE IN IRAN

Vahid F. Nowshirvani

with the assistance of

Alice Knight

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# THE BEGINNINGS OF COMMERCIAL AGRICULTURE IN IRAN\*

Vahid F. Nowshirvani

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Alice Knight

## Introduction

For Iran, the nineteenth century, particularly its second half, is usually thought of as a period of economic stagnation, if not decline. The growing political and economic domination of Iran by Britain and Russia and the weak, corrupt and increasingly exploitative Qajar rule, which could not effectively resist foreign demands, are generally considered the basic causes of this stagnation.<sup>1</sup> In contrast to this period, the years after the coup d'etat of 1921, when the relatively strong central government embarked on a series of administrative, legal and economic reforms, are viewed as the beginning of the modern economic development of Iran. In this essay we shall try to show that the break between the two periods is not as sharp as generally believed and that the ability of the central government to carry out its reforms was based upon fundamental economic transformations that had been occurring in Iran as the result of the West's economic penetration of the country.<sup>2</sup> The main thesis of the paper is that between the ascension of Nasir-al-Din Shah to the throne (1848) and the constitutional revolution (1906-1911), the pre-mercantile and fragmented economy of Iran gradually became integrated not only into the international economy but also internally.<sup>3</sup> Since these developments took place under the commercial impact of the industrial powers, the internal integration did not mean a parallel

expansion in both industry and agriculture. On the contrary, competition from Western manufactured goods ruined much of the domestic industry. By the end of the period, Iran was still very much a pre-capitalist society, but it exhibited many of the characteristics of a market economy. Since the expansion of Iran's exports was chiefly in agricultural products, the spread of commercialization was probably most conspicuous in the rural areas. Thus it was in an economy with a relatively advanced state of commercial exchange, implying considerable regional specialization and interdependence, that the government after the coup was able to establish a reasonably efficient central bureaucracy and army to carry out its reforms.

This paper is primarily about the structural changes that took place in the rural areas, such as the rise of cash crops, the relative loss of economic autonomy of villages, changes in the pattern of land ownership and the creation of wage labor. However, in order to appreciate these developments, it is essential to set them in the wider context of the overall economic change in the country. In particular, it is useful to clear up certain misconceptions responsible for the common belief in the economic stagnation and decline of Iran during the nineteenth century. In the first section of the paper, therefore, we re-examine the arguments and evidence purporting to show the general deterioration in economic conditions. The second part is more specifically devoted to a description of the structural transformation of the rural areas and the expansion of a market economy in Iran. A brief concluding section discusses the implications of these developments for the reforms instituted after 1921. In the Appendix, we outline a few of the problems met encountered in sources when writing on the economic history of Iran.

I

It is generally maintained that the economic disintegration of Iran in the second half of the nineteenth century is reflected in its chronic excess of imports over exports and the resulting difficulties with balance of payments, a constantly depreciating currency, the rising level of prices and the unfavorable movements in terms of trade (the relative price of a nation's exports and imports). Large sections of the population, particularly the peasantry, it is argued, were adversely affected by these developments.<sup>4</sup>

Although the various economic ills of the country are usually blamed on the incompetence and avarice of the ruling class, the rulers should not be held responsible for all these misfortunes; certainly, such factors as the adverse movements in terms of trade or the currency depreciation due to the fall in the international price of silver were beyond their control. Nor is it obvious that the burden of inflation (even if it can be shown that there was much price increase) was borne directly by the mass of the population. The vast majority of the poorer segments of the population were peasants living in relatively self-sufficient villages and, therefore, immune to the evils of inflation. Because land taxes were fixed in money terms and because the peasantry did not possess significant monetary assets and were in fact net debtors, they might even have benefitted from inflation when price increases eroded the real value of their liabilities. We do not wish to assert that Qajar rule was not oppressive and arbitrary nor that the government always pursued economic policies beneficial to the country. Neither do we believe that the common man enjoyed an adequate standard of

living. Rather, our aim in this section of the paper is to scrutinize the evidence to see if it is reliable and to determine whether the usual inferences logically follow.

For many, the most obvious indication of the economic bankruptcy of Iran is the imbalance in its foreign trade. Contemporary observers consistently estimate imports to exceed exports and claim that the difference was covered partly by the export of specie.<sup>5</sup> The outflow of precious metals was certainly considered an evil, detrimental to industry, trade and the prosperity of the country. Iranian governments often imposed bans on the export of gold and even prohibited the outflow of silver coins at times when it was necessary to reduce the volume of Iran's imports, such as during the period of the sudden decline in silk output.<sup>6</sup> Of course, it is hard to imagine how such regulations could be effectively enforced. The magnitude of the foreign trade deficit of Iran is difficult to establish, and it is harder yet to measure the extent, or even the direction, of the movement of specie. Until the end of the nineteenth century, when Belgian officials were put in charge of the customs administration, data on the visible trade of Iran are scanty and unreliable--the earlier practice of farming out the customs revenue was not, for obvious reasons, conducive to accurate reporting.<sup>7</sup> Other evidence suggests that, whether or not the commodity trade was unbalanced, the deficit must have been covered by transactions other than the outflow of gold and silver. In order to remit Iranian silver currency to pay for imports of goods, such direct transfers had to be cheaper than carrying out payments through the purchase of sterling bills of exchange on London. Taking the period of 1863 to 1921, we find that in only eight years was the intrinsic

value of the Kran, that is, the gold value of its silver content, above its Pound Sterling exchange rate. Only in those years would it have been profitable to export specie to purchase Pounds in London. When one considers the higher cost of movements of metal than the charges for payments through bills of exchange, it is not clear that there would have been large net outward movements of Iranian silver currency even in those eight years.<sup>8</sup> (Normally it would have been cheaper to use the silver Kran in Iran to buy bills of exchange on London or other financial centers.) To encounter no net outflow of specie is not surprising for the years after 1890, when foreign investments, loans to the government, remittances of Iranian workers in Russia and foreign military expenditures in Iran were financing the trade deficit. We are led, however, to conclude that, since in the earlier years Iran did not have substantial net invisible exports or capital inflow, the trade imbalance must have been smaller than is commonly believed.<sup>9</sup>

The most reasonable explanation, corroborated by contemporary observers, is that Iran's imports were overstated and its exports were underestimated. The main factor in the over-assessment of imports was the estimation of their value according to merchants' prices rather than by what the importers had in fact paid.<sup>10</sup> Importers had little incentive to undervalue their goods in order to lower customs dues since these were often fixed by mule loads or some other quantity measure rather than assessed according to the five percent ad valorem rate. Under-reporting of exports was widespread, and its extent probably considerable. The prevalence of smuggling is the most obvious explanation for the unreliability of export figures. Lucrative opportunities existed for smuggling subsidized Russian products back into Russia. There

was also periodically large illicit trade in foodstuffs, especially grains, whose export was often banned after mid-century whenever there were food shortages.<sup>11</sup> Another possible cause of the underestimation of exports may be the failure to include transport costs to the border in the value of goods. Since these costs could be quite high, especially prior to the 1890's, a downward bias might have been introduced in the data.

Even if substantial quantities of specie were not being exported, during much of this period there was undeniably, as J. Rabino puts it, "a permanent dearth of currency."<sup>12</sup> Despite Rabino's claim, it is improbable that the scarcity was caused by hoarding. Chronic public deficits did not allow the government to save any money out of its revenue. Nor was the Iranian ruling class known for its frugal ways. The only people in possession of liquid funds were the merchants, and they were unlikely to leave their money idle. A more plausible explanation is that the acutely felt shortage was the reflection of the growing need for widely accepted instruments of payments to finance the expansion of trade (which we shall discuss more fully below). Not only were the number and volume of commercial transactions growing, but they were increasingly directed to the national and the international markets. Demand for money was rising, and local credit arrangements to facilitate internal trade did develop to some extent, even in the absence of a central monetary authority. Until the Imperial Bank of Persia was established, the scope of such credit and clearing arrangements was limited, and except in a few cases such as that of Haji Amin-O-Zarb, the bills of Iranian merchants and moneylenders were not widely acceptable or readily negotiable. Inevitably in such a situation, part of the larger demand for



money had to be met from increased circulation of the silver currency of the country. Therefore, the perceived scarcity must have been relative to the growing need of the expanding trade of the country, rather than a consequence of a constant outward drain of specie. At times, statements about shortages of silver currency and the unavailability of good bills on Europe reflected Iran's real periodic difficulties in paying for her imports.<sup>13</sup> Recurrent complaints were to be expected and were evidence of the equilibrating mechanism for balancing and foreign trade of the country, which was highly sensitive to such natural factors as the state of the harvest or the occurrence of famines and epidemics. Transfers of specie set in motion compensating forces to adjust temporary trade imbalances--it was the gold standard in its pure form at work.

Numerous authors have argued that the depreciation of the Iranian currency--that is, the declining gold or Pound Sterling value of the Kran--was due either to balance of payments deficits or currence debasement.<sup>14</sup> It is true that between 1848 and 1914, the Kran fell from 22.5 kran per Pound Sterling to about 56 kran per Pound Sterling.<sup>15</sup> Prior to this period, debasement had been the major cause of the declining value of the Kran; yet, there was only one minor reduction in the official silver content of the Kran during these years. Clearly, the government had no incentive to debase the currency, since ultimately, devaluation would only hurt its own finances because of the fixed monetary value of taxes. As one would expect, cheating did occur in the provincial mints, but because such tampering was generally considered harmful to national commerce, minting was centralized in 1877 to ensure a uniform currency.<sup>17</sup> As we have already noted, no less an authority

on the Iranian currency than J. Rabino shows that the Kran often commanded a premium, selling at a rate above that which the gold equivalent of its official silver content would justify.<sup>18</sup> This is hardly to be expected from a currency that was constantly being debased. Needless to say, the officials of the British-owned Imperial Bank of Persia had a vested interest in blaming Iranian authorities for the alleged irregularities in the administration of the monetary system.<sup>19</sup> Since Iran was in effect on the silver standard, the exchange value of its currency was simply determined by the international price of silver. Depreciation, then, had nothing to do with debasement, the commercial and financial policies of the government, or the alleged trade deficit of the country. The decline in the exchange rate of the Kran in terms of Pound Sterling, since the latter was tied to gold, was the natural consequence of the falling international price of silver, especially after the 1880's.

Whatever its cause, the depreciation of the currency, it is maintained "constituted a severe and indirect tax that hit the poor particularly...."<sup>20</sup> The mechanism by which the depreciation affected the peasants is not clearly specified, but it was supposedly inflation, which was not matched by an equal increase in wage.<sup>21</sup> Inflation, which was to some extent caused by the declining exchange rate, could not per se be responsible for the deterioration in the standard of living of the poor. If wages did not rise as much as the general level of prices, the cause must be sought in factors other than the falling value of the Kran.<sup>22</sup> The mass of the population, which was primarily rural, even at the end of the century, might have been adversely affected by price changes insofar as the terms of trade moved against them.

McDaniel and Issawi, both citing the fall in the world prices of agricultural products from 1873 to the mid-1890's, have claimed such a reduction in the real income of the general population, especially the peasantry.<sup>23</sup> Whether in fact the terms of trade became unfavorable for Iran is a debatable issue which we shall examine more fully below. Our earlier discussion of the causes of exchange rate devaluation has shown that, whatever change there might have been in the relative prices of agricultural to industrial goods, it was unrelated to currency depreciation.

