An ‘Informal’ Revolution: State–Business Conflict and Institutional Change in Iran

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In 1963 the Shah of Iran implemented a comprehensive economic and social modernization programme called the ‘White Revolution’ that launched a decade-long period of tremendous industrial growth. Through profit-sharing, loose import restrictions, and low-interest credit, the Iranian state pushed the rapid development of a corporate atmosphere that resulted in a six-fold increase in the number of Iran’s industrial firms. Indeed, during these years many of the country’s home-grown industrialists were wise to take advantage of the favourable conditions the state was offering and quickly generated highly profitable results.

However, those who would benefit most during this period were a small minority of the country’s total pool of entrepreneurs. Excluded from the benefits were those who comprised the ‘bazaar sectors’: over 500,000 entrepreneurs and workers of mostly small and medium-size capital who distributed primarily for the domestic market. Although the bazaar sectors had historically dominated the nation’s commercial, trade and financial networks, the Iranian state used many of the reforms to marginalize their share of economic activities – considering them too ‘informal’ a group to play an active role in the industrial expansion.

This move by the state was not without its political repercussions, however. By 1975, thousands of bazaar entrepreneurs and workers began directing their efforts towards organizing demonstrations, offering financial support for anti-Shah protestors, and orchestrating lengthy shutdowns. Over a tense three-year period, the concerted mobilization of bazaar sectors would combine with other active social movements to result in the country’s revolution in 1979. Since then, most scholars agree that the political activism of bazaar sectors was a necessary cause of what was one of the most important events of the twentieth century.

How can we best understand the causes of conflict that emerged between the state and bazaar sectors in Iran? How can such a study inform us about the causes of various forms of conflict between the state and informal economic sectors during economic reforms?

Though scholarly interest in informal economic sectors has increased in recent years, few have focused directly on the issue of conflict. And while earlier studies can provide important insights, many obstacles still remain when trying to craft a general framework for understanding the causes of conflict between the state and informal sectors during economic reforms. For one thing, the assumptions from class-centric approaches have long been applied to studies of informal sectors in both the past and
present, despite the fact that these sectors are often heterogeneous along class lines. Also, although the ‘moral economy approach’ – which suggests that conflict arises during economic development because the informal sector seeks to defend its share of the economy and preserve the status quo – has generated many important and widely-read texts, it also levels assumptions about motivation and group interests that are questionable on empirical grounds.

The largest obstacle, however, is in overcoming the remnants of a tradition of scholarship that paints a picture of dualistic economies with ‘traditional’ and ‘modern’ spheres. As this is an oversimplification which is grossly misleading by current standards, it has also resulted in chalking up conflict between the state and informal sectors during social and economic reforms as an inevitable phenomenon. But not only is it incorrect to view conflict between the state and any segment of society as inevitable, such an assumption also discourages us from even attempting to isolate general causes of conflict.

Seeking to move beyond these assumptions and approaches, this study utilizes insights generated from the case of Iran to craft a new theoretical framework for understanding the causes of conflict between the state and informal sectors during periods of economic reform. The first component of my framework employs an ‘institutionalist approach’ to focus on how economic reforms often invoke a process of institutional change that heightens the potential for state–society conflict. Yet I break from the standard emphasis on the ‘informal’ to ‘formal’ institutional shift to focus on the change in micro-foundations of the new institutions implemented by the state – specifically, the norms which buttress the actual behaviour of institutions. I argue that the norms which guide institutional practices should be the main unit of analysis when considering how institutional change relates to state–society conflict.

The second component is an isolation of the institutions that play a fundamental role in guiding economic practices and creating economic opportunities for entrepreneurs in the informal sector. In this respect, I argue that only the new institutions which are critical to determining the economic futures (and not the pasts, as some would argue) of these entrepreneurs will cause conflict. The final component takes inspiration from the ‘state-in-society approach’ which advocates a focus on the actual social and economic impact of state reforms (and not merely the state’s intentions) to show how implementation success affects the potential for conflict.