When considering the measurement of the rate of inflation and of the deterioration in living conditions, it is necessary to recall that evidence concerning price changes in Iran is scanty and highly unreliable. Given the fragmented structure of the economy, the use of isolated price data, seen in McDaniel, to show any general movements in prices, is of doubtful validity. Not only were there large seasonal and regional price differences, especially for bulky commodities such as grains, but the history of the period is characterized by wide price fluctuations due to natural or economic factors. As late as 1890, regional price differences of over 300 percent were not uncommon for grain.<sup>24</sup> In 1910, bread and grain in Mashad fluctuated by over 50 percent between summer and winter.<sup>25</sup> Napier reports that during the 1871-1872 famine, grain was selling at 4 Krans/man in Shirvan, while at the time of his visit (1874), it had fallen to 5 man/Krans, one-twentieth of its previous price.<sup>26</sup> Nevertheless, it appears that in the 1890's and the early years of the twentieth century, domestic prices and wages were generally higher. We doubt, however, that these changes can be measured, even roughly, by an index to determine whether prices rose significantly more than wages.<sup>27</sup>

Statements concerning declining real wages are not, therefore, based on even remotely objective measures but upon comparisons between travellers' accounts from the early nineteenth century and those of the late nineteenth and early twentieth centuries.<sup>28</sup> The validity of such conclusions is highly questionable because of the doubtful impartiality of such descriptions and, more importantly, because of the systematic biases which must have tainted the vantage point of the later observers as the difference between European and Iranian living standards widened over the course of the century.<sup>29</sup> Clearly, though, our evidence does not allow us to reach the opposite conclusion that there was an improvement in the welfare of the masses, who, even until much later, lived in miserable conditions. In the second section of the paper, we do show that the availability of certain simple articles of consumption was more widespread than is sometimes maintained.

Arriving at a judgement about the impact of changes in the terms of trade upon the well-being of the population is not a less complex task. Firstly, the decline in world prices of primary products relative to prices of manufactured goods is not an unequivocally established fact.<sup>30</sup> Secondly, it is not clear that the relative price of primary to industrial goods, usually measured by the relative price of United Kingdom exports to imports, is the appropriate terms of trade for Iran. Iran's imports of agricultural produce consisted of specialty goods such as opium, dried fruits, silk and gums, in addition to the staples, cotton, grain and wool. Changes in the prices of some of these goods, notably opium and silk, do not appear to follow closely the general trend in agricultural prices. In the absence of continuous price series, we have to rely on the scattered data presented in

Table 1, which shows the price of opium in the city of Mashad. (For the sake of a consistent comparison, we have not included the data for other years which were available only for other locations.)

Table 1

Price of Opium Per Shah Man in Mashad, in Pound Sterling

Y E A R S								
<u>1870</u>	<u>1883</u>	<u>1889</u>	<u>1890</u>	<u>1901</u>	<u>1902</u>	<u>1903</u>	<u>1904</u>	<u>1905</u>
6.0	4.6	8.0	6.5	4.3	3.3	4.0	5.0	6.7

Source: Great Britain, Parliamentary Papers, Various Diplomatic and Consular Reports.

Information on silk prices is even more difficult to obtain; hence, we have chosen to indicate the general trend in the price of this commodity by examining the export price of Chinese raw silk, which must have followed a similar pattern to that of Iranian silk.

Table 2

Average Export Price of Chinese Silk in Dollars/1000 Piculs of Raw Silk

<u>1870-74</u>	<u>'75-'79</u>	<u>'80-'84</u>	<u>'85-'89</u>	<u>'90-'94</u>	<u>'95-'99</u>	<u>1900-1904</u>	<u>'05-'09</u>	<u>'10-'14</u>
700	470	430	400	420	560	710	800	760

Source: D. K. Lieu, The Silk Industry of China (Shanghai: 1941).

The conclusion we can draw from these figures is that the fall of the prices of silk and opium was not as substantial as the general decline in agricultural

prices and that by the beginning of the twentieth century, when they were both important export items, their prices had recovered to levels equal to or even higher than those prevailing in the pre-depression era. The situation is not surprising since the fall in the prices of agricultural staples was partly caused by the expansion of cultivation in the thinly populated "New World," which was not suited to the production of such labor-intensive crops.

Finally, Iran itself was a large importer of agricultural products such as tea and sugar and would have benefitted, as far as these items were concerned, from a fall in agricultural prices. In the following table we attempt to show the magnitude of the price movement for the three largest imports of Iran. Although these are not the prices that prevailed in Iran, the latter must have exhibited similar trends. The table certainly demonstrates significant declines in the prices of Iran's principal imports. The existence and size of such declines may invalidate statements regarding unfavorable movements in the terms of trade of the country. The verification of such assertions must await the construction of a systematic index of the terms of trade for Iran, which would be outside the scope of the present paper.

Closely related to the issues of terms of trade, price fluctuations and currency depreciation is the change in the volume of the external trade of the country. Our interest in measuring the expansion of trade stems from its direct relevance to the spread of commercialization, the focus of the second section of this study. Since actual quantity data are seldom available, there has been a tendency to measure movements in the volume of trade in terms of some foreign exchange and indirectly, then, in terms of gold. Using such a standard, Entner has shown that Russo-Persian trade surpassed

Table 3

Prices of Major Imports of Iran

Years	Tea	Sugar	Textiles and Fibers <sup>31</sup>
	Average Indian Export Price in Pound Sterling/lb.	Average wholesale price of sugar in London, shillings per cwt.	Board of Trade wholesale price index, 1900=100
1870-74	.088	23.60	156.40*
1875-79	.091	21.00	134.96
1880-84	.070	18.80	150.05
1885-89	.049	13.30	103.56
1890-94	.052	13.10	97.48
1895-99	.052	9.80	85.38
1900-04	.031	9.30	100.04
1905-09	.028	9.80	93.68
1910-15	.032	11.15	127.7

\*Average for the years 1871-74.

Source: B. R. Mitchell, Abstract of British Historical Statistics (Cambridge: 1962); N. Deerr, The History of Sugar (London: 1949); Great Britain, Board of Trade, Statistical Abstract for the Several Colonial and Other Possessions of the United Kingdom (London: 1865-1905), later called Statistical Abstract for the British Self-Governing Dominions, Colonies, Possessions and Protectorates (London: 1904-1918), various volumes.

its 1830 level only after 1880, and thus argues that the Treaty of Turkamanchai was not effective in promoting trade between the two nations.<sup>32</sup>

The decline in Russo-Persian trade during the 1830's can easily be explained by the plague epidemic of 1830-1831, which, it is claimed, killed about one-third to one-half of the population of the Caspian region. The real volume of trade must have exceeded its 1830 level long before 1880, and contentions to the contrary reflect the mistaken view that gold value of trade somehow estimates the quantity of trade, whereas it is merely an alternative measure of its value. Since prices were generally falling between 1830 and 1880, the gold value of the level of trade underestimates the real growth in the quantity of trade during this period; moreover, the biases introduced by the use of value of trade in terms of gold are not confined to the years 1830 to 1880. The declining trend of prices continued until about 1895 and reversed itself for the two decades following that year.<sup>33</sup> The usual measures of the level of trade are, therefore, likely to underestimate expansion of volume of trade in the last two decades of the century and to exaggerate its increase after 1895.

Professor Issawi has attempted to measure the growth in the quantum of trade using, in the absence of more suitable data, price deflators of British exports and imports; according to his evaluation, between the 1850's and 1914, the real volume of trade quadrupled.<sup>34</sup> This procedure, rather than Entner's method, is the correct way to assess the change in the quantity index of trade. Still, we suspect that Professor Issawi's estimate may be too low. Two factors we have already mentioned are probably the main causes of the downward bias in the figures. One is the relative importance of agricultural goods in Iran's imports, and the decline in their index was



larger than that of general British exports. Second, the rise in smuggling relative to the total trade grew with the government's increasing tendency to impose embargos on the exports of foodstuffs. Our position concerning the existence of such biases in Professor Issawi's estimates involves conjecture, and we do not believe that it would be possible to construct a reasonably exact quantity index of trade to measure the changes with greater precision.

From the discussions in this section, it should be clear that a number of the common explanations of the stagnation and decay of the Iranian economy are based on erroneous analysis, while others draw upon evidence which is, at best, ambiguous. As we have emphasized, we do not subscribe to the view that in the second half of the nineteenth century Iran enjoyed a period of dynamic growth--a position which would be patently false. Others might consider the changes we describe and analyze in the following section as the symptoms of Iran's increasing economic dependence on the West rather than of economic progress. Yet, whether these structural modifications could be considered as capitalist development will not be our primary concern. Still, it is unreasonable to describe these changes as retrogressions or to argue that the circumstances surrounding their occurrence were those of general decline. These transformations did gradually enable the State to take a more active part in the formulation of economic policies.

## II

A number of social and economic historians of Iran have attempted to divide Iranian history into periods and to analyze its developments in terms

of such historical stages and categories as feudalism or the Asiatic mode of production and oriental despotism.<sup>35</sup> Without joining the controversy over historical periodization in Iran, we would argue that whether or not Qajar Iran may be classified as feudal or Asiatic or some variation thereof, it is useful to think of it as a pre-mercantile society which was gradually transformed into a market economy. We are primarily concerned with the extension of commodity exchange relations and how this development modified the existing economic and social structure. We are aware that the course of such structural transformations is partly determined by the characteristics of the society in which they occur. As Marx maintained,

Commerce, therefore, has a more or less dissolving influence everywhere on the producing organization, which it finds at hand and whose different forms are mainly carried on with a view of use value. To what extent it brings about the dissolution of the old mode of production depends on its solidarity 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 character of the old mode of production itself.<sup>36</sup>

An understanding of the pre-existing structure, is therefore, essential for a complete analysis of the development that occurred in Iran--hence, the relevance and importance of the historical controversy mentioned above. However, the pace of the spread of markets, the reaction of the various segments of the society to changes in their traditional roles and the emergence of some specific forms rather than others, all issues central to the debate, will not be our concern here. The remainder of this paper is confined to a description of the nature and the extent of the expansion of commercial relations in Iran, especially in its rural areas.

Perhaps the concept of non-market or pre-mercantile society needs some explanation. In a non-market economy, in its pure form, economic organization, the social division of labor and the exchange of products and services is based upon custom and/or command by a central authority. Historically, such systems exhibited several salient common traits: for example, production was for use value, irrespective of whether or not each producer was the ultimate consumer of the product, and economic surplus was extracted directly either in the form of goods or various types of labor services. In the absence of cheap transportation and communication, regional specialization was limited, and in general a close correspondence existed between each region's production and its consumption. Because of the restricted sphere of exchange, institutions to facilitate trade were poorly developed.

In contrast, production in a market economy is for exchange rather than for the immediate use of the producer; surplus extraction is indirect through cash rents or taxes, and considerable regional specialization occurs, necessitating trade between regions. Relatively large movements of goods allow the concentration of the economic surplus, which can be used to maintain an efficient central bureaucracy and army. The prevalence of commodity exchange requires elaborate legal and economic institutions concerning property rights, enforcement of contracts, a widely accepted medium of exchange, and, eventually, negotiable credit instruments. Clearly, this summary offers only a highly abstract and simplified framework to analyze even a limited sphere of economic activity. We shall elaborate on these concepts and discuss the complexities that may occur in any actual situation in the context of the description of the historical structural change in Iran that follows. The

theoretical categories above are not definitely dichotomous, and no sharp lines divide these two types of economic organization. As a pre-mercantile economy is transformed into a market economy, the dominant institutions and structure of the former are gradually replaced by those characterizing the latter.<sup>37</sup>

At the beginning of the nineteenth century, Iran, especially in the rural areas, exhibited many of the dominant characteristics of a pre-mercantile economy. Of course, during the Safavid rule, the country had enjoyed considerable amounts of internal exchange and trade, but the political and military events of the second half of the eighteenth century had left the economy in a fragmented state. The salient features of the economic structure of the country may be summarized as follows. The population was largely rural, and nomadic tribes constituted about one-half of the total. The degree of self-sufficiency of the peasant and nomadic communities is suggested by the small share of agricultural products in the export trade as compared to their dominant role later in the nineteenth century. Iran exported raw and manufactured silk, cotton cloth, spices, dyes, drugs, pearls, wheat, skins and livestock. In return, it imported velvets, woolen and cotton cloth, spices, dyes, metals, watches and clocks, brocades, lace and gold thread, guns and gunpowder, glassware and mirrors.

Three aspects of the pattern of the foreign trade of Iran are noteworthy as indications of the fragmented state of the economy. Firstly, even though precise figures are not available, the volume of luxury articles for the consumption of the wealthy seems to have been substantial; exchange was not yet undertaken to satisfy the needs of the general population. Secondly,

such traditional items of long-distance trade as spices, dyes and drugs, which usually are the first products exchanged among regions irrespective of the degree of division of labour and development of markets within each area, figured prominently in the external commerce of the country. Thirdly, a sizable part of Iran's imports was ultimately for re-export to other countries, primarily Afghanistan and the Ottoman Empire, which at this time were its main trading partners. The location of the country on a trading route, rather than its own internal economic structure, partly determined the volume of its foreign dealings.

The low level of integration of the internal markets is also suggested by the lack of an adequate monetary system. Though there was supposedly a uniform metallic currency, minting was farmed out and decentralized; during the reign of Fath'Ali Shah, for example, the silver Kran was minted in thirty-one localities. Such a system obviously lent itself to abuse and resulted in disparities between coins minted in different cities. A wide variety of foreign coins circulated mostly in border cities and areas, but such coins were probably not generally acceptable other than by merchants connected with foreign commerce.<sup>38</sup>

Despite several attempts at reform, fiscal administration remained basically unchanged until the constitutional revolution, providing further evidence of the limited sphere of market exchange in Iran. The existence of tax farming, the prevalence of taxes in kind, either in produce or in provision of military service, and the widespread use of Tuyuls (the assignments of the taxes of a particular village or area to individuals in return for services rendered or simply as gifts bestowed upon favorites of the

court)<sup>39</sup> point to an economic structure divided into many independent units. The inability of the central government to maintain a reasonably efficient bureaucracy or a regular army paid from its general revenue was the result of its incapacity to concentrate and centralize revenue collection. A large portion of the tax revenue of each province was used to defray local expenditure. A relatively small part of what remained was actually remitted to the capital and thus actually passed through the central treasury. Expenses incurred by the central government were often paid for by drafts (barats) on the revenue of various provinces. Such government bills often sold at a large discount not only because of costs involved in collecting such claims but also because of the uncertainty of their acceptance by provincial governors who might have at times felt in a position to defy the authority of the central government.<sup>40</sup> Centrifugal forces stemming from the relative economic, administrative and military independence of each region resisted attempts at centralizing reforms; only the existence of factional rivalries in each region enabled the government to assert some limited authority and to prevent even further disintegration.<sup>41</sup>

The extremely complex land tenure system, closely related to the land revenue administration, was also a distinct manifestation of the undeveloped state of commercial relations and markets. Complicated and diverse systems for division of agricultural products prevailed. Sharecropping, which has not totally disappeared even today, was not simply a matter of apportioning the output between the landlord and tenant but involved claims by people who provided community services as, for instance, bath attendants or village craftsmen, and by others who held certain offices like village guard (dashtban),

village headman (kadkhuda) and mullah.<sup>42</sup> Resort to such direct methods of payment as immediate division of crops rather than monetary remuneration was the natural consequence of a limited system of market exchange. In addition to a share in the harvest, landlords exacted from the peasantry extensive personal services which varied substantially according to local customs.<sup>43</sup>

The complexity of the system, direct expropriation of the surplus and the not-infrequent resort to coercion required local presence of landlords; therefore, they had to reside near their property. Absentee landholders were not unknown--especially among very powerful members of the ruling class who often acquired their property through the exercise of influence while holding political office or through the grants of tuyuls.<sup>44</sup> Bailiffs (mobashers) were appointed to gather the revenue, but controlling these overseers themselves was not easy. The consumption of surplus had to occur largely in or near the locality where it was produced.

Despite our emphasis on the rudimentary state of market exchange in Iranian society, it must be admitted that the concept of private property and procedures for enforcement of contracts were well developed, at least theoretically, within the tradition of Islamic jurisprudence. In particular, the institution of private property in land was widespread, although property rights were not absolute nor always very secure. The inadequacy of the land registration system, possibilities for forgery of documents, and the arbitrary nature of political power were responsible for this instability.<sup>45</sup> Nonetheless, land transactions were known and landed property could be used as collateral on loans. Abbas Mirza makes several references in his will to

various villages he had purchased, and land deals involving sales to members of both the merchant and ruling classes can be cited.<sup>46</sup> However, these transactions could not have been widespread since the lack of liquidity would have limited large purchases of this sort. Merchants, almost the only people in possession of liquid funds, were unlikely to invest a significant portion of their assets in agricultural land. As long as the means of communication remained primitive, they had to buy land in the vicinity of their place of residence. Geographical proximity was essential not only for the assessment of the value of the land but also for its continued and profitable exploitation. In a situation where the surplus from the land was in the form of an elaborate division of the crops and a maze of personal services, reasonable evaluation of the real worth of any property would have been difficult except for those who had an intimate knowledge of local customs.<sup>47</sup> Early in the century, then, the merchant class still probably favored investment in urban real estate.

This brief description of the main features of the economic structure of Iran oversimplifies a complex reality. No doubt vast regional differences existed with regard to such matters as natural resources, accessibility to major trade routes, the extent of division of labor, the degree of commercialization, the land revenue system, and specific administrative, legal and political institutions. This caveat notwithstanding, we think it useful to go beyond heterogeneity to emphasize the common features of the regions because our main aim (in the discussion that follows) is to stress the similarities in the pattern of transformation that occurred after mid-century. Although the direction of change in each region was such as to integrate it into a more unified system, many local differences did not necessarily



diminish and were even accentuated; indeed, regional disparities in the standard of living were probably less marked than they subsequently became. When interregional exchange was limited, the economic structures of the various provinces were alike because each region had to provide for a large part of its own needs. Consequently, the cropping pattern within each area was more diversified than we observe later, and there was wider geographical distribution of production manufacturing.

The reign of Nasir-Ad-Din Shah may be viewed as a period during which the structure of the economy, especially in the rural sector, was fundamentally altered. The pace of change accelerated in the last decades of the nineteenth century and the early years of the present century until it came to a temporary halt because of political disruptions caused by the constitutional revolution, the First World War and the military occupation of parts of the country by foreign forces, both prior to and during the War. Over the 60-year period between 1850 and 1910, the dominant economic characteristics of Iran became those of a market economy, and the features of the pre-mercantile era began to disappear. Much of this transformation occurred under the impact of the economic expansion of the industrial countries, often at their initiative and urged on by their political pressure, rather than through a process of internal development. As a result the rural sector became integrated into a network of internal and international trade, while the urban areas became more and more centers of commerce and administration as their manufacturing activities were partly ruined through competition from cheap Western industrial goods. Total destruction was averted perhaps by the ability of the handicrafts sectors to adapt somewhat to the new conditions and to change

their product mix.

Though relatively minor, demographic transition over the course of the nineteenth century conforms to the pattern of change which we claim occurred during the period. The end of the century found the population still largely rural but the relative size of the nomadic population had fallen as had the rural-urban population ratio. In 1900, about 79 percent of the population lived in the rural areas, a ratio which was to drop only about one further percentage point until 1940. The nomadic population was reduced to about one-fourth of the total population. These ratios show a decline compared with their estimated value, 90 percent and one-half, respectively, for the beginning of the century.<sup>48</sup> Both of these developments indicate growing internal exchange, independent of the increased trade generated between rural and urban areas because of the expansion of foreign commerce, for the settled rural population was probably less self-sufficient than the nomadic tribes, and, of course, food had to be supplied for the larger urban population. Neither of these reasons necessarily implies commercial relations between the town and the countryside since other systems of exchange could have performed the same functions, but, as we shall try to demonstrate below, markets assumed an ever-increasing role.

The rise in the foreign trade of Iran during the period roughly between 1850 and 1914 and the problems with measuring the change in the real volume of trade have been dealt with in the first section of this paper. Even if we accept Professor Issawi's figures, which we claimed might underestimate the actual expansion of trade, a quadrupling of the real volume of commodity trade is a substantial increase. The growth of Iran's foreign trade is not

surprising in the light of contemporary developments; the opening up of the Suez Canal, the fall in Ocean freight rates, the economic growth of Europe and above all, the economic expansion of its northern neighbor, Russia, which had accelerated in the last third of the nineteenth century. Russia's index of industrial production had risen from the average of 13.5 in 1865-76 to 100 in the years 1905-1913, nearly doubling each decade.<sup>49</sup> According to Entner, the average value of Russo-Persian trade for the same period increased from 7.7 million to 69.1 million gold rubles.<sup>50</sup> Because of Entner's standard of measurement and the pattern of international price movements, which we have discussed, the growth of trade was more gradual than suggested by Entner, who attributes much of the increase to the period after 1885. Whatever the actual pattern of expansion within the period, it is undeniable that between the mid-nineteenth century and the beginning of the First World War, Russo-Persian commodity trade increased at a more rapid rate than that of the total volume of the foreign trade of Iran. By the end of the period, Russia was by far the largest trading partner of Iran with a commerce valued at nearly three times that of her nearest rival, Great Britain.<sup>51</sup>

The growth of the volume of trade during the last half of the century is prima facie evidence of increasing commercialization, but more significant was the change in the character of trade and its commodity composition. When Russia and Great Britain replaced Afghanistan and the Ottoman Empire as the main trading partners of Iran, transit trade through Iran, though still of considerable value, declined relative to the nation's total foreign commerce. Neglecting this change in the nature of external trade while

considering merely its total volume results in underrating the real impact of the expansion of foreign transactions on the economic structure. Clearly, since an increasing portion of external trade was destined for exchange within the country, the internal spread of commercial relations was greater than aggregate figures would suggest.

With the change in the final destination of trade, the commodity composition was substantially altered. Exports and re-exports of manufactured goods declined relative to those of agricultural staples. In a typical year at the beginning of the twentieth century (1903-1904), the seven major agricultural commodities--namely, grains, cotton, wool, silk, opium, dried fruits and gums--constituted about 85 percent of Iran's exports (excluding fish), a figure which probably underestimates their true share due to the smuggling of grains. In the same year, Iran's imports were dominated by such items for mass consumption as cotton cloth, sugar and tea, which together made up about 60 percent of the volume of imports. Compared to the composition of trade at the beginning of the nineteenth century, these figures point to a fundamental structural change in the economy quite similar to the process of transformation occurring in most of the backward regions of the world as they became increasingly integrated into the international economy.

The expansion of the volume of Iran's foreign commerce and the modification of its structure provide convincing evidence for the assertion that the impetus for the commercialization of agriculture came from without rather than from internal development. This point is particularly well illustrated by the nature of the growing Russo-Persian trade. The economic relation between Iran and Russia, which was itself only a semi-industrial

nation, was one of hinterland to center. Industrial production expanded in the center while the hinterland was opened up as a supplier of raw materials and a market for the products of the growing industries. Russian merchants played a direct role in encouraging the production of such items as cotton, wool and grains destined for Russian markets.<sup>52</sup> At the same time, the expansion of the Russian railway network, improved navigation in the Caspian, and better roads in northern Iran (built mostly by Russian concessionaries) helped to integrate the two markets. Because the other European nations, especially Great Britain, were more advanced industrially, Russian goods, in particular textiles and sugar, could not initially compete effectively and had to be subsidized. Such export bounties were not designed merely to enable Russian textiles and sugar to undersell those from other industrial nations, an objective achieved as Russia gradually gained a larger share of these markets in Iran.<sup>53</sup> At times, Russia adopted subsidization for the express purpose of discouraging industrial production within Iran; in the most notorious incident, Russia temporarily exported sugar to Iran at artificially low prices to bring about the bankruptcy of the modern sugar mill established there in 1895.

Until the beginnings of the twentieth century, commercial relations between the two countries were governed by the Treaty of Turkamanchai. As Russian industry matured and an infrastructure for trade developed, and since geographical proximity made the two countries one another's natural trading partners, Russia realized that the provisions of the treaty did not serve its best interests. In 1903 a new customs treaty went into effect, replacing the old ad valorem import and export tax of 5 percent by a more complicated tariff schedule which generally favored

Russian goods over imports from other countries and eliminated the Iranian export tax.<sup>54</sup> The removal of the export tax on Iran's raw materials, ostensibly to increase their volumes and to redress the unfavorable balance of trade, clearly demonstrates the dependence of Iran's agricultural exports on the Russian market. The tax in effect represented a monopoly rent for the Iranian government, and Russia pressed for the elimination of the duty as it recognized its own monopsonist position--the Iranian peasant was a "captive seller" who could not easily turn to other markets.