The main purposes of this study are, firstly, to provide a new framework for understanding the causes of conflict between the state and informal sectors during economic reforms, and secondly, to shed light on the interesting aspects of the Iranian case. Below, I begin by establishing the study’s theoretical framework which is couched in the literature on institutions. Next, I examine the case of Iran and make the argument that it was the Iranian state’s introduction of new institutional norms during the industrialization push that led to the bazaar’s political mobilization. I flesh out this argument through a careful analysis of the country’s credit lending institutions, long described throughout the region as the ‘lifeblood’ of the informal economy. Finally, I show how the Iranian state’s new institutional norms caused conflict between the state and the bazaar, and describe how this conflict manifested itself.
Scholarly interest in the subject of institutional change has certainly mushroomed since the 1990s, but even in the immediate post-war era many leaders in the developing world can be understood to have been enacting economic reforms that were in line with a new institutionalist approach. Some of the particular economic institutions that reform-driven leaders have sought to transform are the locally-driven ‘personalized’ system of economic exchange that relies on repeat dealings and cultural homogeneity, the ‘impersonal’ system which utilizes kinship and/or religious ties, ‘merchant codes of conduct’, and the presence of ‘elaborate rituals’ that govern economic interactions. In spite of many best intentions, however, state-sponsored attempts at institutional change have showcased the challenges involved with the process more than the recipes for success. Given the difficulty in implementing formal institutions deus ex machina upon their informal predecessors, new institutionalists have more recently called for using formal institutions to complement the pre-existing informal ones, and reforming the latter by adaptation in order to eventually prop up codified formal institutions.

While this approach appears more realistic and process-sensitive, it is still highly idealized when applied to many developing countries. Indeed, it is important to recognize that such a complementary relationship between informal and formal institutions is not always the way that institutions operate in the developing world. Especially in economies and sectors that are most dominated by informal institutions, formal substitutes can invoke a transformation in the norms which have long guided the informal institutions. Although formal institutions may be designed to serve the same purpose as their informal predecessors, the transformation of institutional norms can yield disruptive outcomes across society, and especially among business sectors. For instance, the new institutional norms may reduce the scope by which prior institutions used to operate, reconfigure the ‘rules of the game’ which govern economic transactions, or alter the incentive structures and preferences of economic actors.

Given this, when seeking to explain how institutional change can produce conflict between the state and those economic sectors subject to the new institutions, I argue that scholars need to focus on the institutional norms – and not institutions themselves – as their main unit of analysis. Indeed, formal institutions that are simply codified and well-monitored versions of their informal predecessors – with the same set of institutional norms – are unlikely to lead to conflict given that the rules of the game, incentive structures and preferences are preserved. Some economic actors will inevitably benefit (or suffer) more than others due to the change, but the new institutions are familiar to all. However, when the new institutions are completely reconfigured – with norms that are unlike those that operated before – the effect on some economic sectors can be substantial and highly negative. Regardless of whether this is the state’s explicit intention or not, the only options for the firms and actors operating within these sectors are to adapt to the new institutions, exit the market, or use political channels to persuade a change.

An example of such an institutional norm is reputation. As many scholars have shown, reputational norms have been widely utilized, in the past as well as the present, throughout economic institutions within both developing and advanced countries. Reputational norms have been used to preserve contracts as well as other relationships of exchange between actors and firms, and they also serve to
encourage (and discourage) transactions by informing the ways that actors will interact even before they do. In addition, building reputation is an important investment for any economic actor: greater access to economic opportunities meets the actor who, ceteris paribus, has a better reputation.

Reputational norms are most employed in markets where there is a great deal of volatility and risk, a high degree of information asymmetry between transacting parties, low levels of third party regulation, highly personalized transaction networks, and where capital is scarce overall. But while reputational norms are most relied upon under these conditions (many of which are obviously ubiquitous throughout markets and sectors in the developing world), they are also found in many of the economic practices in advanced economies where formal institutions are already in place. For instance, reputational norms are widely employed throughout the day-to-day interactions among firms, during mergers and acquisitions, and especially in credit transactions.