The growth of trade, which, as we have argued above, was tied to economic expansion abroad, took place in the context of improvements in the infrastructure for commerce, such as the transportation and communication network or the economic and legal market institutions. Despite Anglo-Russian rivalry which impeded the construction of railroads in Iran, part of the changes in the transportation and communication system was initiated and undertaken by foreign interests. Political considerations by Britain and Russia might have delayed the development of the network, but once started, competition between the two nations stimulated investment as each tried to match any advantage gained by the other. As a result, the process became cumulative, the expansion of trade and infrastructure reinforcing one another over time.

Revolutions in the means of transport, chiefly the expansion of railroads and steam shipping, which occurred outside the borders of the country, were certainly decisive factors in integrating Iran into the world economic system. Within Iran, no such developments took place, although many fruitless attempts were made to obtain concessions to build railways.

The most notable change in the transport system of the country was the introduction of shipping in the Karun during the 1880's, and the construction of a few carriageable roads, usually by foreign concessionaires, in the last decade of the nineteenth and the early years of the twentieth century. (During the First World War, the British military forces built some roads for motor transport.) Despite the use of carts on these roads which joined Teheran with the North and the southwestern trading routes, pack animals remained the basic means of transportation of merchandise (and mule tracks the main road system) until the eve of the First World War. Practically all commentators stress the difficulty of moving goods and people within the country, the time involved, the monetary cost and the insecurity.<sup>55</sup> No doubt, such observations were correct, for transportation was expensive and risky. However, the rate and the direction of change rather than the absolute level of costs is the relevant factor to consider for our analysis of the extension of markets. Again, the usual problems with Iranian data, the absence of consistent long time-series of freight rates and of a corresponding index of general level of prices, precludes definitive statements regarding the long-term trends in the real cost of transportation. We think it reasonable to maintain that over time such costs must have declined. The introduction of wheeled traffic might have been a causal factor, though not a significant one. A more appreciable reduction in cost probably was brought about by the growth in the volume of trade itself. Certainly with modern transportation systems, there are large economies of scale, average cost declining as the scale of operation grows. One might think that with the means of transport employed in Iran during this period, such economies of scale were

negligible, but convincing arguments can be made for the existence of substantial returns to scale. Certain overhead costs were fixed in the network for the provision of the needs of the caravans, the construction and the upkeep of caravansarai, stocking a minimum supply of fodder and food, and the expenses of forwarding agents in the commercial centers. The rise in the volume of trade and, more importantly, the increased frequency of journeys, which would have reduced waiting time, must have lowered the average cost. Increased security of the roads was even more significant in cheapening of transportation. On the more travelled routes, such as the Enzeli Teheran Road, banditry had practically disappeared, at least during normal times. The trend was general not only because the increased authority of the central government provided protection but also because larger caravans could better afford to employ a larger body of private guards. At times of political turmoil, freight rates would rise, but over the course of the period, such instability was gradually confined to the more remote regions of the country.<sup>56</sup> Thus, though the time required to ship goods between regions did not decline appreciably, there are reasonable grounds to believe that the real cost of transportation declined. (Incidentally, a factor in spreading commercialization into rural areas was the provision of supplies required by the growing traffic. A major portion of the needs of the muleteers, their food, forage for the animals and animals themselves, were purchased from farmers or nomadic tribes. Since freight rates appear to have been sensitive to fluctuations in the price of forage, much of the expenditure of transportation must eventually have ended up in the rural sector.)

In contrast to the absence of dramatic, visible changes in the



transportation system, Iran's communications network was markedly improved during the second half of the nineteenth century. Although a rudimentary postal system was established as early as 1851, it was only in the mid-1870's that a regular postal service was instituted, and in 1877 Iran joined the international Postal Union. Regular weekly services existed between Teheran and main Iranian cities, and a fortnightly service provided mail connection with Europe. Although the postal service, like other public services, was farmed out until 1901, the network expanded, and the number of post offices grew from 60 in 1881 to 224 in 1918.<sup>57</sup> The establishment of the postal system greatly reduced the time required to send mail and small packages between cities, demonstrated by the following table from Rabino (circa 1890).

Table 4

<u>From Teheran to:</u>	<u>Distance in Miles</u>	<u>Days Journey by Post</u>	<u>Days Journey by Caravan</u>
Tabriz	350	4	17
Resht	200	3	10
Meshhed	558	8	24
Isphahan	245	4	12
Shiraz	530	8	27
Bushire	700	13	37
Yezd	412	8	21
Kerman	640	12	32
Hamadan	200	3	9
Kermanshah	330	5	14

Source: J. Rabino, "Banking in Persia."

The original impetus for the construction of a telegraphic network in Iran came from the British government, which was eager to establish speedy communication with India. Agreements were reached in the mid-1860's, but once the initial lines were in operation, the system expanded rapidly, and by the end of the century the network covered most of the Iranian territory in addition to serving its original function of connecting India with Europe. The stimulus for the fast growth came partly from the Iranian government's recognition of the utility of the telegraphic network. Therefore, it was willing to invest in and to grant concessions for new lines. By 1876, there were already over 4,000 kilometers of telegraphic lines joining 46 offices within Iran; by 1904, 9,640 kilometers connected 130 localities.<sup>58</sup>

The improvements in the communications system had far-reaching effects on the political unification of the country, greatly enhancing the authority of the central government, but they also had a profound economic impact. Commercial exchange was expedited, and by the beginning of the present century, one may speak of an integrated national market in Iran. Both the postal and the telegraphic networks were used extensively for the dissemination of commercial intelligence, the transmission of purchase or sale orders, and the remittance of funds.<sup>59</sup> The extension of the system into a region usually stimulated commercial activity there. Lieutenant Vaughan in his Report of Journey through Persia records that, "Since the introduction of telegraph and post office, Yezd has become an important center of trade..."<sup>60</sup> Merchants were, of course, very much aware of the necessity for quick communications and promoted the expansion of the system.<sup>61</sup>

A further factor aiding the growing commercialization of the economy

was the reform of the monetary system. In 1877, the various provincial mints were abolished, and the issuance of the currency was centralized in Teheran. More significantly, in 1889 the Imperial Bank of Persia was established under a concession granted to a British company and was given the exclusive right to issue bank notes. Soon after, a private Russian bank began operations, and later the Imperial Ottoman Bank opened several branches in Iran. The network of modern banks spread fairly rapidly, but though the foreign-owned banking sector provided stiff competition for the informal indigenous money market, it was not able to eliminate it altogether. Even before the creation of the Imperial Bank, the wealthier merchants and moneylenders (sarrafs) had created their own financial instruments, and funds could be transferred between cities and even internationally with relative ease. We have already mentioned the banking operations of Haji Amin-O-Zarb, but other also engaged in such activities. Millspaugh estimated that at the time of his first missions, there were five Persian merchants with credit ranging from 10 to 50 million Krans, who bought and sold bills on the provinces and whose notes were generally acceptable. Surely, many more had operations limited to specific regions.<sup>62</sup> Although ultimately the domination of the financial sector by foreign banks was detrimental to the interests of the country, competition from foreign banks initially aided regional commercial activity. As the notes of the Imperial Bank drove out of national circulation the notes of the Iranian sarrafs, the latter had to rechannel their capital from financing national and international trade to providing funds for local use.<sup>63</sup>

The legal and administrative framework for the conduct of business-- codes and procedures for enforcement of commercial contacts and for

recovery of debts in bankruptcy cases--remained practically unchanged. Although foreign merchants, in particular Russian and British, enjoyed capitulatory rights and usually had the support of their consuls in pressing for their claims, foreigners complained frequently about dishonesty of Iranian merchants and agents, fraudulent bankruptcies, and the corruption and complicity of Iran officials in such matters.<sup>64</sup> No doubt, Iranian merchants were not always scrupulous in their dealings with foreigners or with each other, but the charges of fraud are exaggerated. Limited markets, frequent natural disasters, the underdeveloped state of capital markets, and the size of their assets made Iranian merchants vulnerable; most bankruptcies were indeed genuine failures and were, at times, recognized as such by foreign consuls.<sup>65</sup> The difficulties in collecting debts reflected the lack of continuity in commercial relations rather than the absence of an elaborate legal and administrative machinery. Even at present, in highly industrial and market oriented economies, a company going out of business usually finds it hard to collect its debts. So, when Consul Jones complains about difficulties experienced in collecting money from the debtors of a British firm after it left Tabreez, he was not describing conditions peculiar to Iran.<sup>66</sup> As one would expect with the growth in the volume of trade, better communications, and increasing prospects for commercial relations on a more regular basis, the standards of honesty improved even without the introduction of formal legislation. A British report in 1894 on Shiraz stated that Iranian merchants were becoming more trustworthy and "...the proportion of trade bills returned unpaid being certainly not more than the case in any provincial town in England..." and that "...native merchants are less reluctant than formerly

to break their contracts and repudiate their engagements..."<sup>67</sup>

The expansion of commercial activity enhanced the taxing power of the government since the decline in regional self-sufficiency allowed the government to extract taxes at points of exchange. Because channels of foreign trade were less numerous, it was more easily taxed. Iranian merchants also had to pay road taxes and town octrois, but these dues yielded much smaller revenue than the customs duties. Especially in the first decade of the twentieth century, attempts were made to impose taxes on or monopolize the trading of other items of exchange, like tobacco, opium and alcohol, even though a previous effort to establish a tobacco regie under a foreign concession in 1890 had backfired on the government. Despite a fairly steady growth of the receipts from these diverse areas, state income was primarily from land revenue and customs duties, with the latter becoming increasingly dominant after the 1890's. Although the rate of taxation of foreign trade was not changed until 1903, and even then not appreciably, the government was able to collect more because the volume of trade was expanding and because its concentration allowed centralized collection.<sup>68</sup> The increase in the taxing capacity, which the growing trade permitted, was not at first effectively exploited, at least for the benefit of the central government. As late as 1888-1889, out of the total receipts of nearly 54.5 Krans, only 8 million Krans were from customs revenue. We suspect, however, that both the informal pishkeshes (the gift offered to the shah or other high officials at the time of the assignment of offices) from the farmers of the customs and their operating profits were rising.<sup>69</sup> Rabino estimates that before the administration of customs was centralized, customs revenue was only between two and three

percent of the value of foreign trade.<sup>70</sup> At the time of Shuster's mission (1911), this income had risen to over thirty-four million Krans, representing about four percent of the value of trade, while the land tax revenues had remained practically constant.<sup>71</sup> The trend continued, and by the time Millspaugh took over the financial administration of Iran, customs receipts (for the fiscal year 1922-23) had doubled again and now constituted over five percent of the foreign trade (excluding oil); land revenue had risen only about 20 percent.<sup>72</sup>

Since the customs treaty of 1903 had removed the export levies, the trade tax was mainly in the form of an import tariff. In the absence of even approximate data on the consumption pattern of the peasantry and other sections of the population, it is hard to assess the incidence of the taxation, but this modification of the tax structure was probably favorable to the peasantry. Some of this advantage was gradually lost when various agricultural and livestock products--for instance, opium, tobacco, skins, slaughter of animals--were again taxed or monopolized by the state.

Despite all these developments, there is a tendency to discount their direct impact upon the rural areas, for villages and tribes have been regarded as essentially stagnant societies, predominantly self-sufficient and in little need of trade with other communities. Even recently, Abrahamian has advocated this view of rural areas of Qajar Iran.<sup>73</sup> According to this position, which is influenced by Marx's comments on Asian societies, the extraction of surplus from the rural areas was in kind, and the landlord or government official transferred the surplus physically to urban areas whence it entered commercial exchange. Consequently, the

villagers themselves were not directly engaged in the money economy or in commodity exchange with the outside world; within the village, division of labor and exchange supposedly was not based upon monetary transactions. The fragmentation of the society into many relatively independent units caused the lack of progress.<sup>74</sup> Although at the beginning of the nineteenth century, many rural communities in Iran might have fitted this description, by the end of the century, the typical village was quite different. There are numerous indications that direct monetary exchange became prevalent during the course of the century, and that the rural sector was increasingly drawn, through a system of commercial relations, into the wider regional and national markets, and, ultimately, into the international economy.

Examples of monetary sales of agricultural and livestock products abound. Such sales often involved direct contact between merchants and peasants, though at times purchases were made from landowners not residing in villages. Stack, who visited Iran in 1882, reports that Yazdi merchants would go as far as Zarand, about a week's journey, to advance money to opium growers in return for the purchase of their harvest. He also recounts the interest shown by peasants near Isfahan in the prices and trade of opium.<sup>75</sup> Russian and Persian traders encouraged the cultivation of American cotton by providing seed and cash to farmers in the North, especially in Khorasan. They also sent their agents into the countryside to procure wool from nomads, sometimes making payments before the herds were clipped.<sup>76</sup> Rabino's description of silk and tobacco growing and trade in Ghilan provide further examples of commercialized agriculture.<sup>77</sup> Despite these examples, market transactions were not confined to cash crops like

opium, cotton, silk and tobacco. Grains also entered trade, not only for domestic consumption but also for exports. Indeed, at the beginning of the twentieth century, even without taking smuggling into consideration, Iran exported more grains, mainly rice, to Russia than raw cotton. After the decline in the silk production in Ghilan, there was a shift to rice and wheat cultivation for Russian markets.<sup>78</sup> Contemporary observers indicate that considerable direct business existed between grain merchants and peasants. The British vice consul from Mashad reported in 1896 that grain speculators were able to procure wheat cheaply because they did not buy in the town, but went to the villages and often made cash advances before the harvest. H. L. Rabino noted a government prohibition, imposed to combat hoarding, which forbade produce merchants' (allafs) going to the rural areas of Rasht to purchase rice.<sup>79</sup>

Like the settled rural population, nomadic tribes engaged in commercial activity. They found a ready market for their livestock products, especially butter, wool and hides, and, to some extent, for live animals. The expansion of the rug weaving industry in the last decades of the nineteenth century increased the market for their wool and, of course, the tribes themselves wove and sold their rugs and gilims. Because of their migratory way of life, nomads probably had infrequent contact with commercial centers and marketed their produce when they passed near such towns during the course of their migration. For instance, Boroojen, in the vicinity of Isphahan, is reported by Al-Isphahani to have been a trading center for the Turkish and Lur tribes. Mirza Hossain Khan, in his book, Jughaphiaye Isphahan, mentions that many tribes came during summer months to the neighbourhood of Isphahan and traded in the city and villages



"...bringing sheep and taking back cash, cloth and other goods."<sup>80</sup>

The extent of the spread of markets into rural areas is also demonstrated by the responsiveness of peasants and landlords to economic incentives. This sensitivity to market forces is reflected not only in long-term rise or decline of various crops but also in shorter term shifts between crops. The much-discussed expansion of opium trade was clearly due to economic factors; indeed, the government sometimes had to legislate against increases in opium production. Zil-Ol-Sultan, for instance, ordered that one acre of wheat be grown for every four acres of opium; at times, planting of certain crops was promoted through tax exemptions.<sup>81</sup> The rise in cotton production and exports in response to the price increases during the American Civil War, and the temporary decline before the rapid expansion towards the end of the nineteenth century are well-documented instances of market influence. Dickson, the secretary to the British Legation, reported in 1865, that the export of cotton from Southern Persia had increased five fold since 1862-1863. In 1873 a British report estimated the rise of cotton exports from Southern Iranian ports during the American Civil War, "...from next to nothing to 100,000 bales annually ...", while at the time of the report, export of cotton had practically ceased. Although much smaller in magnitude, the same process appears to have been repeated in Azerbayejan where cotton production expanded rapidly during the War when prices increased several fold, but dropped after 1866 when foreign prices declined and difficulties were experienced in marketing the cotton.<sup>82</sup> Less spectacular, but just as indicative of responses to economic forces, are cases of expansion of minor crops in specific regions such as the cultivation of tobacco in Ghilan, where cigarette tobacco was

introduced in the mid 1870's. In 1877 about 43 thousand kilograms were harvested, and by 1891 the output had grown to over 450,000 kilograms--an increase of over ten-fold. After this date, cultivation of tobacco continued to grow but at a slower pace and fluctuated according to market price.<sup>83</sup>

Contemporary observers were well aware of the relevance of profitability in farmers' decisions to grow particular crops. In 1891, a British consular report for Mashad stated that "The people of Turbat-i-Haidari also have begun to cultivate saffron, as they find it more remunerative than cotton." A later report from the same area recorded, "...two or three years ago opium had become so cheap that it hardly paid the cultivators, and that in consequence the area cultivated began to diminish. but, now the merchants have begun to buy up the drug...The recultivation has begun with renewed energy." Al-Isphahan, himself a merchant, observed in the 1880's, how the amount of cotton produced in the vicinity of Isphahan varied each year depending on its price. He also attributed the decline in the cultivation of tobacco to the import tariff imposed on it in the Ottoman Empire, the chief market for Iranian tobacco.<sup>84</sup> Clearly, the examples in the last two paragraphs demonstrate that the commonly accepted views of the conservative, self-sufficient peasant that prevails to this day had no foundation in facts.

The rise of commercial agriculture is also indicated by the increase in pre-harvest sales of crops, either by peasants or landlords. We have already referred to merchants making cash advances. Arrangements for such loans were diverse and complicated, though they often involved debtors pledging to sell produce to a creditor at a fixed price or at the prevailing market price at harvest time. In other cases, the crop was used as a security on the loan, and the debtor could simply pay back the loan together

with the accrued interest.<sup>85</sup> The implicit or explicit rate of interest on such cash advances was at times, usurious, but such loans differed in nature from the usury to which the peasantry was often subjected.<sup>86</sup> Firstly, such credit arrangements were not necessarily between the landlords and peasants, though the former did occasionally act as intermediaries. Instead, they were the beginnings of more competitive and impersonal capital markets. Secondly, landlords as well as peasants were recipients of the cash advances. Thirdly, the willingness of merchants to make these credits available on the security of the crops indicated the marketability of agricultural products. Traders were, presumably, more willing to make advances on crops whose prices were relatively stable, like cotton and opium. Finally, pre-harvest sales on the part of the farmers reflected their need for cash. Such funds were used in a variety of ways depending on who obtained them, but even if the poorer peasants spent the money on food such purchase would indicate monetary exchange in the rural areas.

A neglected aspect of expansion of market exchange into rural areas is the change in the character of rural handicrafts. Some of the non-food requirements of the rural population were, surely, produced locally. Whether or not such handicraft production declined in the villages, as it did in the towns, is difficult to establish--quite possibly, it did. An exceptional development was the growth of rug weaving, much of which was done by women and children in villages. The rise of this "cottage industry" after the mid-nineteenth century is well known.<sup>87</sup> For the rural areas, expansion of rug weaving meant changing the orientation of handicraft activities from meeting local needs to producing for markets. Besides rugs, other rural crafts were sometimes undertaken for sale in the towns. Writing about Isphahan, the

British Consul reported in 1892 that "The women in the village [Haft Taher] were all employed in making givas [a native Iranian cloth shoe]...These givas are taken to Yazd and Isphahan for sale, during harvest time, some 15 pairs are made daily, in winter about 25 pairs!"<sup>88</sup>

Provision of wage labor is another facet of the integration of the rural population into the national economy. Historically, large-scale migration, primarily motivated by political and military factors, had been fairly common in Iran. The distinguishing characteristic of the population movement in the late nineteenth or early twentieth century is its responsiveness to economic factors. Many references can be found to short-term movements of peasants, either to the cities to take up non-agricultural jobs (mainly in construction) or to other rural areas to seek agricultural employment. In some villages, outside casual laborers provided wage labor, usually at harvest time, and were paid in cash or kind. Estimates of H.L. Rabino indicate that each year more than 25 thousand Khalkhali peasants went to Rasht to work during the fall and winter but returned to Khalkhal for the beginning of their own agricultural season. He also reported that the [lazy] Guilak peasant would employ a mozdour (paid laborer) whenever he could afford it.<sup>89</sup> The road projects undertaken between 1890 and 1920 offered many employment opportunities. For instance, 30 thousand laborers were employed by the British in 1920 to keep the Kermanshah-Teheran road clear.<sup>90</sup>

An increasingly important component of the wage labor force was the Iranian migratory worker who went to Russia to be employed in factories or to build railroads. The magnitude of such movements, which appear to have been short-term migrations rather than permanent emigration, are indeed

striking. Entner estimates that in the first decade of the present century between 60 thousand and 100 thousand Iranians annually entered Russia and about an equal number returned. During the years immediately preceding the War, these numbers had more than doubled.<sup>91</sup>

In addition to these direct indications of the extension of commercial relations into rural areas, we can point to other manifestations of an enlarged sphere of market exchange. The money obtained from the sale of products had to be spent; the pattern of its expenditure is relevant to our argument. Some of the proceeds went for in taxes either by the landlords or the peasants, but the magnitude of sales of agriculture products for the domestic markets and for exports far exceeded the tax revenue of the government. A large share of the money was probably left in the hands of landlords and merchants, but some must have remained with the peasants to be spent by them on consumer goods. Unfortunately, we have little direct information on the consumption habits or living standards of the peasantry, yet indirect evidence suggests that at least some consumed beyond the bare minimum of food and clothing and that part of the goods they consumed was purchased. The main items of consumption were tea, sugar and cotton cloth, and the data on the imports of such products indicate that their use must have been widespread, not merely confined to the urban areas. During the first decade of this century, sugar imports into Iran ranged between 75 thousand and 120 thousand tons annually, which implies a per capita consumption of between 7.4 kilograms and 12 kilograms, approximately equal to the rate of consumption in Great Britain in the 1840's. Since the urban population was only about 2 million, it appears unlikely that the entire amount was consumed in the

cities, especially when we note that the vast majority of the city dwellers were not much better off than the peasantry.<sup>92</sup> The same argument can be repeated for cotton cloth and tea. Consumption of such items was apparently common among the majority of the peasantry. A British Consul commenting on the poverty of Sistan, implied the prevalence of such purchases in the more prosperous areas, when he observed, "The people are so wretchedly poor that there is no demand for these things. They make their own cloths and don't drink tea."<sup>93</sup>

In many villages, there were shops which catered to the needs of the people and permanent traders acted as buying agents for city merchants.<sup>94</sup> In the more thickly populated Caspian region, regular weekly markets were held where peasants could sell their produce and purchase consumer goods, while in other regions, itinerant merchants (Pilevars) took such products as tea, sugar and cloth to villages and tribal areas. Some of these sales were for cash, but part of the trading appears to have been barter where no money changed hands, the traders providing credit to be repaid in produce after the harvest. Yet, even the barter deals essentially involved commodity exchange in the Marxian sense. The villagers and tribesmen went into towns to buy and sell goods. Al-Isphahani mentions a bazaar in Isphahan called Najafabadi since the inhabitants of this region brought their khoshkebar (dried fruits and nuts) there to sell. Mirza Hossain Khan describes the guild of the sellers of ready-made clothes in Isphahan, whose chief customers were the tribe.<sup>95</sup> (Incidentally, a major expenditure item for tribes was probably arms and ammunition which they bought in the cities).

The underestimation of the extent of market participation by the rural

population is perhaps partly due to the tendency to regard the rural social structure as homogeneous and to make a sharp demarcation between landlords and peasants. In fact, the situation was more complex. In certain areas, there were small holders, usually better off than tenants, and even on the estates of large landlords, the internal social structure was hierarchical. Representative of landlords and certain village officials enjoyed special privileges. Some villagers were more prosperous than others by virtue of owning draught animals; at the bottom of the scale were landless laborers, distinguished from share-croppers. The existence of social differentiation within villages and between regions implied differences in consumption patterns. The more prosperous elements, whose living standards still left much to be desired, consumed other goods besides grain and homespun cloth. Increased availability of Western products probably first enticed this section of the population to produce for the market and to look outside the village for the satisfaction of their wants. To the extent that the decline in the economic and political autonomy of villages produced a more hierarchical structure, as we may conjecture, the process of commercialization would have been accelerated.

A consequence of the increased commercialization of agriculture was the growth of investment in land by the merchant class. Apart from the social prestige of land ownership, several economic reasons explained the heightened interest shown by merchants in acquiring landed property. Firstly, the orientation of agriculture to cash crops, made land a more attractive commercial asset; outsiders like merchants, were better able to assess its value, and the risk of owning land was reduced because access to international

trade meant less volatile markets. Both these factors provided merchants with more opportunities for diversification of their assets, for the relative attractiveness of land as an investment had been enhanced. Secondly, during the reign of both Nasir-al -Din Shah and his successor, the state began to sell its khaliseh land (state domain) and, presumably, merchants with liquid funds managed to purchase some of these properties at bargain prices.<sup>96</sup> Thirdly, the acquisition of land by merchants was, in part, involuntary. The extravagant lifestyle of the large landlords and the "nobility" with their newly acquired tastes and habits required cash outlays which they could not always make.<sup>97</sup> Even though they possessed considerable assets, they often faced liquidity problems and had to turn to merchants to borrow. Land was usually put up as collateral for such loans and in the cases where they could not pay their debts their land would pass into the hands of the merchant class. Despite these developments favoring acquisition of land by this group, with few exceptions, merchants did not join the ranks of the large landlords until after the period under consideration here. They tended to acquire villages near their place of residence not only because control was easier but also because their location near towns guaranteed ready access to markets. At times, such properties also served the dual function of providing summer homes. Merchants like Amin-O-Zarb, who had large holdings, usually consolidated these in particular regions. It is safe to conclude that although land was becoming more of a "commodity" itself, the difficulties of communication still made its market limited.<sup>98</sup>

In describing the transformation of the rural sector, we have neglected the changes that occurred in urban areas. In fact, they were closely related



and the modifications in the nature of the urban economy mirrored the developments of the rural sector. The structure that emerged was the natural consequence of an externally imposed change. We have already provided support for such an assertion in our discussion of Russo-Persian trade and Iran's commercial relations with other industrial nations were similar. These dependent and unequal relationships had created a lop-sided structure within cities which, gradually deprived of their own industry, became centers of bureaucracy and trade where merchants acted as intermediaries between the rural sector and the international economy. The competition from Western goods had undermined handicrafts, although certain artisans tried to imitate Western production, without large scale output and introduction of machinery, such attempts were futile. The expansion of the carpet industry was no substitute for the wide range of manufacturing that was partly eliminated. Both this industry and others catering to the West, such as shawl weaving in Kerman, were not suitable for capitalist expansion. Attempts to mechanize would have destroyed the raison d'etre of these industries.

### III

From our brief descriptions and analysis of the structural changes that occurred in Iran a reasonably clear picture emerges. By the first decade of the present century, we can no longer characterize Iranian agriculture as subsistence farming. By then, it was well integrated into the national economy and commercial relations were widespread. Many features of subsistence farming persisted: rents in kind were still prevalent; the landlord-peasant relationship did not become simply one of employer to employee, and many non-

market considerations continued to bind them to one another; large numbers of peasants had little or no marketable surplus. These characteristics of the rural economy remained largely unchanged even after 1921, for in the years between the World Wars the government concentrated its efforts on industrialization. But the direction of change was unmistakeable. Increased commercialization and regional specialization had already laid the foundation for the introduction of cash rents and wages. The expansion of the market system had naturally produced unequal development and magnified income and wealth inequalities both within and among regions. Most significantly, larger volumes of external and internal commercial interchange had shifted the basis of the fiscal system, permitting greater political and economic integration of the country.

These developments came to a virtual halt during the decade 1910-1920 as political and military events within Iran and outside its borders disrupted commerce, but this slow-down was quickly reversed once normal conditions were restored. The reforms that the government instituted after the coup basically involved the political unification of the country through the establishment of a strong central government. The prerequisite for the centralization of authority was the command over economic resources to maintain a bureaucracy and an army. The gradual economic changes of the 60 years preceding the coup, by creating a fairly integrated national economy, provided the government with the basis to easily acquire the financial power. As we mentioned previously increased exchange enhanced the fiscal capacity of the government and permitted geographical separation of political and economic power from productive activity. A large surplus could be extracted and spent

wherever desired, whatever its place of origin. When the government attempted to reform the fiscal system after the coup, scant attention was paid to obtaining larger revenues from the land. Instead the government concentrated on taxing items that entered national or international market exchange. Budget estimates for 1926-1927 indicate that revenue from these sources constituted about 80 percent of government receipts (excluding revenue from the oil concessions, which were just beginning to expand). By then, the volume of internal and external trade was large enough that, even without an unduly high rate of taxation, government finances could be placed on a relatively sound footing. The developments that occurred during the reign of Raza Shah further integrated the national economy, increasing internal exchange and reducing the dependence of agricultural exports of certain regions on particular markets. Government reforms and programs were certainly responsible for the greater economic and political unification of the country, but conditions for their effectiveness had been initiated by the gradual economic transformations that had been taking place prior to their institution.

## APPENDIX ON SOURCES

This short appendix is not intended as a bibliographical essay on the writings and primary source material on nineteenth century Iranian economic history. Its purpose is rather to point out the principal deficiencies in the source materials used by most students of the subject, ourselves not excluded, and to explain why there still remain substantial areas for disagreement among historians of the period.

Primary sources in the Western languages consist mainly of foreign travellers' accounts of Iran, memoirs of Western "experts" and envoys residing in Iran over fairly extended periods of time and, perhaps most importantly, regular consular reports and diplomatic correspondence. Over the course of the century, as contacts became more numerous, the amount of such material increased. Recourse to many of these sources entails recognizing certain inherent biases. Firstly, many of the recorded observations do not provide independent information since writers frequently drew upon material from their predecessors. Secondly, as we have already mentioned in our text, the economic and political developments of the West must have gradually changed the vantage point of Western observers of Iran. Thirdly, one naturally finds excessive concern with foreign trade; consular staffs were especially preoccupied with the relative competitiveness of their own national goods with other foreign merchandise. In this context, it is not surprising that the internal economic affairs of Iran, except insofar as they touch upon external trade, received scant attention.

Persian primary sources which remain undestroyed are as yet relatively unexplored. Much of what is still available is scattered and ordinarily not easily accessible to scholars. A notable exception is the collection of the papers of Haji-Amin-O-Zarb which promises an unequalled

record of the economic and social history of Iran during the last three decades of the century. Personal diaries and memoirs, whose publication has expanded recently, are generally more relevant to the political history of the country. Many secondary sources exist in Persian, and of these the most useful to economic analysts are the histories of particular regions or cities rather than the general history books. Much of the information contained in such works tends to be unsystematic, non-quantitative and without reference to the source, all of which diminish their value.

In addition to the paucity of data, the problems of economic historians of Iran are compounded by the conflicting information obtained from various sources. Some of the contradictions may be explained by the diversity in the condition of the different regions. They do, however, also reflect the biases of the writers and the simple misinformation provided to the foreigners by their informants, for language difficulties often added to the hazards of gathering information. Another possible explanation of the differences is the periodic occurrence of natural disasters causing short-term fluctuations in the conditions of the country. To contemporary observers not very familiar with Iran, immediate situations might have been mistaken for longer term states of affairs.

The relatively undeveloped state of the economic history of Iran can be explained mainly by the difficulties in obtaining reliable and systematic data. Before attempts can be made to write a general economic history, more detailed research has to be done not only on histories of the different regions of Iran but also on specific economic sectors and industries. In the absence of such work, valid generalization will be rare, and there will be ample ground for genuine differences which do not merely reflect the

ideological biases of the writers. The conclusions of this paper are no exception to the caveat; they are not meant to be taken as established truth but as suggestive hypotheses.

## NOTES

\*This is a revised version of a paper given at the "Conference of the Economic History of the Near East" held at Princeton University, June 1974. We are grateful to Lucy Cardwell and Ian Parker for their helpful suggestions. We also wish to thank Stephen Ault for his editorial assistance.

<sup>1</sup>This view of the economic history of Iran is widely held. See, for example, A. Ashraf, "Historical Obstacle to the Development of a Bourgeoisie in Iran," Iranian Studies, II, Nos. 2-3 (Spring-Summer 1969), 54-79; M.K. Fateh, The Economic Position of Persia (London, 1926), Chapter 10; A.C. Kia Essai sur l'histoire industrielle de l'Iran (Paris, 1939), Chapter 5; H. Soheily, Essai sur l'industrialisation de l'Iran (Montreux, 1950), pp. 26-27.

<sup>2</sup>A somewhat similar position is taken by Professor N. Keddie, who argues that "However stagnant the period 1800-1914 may look in comparison to the half century that followed, there is no question that the roots of later development are to be found in the earlier period." See N. Keddie, "The Economic History of Iran, 1800-1914, and Its Political Impact: An Overview," Iranian Studies, V, Nos. 2-3 (Spring-Summer 1972), 58-78. However, in this article and in another essay, Historical Obstacles to Agrarian Change in Iran, (Claremont Asian Studies, No. 8; Claremont, California, 1960), she maintains that under the Western impact the living standard of the majority of the population declined.

<sup>3</sup>The choice of 1848 as the beginning of the period considered in this paper is quite arbitrary. No doubt many of the changes which we discuss can be observed before this date, but there is a marked acceleration in the second half of the century.

<sup>4</sup>Among recent historians who subscribe to this position, though each one does not necessarily endorse all the points, we can cite: C. Issawi (ed.), The Economic History of Iran: 1800-1914 (Chicago, 1971), Chapter 1 and pp. 339-345; N. Keddie, "The Economic History of Iran, 1800-1914, and Its Political Impact: An Overview," and Historical Obstacles to Agrarian Change in Iran; R.A. McDaniel, "Economic Change and Economic Resiliency in Nineteenth Century Persia," Iranian Studies, IV, No. 1 (Winter, 1971), 36-49.

<sup>5</sup>For a discussion of the foreign trade deficit of Iran and various explanations of how the excess of imports over exports was financed, see M.L. Entner, Russo-Persian Commercial Relations, 1828-1914 (Gainesville, 1965),

pp. 54-60; C. Issawi, *op. cit.*, pp. 128-135; and E. Yaganegi, Recent Financial and Monetary History of Persia (New York, 1934), Chapter 5. Exceptions to the general assertion concerning the deficit can be found for certain years. For example, the British consul in Tabriz reported, "For several years past, Persia has not been obliged to export specie to pay for her imports... On the contrary, foreign merchants have found it advantageous of late years to import bullion..." See, Great Britain, Parliament, Parliamentary Papers (Commons), 1888, CII, C.5252, "Diplomatic and Consular Reports on Trade and Finance, No. 241. Persia. Tabreez." Hereafter, reference to Great Britain, Parliament, will be omitted when citing Parliamentary Papers, and "Diplomatic and Consular Reports on Trade and Finance" will be abbreviated as DCRTF.

<sup>6</sup>References to such prohibitions are frequently encountered; for example, consult Parliamentary Papers (Commons), 1867-68, LXIX, No. 3954-IV, "Report... on the Population, Revenue, Military Force, and Trade of Persia" or Parliamentary Papers (Commons), 1873, LXV, C.828, "Persia. Tabreez."

<sup>7</sup>Comments on the inaccuracy of Iran's trade data are often made by contemporary observers, for example, see J. Rabino, "An Economist's Notes on Persia," Journal of the Royal Statistical Society, LXIV (1901), 265-291 or Parliamentary Papers (Commons), 1871, LXV, C.343, "Persia. Tabreez.", or Parliamentary Papers (Commons), 1897, XCII, C.8277, "DCRTF, No. 1800. Persia-Meshed."

<sup>8</sup>See J. Rabino, "Banking in Persia," Journal of the Institute of Bankers, XIII, Part I (January, 1892), 1-56, and E. B. Yaganagi, *op. cit.*, Chapter IV. There was always some cross-hauling of precious metals across the borders of Iran caused by differences in exchange rates in different regions of the country and by the seasonal pattern of trade.

<sup>9</sup>This point, though not generally recognized, has been previously made by several authors. For instance, see the following: M. Entner, *op. cit.*, pp. 60-62; E. B. Yaganagi, *op. cit.*, Chapter IV; and H. H. Bonnell, Foreign Economic Relations in the Development of Iran, unpublished Ph.D. Dissertation, The American University, Washington D.C., 1957.

<sup>10</sup>Reference to this reason for over-valuation of imports is made in Parliamentary Papers (Commons), 1887, LXXV, C.4923-36, "DCRTF, No. 113. Report on the Trade and Industries of Persia." See also C. Issawi (ed.), *op. cit.*, p. 82.

<sup>11</sup>Numerous instances of such export bans are cited by observers. For examples, see the following: Parliamentary Papers (Commons), 1897, C.8277, "DCRTF, No. 1800. Persia. Meshed."; and Parliamentary Papers (Commons), 1883, LXXIV, C.3798, "DCRTF, No. 760. Persia. Bushire.";



R.A. McDaniel *op. cit.*, p. 39; and J. Rabino, "Banking in Persia," p. 21. While the above refer to bans on the export of grains, other foodstuffs were also banned. For example, for reports of export bans on sheep and butter, see: U.S., Department of State, General Records of the Department of State, RG58 (National Archives Microfilm Publications, T305), Consular Despatches, Teheran, 1883-1906, Despatch from the U.S. Consul in Teheran, dated June 17, 1883; and *ibid.* (National Archives Microfilm Publications, M223), Diplomatic Despatches, Persia, 1883-1906, Despatch from the U.S. Minister in Persia, dated August, 1895.

<sup>12</sup>J. Rabino, "Economist's Notes on Persia," p. 273. See also various British consular reports. Such as those cited in notes 6 and 7.

<sup>13</sup>Again we refer the reader to British consular reports; for example, Consul-General Abbott records, "...foreign gold and silver flow into the country in very diminished quantities since the failure of the silk. Increased difficulty is, therefore, experienced in procuring the means of remittance to Europe," in Parliamentary Papers (Commons), 1867-68, LXVII, No. 3953, "Persia. Tabreez."

<sup>14</sup>Such an explanation of the depreciation can be found in M. Agah, "Some Aspects of Economic Development in Modern Iran" (unpublished Ph.D. dissertation, Oxford University, 1958), p. 77; R.Z. McDaniel *op. cit.*, p. 38; and J. Rabino, "Banking in Persia," p. 32.

<sup>15</sup>C. Issawi, *op. cit.*, pp. 343- , provides a table of foreign exchange rates of the Kran. See also E.B. Yaganagi, *op. cit.*, p. 73.

<sup>16</sup>For a table of legal and actual weight and fineness of the Kran, see J. Rabino, "Banking in Persia," p. 31. The 1879 reduction in the legal weight of the coin was probably a de jure recognition of the debasement that had already occurred.

<sup>17</sup>J. Rabino provides figures on the disparities in the value of coins minted in various cities. See "Banking in Persia," p. 37. Arbitrage between the coins of different provinces was a source of revenue for money-lenders (sarrafs).

<sup>18</sup>See references cited in note 8.

<sup>19</sup>If there was any mismanagement, corruption, or simple ineptitude in the handling of the currency, it concerned the small copper coinage of the country. It was nominally issued at 20 shahis per Kran, and the government tried to bestow the status of legal tender upon it. Its value, however, fluctuated often, affording profitable opportunities to the moneylenders at the expense of the poorer segments of the population. These copper coins eventually had to be withdrawn from circulation at the end of the nineteenth

century. A brief history of the copper coinage of the country can be found in Parliamentary Papers (Commons), 1897, XCII, C.8277, "DCRTE, No. 1800. Persia. Meshed," and in J. Rabino, "An Economist's Notes on Persia," pp. 278-9.

<sup>20</sup>N. Keddie, "The Economic History of Iran, 1800-1914, and Its Political Impact: An Overview," p. 67.

<sup>21</sup>Ibid.

<sup>22</sup>It is possible that urban wages might have lagged behind price increases, but for the majority of the rural population who were paid in kind, inflation would have been irrelevant. N. Keddie also speculates that another cause of the deteriorating condition of the peasantry was ever-growing demands on them by the ruling class to satisfy its newly acquired taste for foreign goods and trips. Ibid., p. 65.

<sup>23</sup>C. Issawi, op. cit., p. 18; R. A. McDaniel, op. cit., p. 37.

<sup>24</sup>J. Rabino, "Banking in Persia," p. 45.

<sup>25</sup>The Gazetteer of Persia (Simla, 1910), Vol. 1 p. 540.

<sup>26</sup>G. C. Napier, Collection of Journals and Reports Received from Capt. the Hon, G. C. Napier, on special Duty in Persia, 1874, (London, 1876)

<sup>27</sup>From travellers' accounts and consular reports, we have compiled considerable data on prices and wages. For reasons noted in text, it is impossible to construct reasonably consistent series on prices and wages. We shall not, therefore, attempt to report the data here but merely record our impression of the general pattern of changes in prices and wages.

<sup>28</sup>N. Keddie "The Economic History of Iran, 1800-1914, and Its Political Impact: An overview", p. 65.

<sup>29</sup>For a perceptive analysis of the lack of objectivity in Westerners' views of social conditions in Iran see A. Banuazizi, "Iranian National Character" A critique of some Western Perspectives", to appear in 1975 in L. C. Brown and N. Itzkowitz (eds.), Psychology and Near Eastern Studies.

<sup>30</sup>The debate concerning movements in the terms of trade is thoroughly discussed in C. P. Kindleberger, The Terms of Trade: A European Case Study (London, 1956).

<sup>31</sup>The Board of Trade Index for textiles and fibers is a composite index for cotton, wool and silk fibers and textiles, though cotton and

cotton manufactures have a very large weight in it. The index may not be entirely satisfactory for our purpose since it includes one component, raw cotton, which Iran exported, and others, like cotton yarn and cloth, which were imports. We believe, however, that because prices of raw cotton and cotton manufactures closely followed one another, especially after the American Civil War, the index provides at least a rough measure of the price change of Iran's imports of cotton goods.

<sup>32</sup>M.L. Entner, op. cit., Chapter I.

<sup>33</sup>See P. Deane and W.A. Cole, British Economic Growth 1688-1959, Trends and Structure (Cambridge 1967), p. 17.

<sup>34</sup>C. Issawi, op. cit., p. 132.

<sup>35</sup>E. Abrahamian, "Oriental Despotism: The Case of Quajar Iran," International Journal of Middle East Studies, V, No. 1 (January, 1975), 3-31, and A. Ashraf, op. cit., provide two recent examples of such attempts. Many other references are cited in Ashraf's article.

<sup>36</sup>K. Marx, Capital, III, ed. Frederick Engels (1894; rpt. of 1966. rev. English ed., New York: International Publishers, 1967), Part IV, Chapter XX, pp. 331-32.

<sup>37</sup>A discussion of different systems of economic organization of society can be found in J. Hicks, A Theory of Economic History (London, 1969), especially Chapters 1-3. In much of what follows we have made extensive use of Hicks' method of analysis and his theoretical concepts. In addition to Hicks' analytical framework, we have applied certain Marxian theoretical categories and notions such as "use value," "commodity" and "mode of production". For a full discussion of these concepts, the reader is referred to K. Marx, Capital, I, ed. Frederick Engels (1867; rpt. of 1965 rev. English ed., New York: International Publishers, 1967), Part II, Chapters 1-3 and K. Marx, Pre-Capitalist Economic Formations, trans. Jack Cohen, ed. E.J. Hobsbawm (New York: International Publishers, 1965), especially the introduction by E.J. Hobsbawm.

<sup>38</sup>Our main source for much of the above description of the economic characteristics of Iran is G. Hambly's article "An Introduction to the Economic Organization of Early Quajar Iran," Iran, II (1964), 64-82.

<sup>39</sup>The institution of tuyul was a complex one. Though granted by the grace of the ruler and 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.

For a more detailed discussion of *tuyul*, see A.K.S. Lambton, Landlord and Peasant in Persia, *passim*, but especially pp. 139-140. The brief account of the land tenure and revenue systems of Iran presented here is largely drawn from this authoritative book and other excellent works by Professor Lambton on the history of Iran; specific references are, of course, made where appropriate.

<sup>40</sup>For a concise description of the methods through which the central government received its revenues and paid its expenses, see A.K.S. Lambton, "The Case of Hajji Abd-al-Karim: A Study on the Role of the Merchant in Mid-Nineteenth-century" in C.E. Bosworth (ed.), Iran and Islam (Edinburgh, 1971), especially pp. 331-337 and note 9. For particular instances of provincial governors attempting not to honor their financial obligations to the central government, see A.K.S. Lambton, Landlord and Peasant in Persia, p. 144 and her article "The Case of Hajji Nur Al-Din, 1823-47: A Study in Land Tenure" Bulletin of the School of Oriental and African Studies, XXX, No. 1, 54-72.

<sup>41</sup>This explanation is advocated by E. Abrahamian, *op. cit.*

<sup>42</sup>Lambton, Landlord and Peasant in Persia, Chapters 17 and 19.

<sup>43</sup>The extent and diversity of such services are described in A.K.S. Lambton, Landlord and Peasant in Persia, Chapter 18.

<sup>44</sup>The most notorious case is that of Hajji Mirza Aghassi, Mohammad Shah's prime minister, who acquired well over one thousand villages. After the death of Mohammad Shah and his fall from power his property was confiscated. For other instances of members of the ruling class acquiring interest in landed property see A.K.S. Lambton, Landlord and Peasant in Persia, p. 147. A.R. Sheikholeslami in his article, "The Sale of Offices in Qajar Iran, 1858-1896," Iranian Studies, IV, Nos. 2-3 (Spring-Summer 1971), 104-118 advocates the same position when he argues that "Landownership was the result of political power rather than the cause of it."

<sup>45</sup>For two vivid case histories that illustrate these points, see Lambton, "The Case of Hajji Abd-al-Karim..." and "The Case of Hajji Nur-Al-Din..."

<sup>46</sup>References to such transactions are made in Lambton, "The Case of Hajji Abd-al-Karim..." and "The Case of Hajji Nur-Al-Din...", and in H. Pakdaman and W. Royce, "Abbas Mirza's Will," Iranian Studies, VI, Nos. 2-3 (Spring-Summer, 1973), 136-151.

<sup>47</sup>This argument is elaborated upon in Hicks, *op. cit.*, Chapter 7.

<sup>48</sup> Figures for 1900 are estimates by J. Bharier in Economic Development in Iran, 1900-1970, (London, 1971), 25; those for the earlier period were taken from G. Hambly, op. cit.

<sup>49</sup> B.R. Mitchell, Statistical Appendix: 1700-1914, Vol. 4B of The Fontana Economic History of Europe, ed. C.M. Cipolla (London, 1971-73), p. 35.

<sup>50</sup> M.L. Entner, op. cit., pp. 8-9.

<sup>51</sup> E.B. Yaganegi, pp. 91-92.

<sup>52</sup> Numerous instances of supplying seeds by Russian merchants to Iranian peasants or pre-harvest purchase of crops from them can be cited. See, for example, M. Entner, op. cit., pp. 73-76; R.A. McDaniel, op. cit. pp. 41-63, Parliamentary Papers (Commons), 1897, XCII, C.8277, "DCRTF, No. 1800. Persia. Meshed" and Parliamentary Papers (Commons), 1895, XCIX, C.7828-24, "DCRTF, No. 1607. Persia."

<sup>53</sup> We have already provided data to show that on the eve of the first World War Russia was Iran's largest trading partner. For a fuller discussion of Anglo-Russian rivalry in matters concerning trade consult Entner, op. cit., Chapter 3; C. Issawi, op. cit., pp. 143-144. Competition from Russian goods driving out British merchandise seems to have been a preoccupation with most British officials during the last decades of the Century. Such mercantalist sentiments are, perhaps, most evident in Curzon's work on Iran; he seldom fails to comment on the relative competitiveness of goods from the two countries in the trade of each city he visits. See G.N. Curzon, op. cit. passim.

<sup>54</sup> For a discussion of the Russo-Persian tariff treaty, see R.A. Entner, op. cit., pp. 53-55, and H.F.B. Lynch, "The Anglo-Persian Commercial Treaty," Asiatic Quarterly Review, XVI (1903), 225-30.

<sup>55</sup> For a comprehensive survey of the transport network, costs and the duration of journey between different locations, see C. Issawi, op. cit., Chapter 4, especially pp. 195-205 and M.A. Djamalzadeh Ganje Shayegan (Berlin, 1335 H.G. [ca. 1917]), Chapters 6-7.

<sup>56</sup> Agah recounts how early in the twentieth century, the price of transport in the South went up because of political disturbances, M. Agah, op. cit., p. 14.

<sup>57</sup> More detailed accounts of the postal system can be found in M.K. Fateh, op. cit., pp. 52-54 and M. Agah, op. cit., pp. 37-39.

<sup>58</sup> For a history of the development of the telegraphic system the reader is referred to M. Agah, op. cit., pp. 39-41; G.N. Curzon, op. cit., Vol. II, pp. 607-615. A description of the network on the eve of the First World War, can be found in M.A. Djamalzadeh, op. cit., p. 180-184.

<sup>59</sup> Documents in the archives of Haji Amin-O-Zarb, some of which I have had the privilege to consult in connection with my research on the tobacco monopoly, clearly demonstrate the extensive use of letters and telegraphs by merchants. For an account of the content of these archives see A. Mahdavi, "Les Archives d'Aminezarb comme une source d l'histoire sociale et economique d l'Iran Contemporaine: fin Dix-neuvième et debut du Vingtième siècle." (Teheran 1974), mimeo.

<sup>60</sup> Quoted in Parliamentary Papers (Commons), 1888, CII, C.5252-144, "DCRTF, No. 367 Persia. Bushire."

<sup>61</sup> E. Stack reports Yezdi merchants' demands for the extension of the telegraph line and their offer to invest their own money. See his book Six Months in Persia, (London, 1882), Vol. 1, p. 262.

<sup>62</sup> A.C. Millsaugh, op. cit., p. 26; H.L. Rabino in Gazetteer of Kermanshah (Simla, 1907) reports how merchants from various cities of Iran doing in business in Kermanshah engaged in sale and purchase of bills, transferring funds between their respective cities and Kermanshah.

<sup>63</sup> Reporting on the commerce of Shiraz, Vice-Consul Crow records that "Bank notes are gradually taking the place of Sarrafs (native bankers) 'notes' or receipts." Parliamentary Papers (Commons), 1895, XCIX, C.7581, "DCRTF, No. 1474. Persia. Teheran."

<sup>64</sup> For a sample of such complaints consult the following works: Parliamentary Papers (Commons), 1873, LXV, C.828, "Persia. Tabreez."; Parliamentary Papers (Commons) 1890, LXXVI, C.5895-163, "DCRTF, No. 760. Persia. Bushire."; and Issawi, op. cit., p. 107. For an opposite point of view praising Iranian merchants' honesty see, J. Polak, Persien, das Land und Seine Bewohner (Lepzig, 1865), quoted in C. Issawi, op. cit. p. 277.

<sup>65</sup> See, for instance, Parliamentary Papers (Commons), 1876, LXXIV, C.1421, "Muscat and Persia. Report on the trade of Persian Gulf and Muscat for the year 1873."

<sup>66</sup> Parliamentary Papers (Commons), 1872, LXI, C. 544, Reports relative to British Consular Establishments, 1857-1871. Part IV, (Persia Tabreez).

<sup>67</sup> Parliamentary Papers (Commons), 1895, XCIX, C.7581, "DCRTF No. 1474 Persia. Teheran" p. 4 and 19. The same report also records the establishment of a Persian trading company adopting "a European system in their method of conducting business...". An event which may appear significant in the development of commercial legislations in Iran, is the proclamation made by Nasir Ad-Din Shah, in 1888, ensuring the right of property and forbidding government officials to interfere with such right. In view of the already theoretically well-established right of property, such a declaration appears odd. In reality it had little effect, and abrogation of such rights through the exercise of political power continued even after the issuance of this decree. Mr. N. Pakdaman has suggested to me that the declaration was issued merely to please the British and to create a favorable impression in foreign stock markets to facilitate raising capital for the concessions that were to be granted soon after this date. For the text of the proclamation see Parliamentary Papers (Commons), 1888, CIX, C.5434, "Correspondence Respecting the Issue of a Decree by His Majesty the Shah of Persia for the Protection of Rights of Property in Persia."

<sup>68</sup> In Entner's view, the change in tariff rates in 1903 was favored by the Iranian government for the purpose of increasing its revenue, M.L. Entner, op. cit., p. 53.

<sup>69</sup> See G.N. Curzon, Persia and the Persian Question (London, 1892), II, pp. 474-5.

<sup>70</sup> J. Rabino, "An Economist's Notes on Persia," p. 268 and J. Rabino, "Banking in Persia," p. 35.

<sup>71</sup> Morgan W. Shuster, The Strangling of Persia, (New York, 1912), p. 289 and p. 303.

<sup>72</sup> A.C. Millspaugh, The Financial and Economic Situation of Persia, 1926, (New York, 1926), pp. 21-29.

<sup>73</sup> See E. Abrahamian, op. cit., p. 14.

<sup>74</sup> For a fuller account of how Marx viewed societies, in particular Indian society, see K. Marx, "The British Rule in India" and "The Future Results of British Rule in India" in S. Avineri (ed.), Karl Marx on Colonialism and Modernization, (New York, 1968). Also see Karl Marx, Pre-Capitalist Economic Formations, passim.

<sup>75</sup> E. Stack, op. cit., Vol. 1, p. 267 and Vol. 2, p. 72.

<sup>76</sup> See references cited in note 52 and also Parliamentary Papers (Commons), 1892, LXXII, C. 6550, "DCRTF No. 976, Persia. Meshed." Even earlier in the period advance of cash to villagers for growing cotton was practiced, see Parliamentary Papers (Commons), 1871, LXV, C.343, "Persia. Tabreez."

<sup>77</sup> A summary of H.L. Rabino's studies on the agriculture of Ghilan is provided in L. Bouvat, "Le commerce et l'Agriculture dans la Perse du Nord d'Après Mm. H.L. Rabino and D.F. Lafont," Revue de Monde Musulman, 1913, Vol. XXIII, pp. 166-212.

<sup>78</sup> The British consul in Rasht, Abbot, reports the clearance of wasteland for cultivation of wheat which was exported to Russia. Parliamentary Papers (Commons), 1873, XV, C.828, "Persia. Ghilan." One reason for the expansion of grain exports to Russia was the commercialization of agriculture in Russian Turkestan. Because there was a shift to cotton cultivation in this region, its food requirements had to be imported from Iran. See Entner, op. cit., p. 75 and Parliamentary Papers (Commons), 1897, XCII, C.8277, "DCRTF No. 1800 Persia. Meshed."

<sup>79</sup> These accounts are reported, respectively, in Parliamentary Papers (Commons), 1897, XCII, C.8277, "DCRTF, No. 1800 Persia. Meshed." and the reference cited in note 72.

<sup>80</sup> M.M. Al-Isphanhani Nesfe Jahan: edited by M. Sotoodeh (Teheran 1340, 1961). p. 317. Mirza Hossain Khan jughrafiaye Isphahan, edited by M. Sotoodeh (Teheran 1342, 1963), p. 92.

<sup>81</sup> E. Stack, op. cit., Vol. 2, p. 37 and Vol. 1, p. 38.

<sup>82</sup> These accounts of changes in cotton production in Iran can be found respectively in the following sources: Parliamentary Papers (Commons), (3586) 1866, LXXII (report by Mr. Dickson; Parliamentary Papers (Commons), 1876, LXXIV, C.1421. Commercial report on the Trade of Persian Gulf and Muscat; Parliamentary Papers (Commons), 1867-8, XXIX, C. 3953-VIII, "Persia. Tabreez," Parliamentary Papers (Commons) 1865, LIV, C.2518, "Persia. Tabreez."

<sup>83</sup> See H.L. Rabino, "Culture du Tabac en Guilan (Perse)", Progrès Agricole et viticole, (Montpellier 1911), pp. 3-8.

<sup>84</sup> The citations in the text can be found in the following sources: Parliamentary Papers (Commons), 1892, LXXII, C.6550, "DCRTF No. 976. Persia. Meshed," Parliamentary Papers (Commons), 1893, XCV, C.6855, "DCRTF No. 1268 Persia. Meshed"; Al-Isphanani, op. cit., pp.123-125.



<sup>85</sup>For descriptions of various types of pre-harvest cash advance, see Parliamentary Papers (Commons), 1895, XCIX, C.7581 "DCRTF No. 1474, Persia. Therean", Parliamentary Papers (Commons), 1897, XCII, C.8277,"DCRTF No. 1800, Persia. Meshed;" H.L. Bouvat, op. cit. passim and reference cited in note 86.

<sup>86</sup>Various traditional forms of provision of credit to peasants and the practice of usury are discussed in A.K.S. Lambton op. cit., pp. 380-384.

<sup>87</sup>It is difficult to estimate what percentage of the carpet industry was located in rural areas, but it must have been fairly substantial. The naming of carpet types according to district names attest to the fact. Much of the weaving was done on the basis of "putting-out" system and the work carried out by women and children in villages. See, for example; Parliamentary Papers (Commons), 1880, LXIII, C.2460, "Persian. Tabreez," or Parliamentary Papers (Commons), 1894, LXXXVII, C.7293, "DCRTF No. 1376. Persia. Isphahan;" U.S. Department of State. Consular Despatches, Teheran 1883-1966, op. cit. Letter from Benjamin dated April 9, 1884.

<sup>88</sup>Parliamentary Papers (Commons), 1894, LXXXVII, C.7293, "DCRTF No. 1376, Persia. Isphahan."

<sup>89</sup>L. Bouvat, op. cit., pp. 183-184. Temporary migration of rural workers to other regions was fairly common, see, also, Mirza Hossain Khan, op. cit., p. 122; C.J. Edmund, "An Autumn Tour in Daylam," Royal Central Asiatic Journal, Vol. XI, 1924, p. 385; A.T. Wilson, "The Opium Trade Through Persian Spectacles," The Asiatic Review, Vol XXI, 1925, p. 189.

<sup>90</sup>F.A.C. Forbes-Leith, Checkmate: Fighting Tradition in Central Persia, (New York, 1927), p. 197.

<sup>91</sup>For a more detailed account of the migration of Iranian workers to Russia, consult M.L. Entner, op. cit., p. 60-61.

<sup>92</sup>The urban population overestimates the non agricultural population because those living in urban areas, especially in the smaller towns, were in fact peasants.

<sup>93</sup>Quoted in Parliamentary Papers (Commons), 1893, XCV, C.6855, "DCRTF No. 1268, Persia. Meshed". The living standards of the peasantry depended very much on the state of harvest and prices of their crops. Mirza Hossain Khan describes how when prices of cotton improved peasants bought back the copper they had previously sold to coppersmiths, op. cit., p. 105.

<sup>94</sup> According to J. Bharier, op. cit., p. 32, in 1900, there were 87 localities with a population between 2500 and 4999 and 307 villages with 1000 to 2499 inhabitants. All of these localities had shops and the larger ones even had bazaars. See, also Al-Isphahani's description of various areas around Isphahan, op. cit., Chapter 2.

<sup>95</sup> Al-Isphahani, op. cit., p. 51 and Mirza Hossain Khan, op. cit. p. 115.

<sup>96</sup> For an account of sale of Khaliseh land, see A.K.S. Lambton, op. cit., p. 152-3.

<sup>97</sup> A vivid tale of the recurrent liquidity problems of a Persian "nobleman," Sadar Akram of Hamadan, is given in Forbes-Leith, op. cit., especially Chapter 5. At times, tax farmers had to mortgage their land to pay revenue they owed the state. See E. Stack, op. cit., Vol I, p. 219.

<sup>98</sup> Accounts of ownership of land by merchants in neighborhood of their place of residence can be found in Mirza Hossain Khan, op. cit., p. 92; E. Stack, op. cit., Vol. 1, p. 267; Gazetteer of Persia, op. cit., Vol. 1, p. 539. Merchants often acquired interest in landed property by renting whole villages or orchards.