Understanding the importance of institutional norms is critical to my theoretical framework because I argue that they play the key role in determining whether or not the process of institutional change causes conflict between the state and informal sectors. Consider first a hypothetical scenario where conflict is avoided. In this case, the state maintains the previous norms which guide a key institution – such as business licensing, for example – but shifts their regulation to an impartial third party that is sensitive to the salience of prior norms while still striving to make the institution operate on a more efficient and egalitarian level. What remains critical in terms of minimizing conflict, however, is that the norms which guide the institution’s behaviour are retained early on so that the rules of the game are preserved, incentive structures remain, and the preferences of actors are the same. As I argue, if the norms are preserved and the state simply monitors and ‘cleans up’ the institutional practices to help resource allocation, groups operating under the prior norms may be adversely affected in the beginning but the potential for state–society conflict is minimized.

On the other hand, consider a hypothetical scenario where conflict emerges. In this case, the state introduces and enforces new institutions with norms that are highly dissimilar from those which exist in the informal institutions. For example, an institution of business licensing based on norms of political allegiance is introduced which contrasts with the existing ones that are based on the prospective profitability of a firm. Here, the actors who had been operating under the profitability norms are negatively affected given that a channel for obtaining business licences is now closed. To be sure, whether or not conflict occurs is contingent upon other factors as well, the most important of which are the level of success that the state has achieved in the implementation of the new institution and the degree of importance that the institution has in guiding economic activities and creating future economic opportunities. Below, the case of Iran will help to flesh out my framework’s arguments in greater detail.

In this section, I show how the Iranian state’s introduction of new norms in credit lending institutions became a main cause of conflict between the state and the country’s informal sectors (hereafter referred to as ‘the bazaar’). Though the state
had attempted in many ways to harm the economic interests of the bazaar during the development programmes of the 1960s and 1970s, I argue that invoking new institutional norms of credit lending – while exponentially increasing their allocation of credit from 1963 to 1975 – was the primary means that the state signalled to the bazaar that only a bleak economic future lay ahead of them. In effect, the new credit lending institutions that the state introduced were the main way in which the state sought to separate the ‘winners’ from the ‘losers’ of the country’s industrialization project. Bazaar entrepreneurs responded to this through political demonstrations, the financial backing of various anti-Shah social movements, and collective shutdowns – calling for a regime that would be more attentive to the bazaar’s own economic interests as well as sensitive to the group’s historic role within Iran’s economy and society.

Below, I first examine the characteristics of the credit lending institutions that the Iranian state implemented during the economic reforms of the White Revolution. Next, I consider how these new institutions reconfigured how reputation operated as an institutional norm. Finally, I examine the political impact that these new institutional norms had on bazaar entrepreneurs, and how conflict was sparked in the years immediately prior to the 1979 revolution.

In 1963 the Shah inaugurated the White Revolution, an economic and social modernization programme intended to push the country towards a Western-inspired model of development with increasing emphasis on the economic activities of the country’s private sector.²⁷ Coming on the heels of a two-year recession and near economic crisis in 1959, the White Revolution would arguably become the most ambitious import substitution industrialization project witnessed in the region during the post-war period. Advocating a wide-scale overhaul of the Iranian economy, the White Revolution’s reforms achieved incredible success during the years that immediately followed. Between 1963 and 1968, Iran’s GNP averaged 9.8 per cent annual growth – a rate that was only surpassed by three other countries in the world at the time.²⁸

Looking to the country’s private sector to provide the momentum for industrialization, the Iranian state essentially envisioned this group as the guide for the development of light industries while the state handled large-scale industrial projects.²⁹ Through favourable tax rates, monopoly conditions, and generous credit lending programmes, the Iranian state bestowed numerous advantages on many emerging producers which led to immediate and lasting results (in fact, the country’s current non-oil industrial landscape is largely the result of progress that was achieved from 1963 to 1968). From the birth of the country’s steel mills, rubber factories, chemical plants and first domestic automobile manufacturer (the Paykan), to lighter industries in textiles, food processing, footwear and consumer goods, the initial years of the White Revolution represented the boom period in the private sector’s involvement in a wide array of industrial sectors. Indeed, by 1975, the private sector’s share in total industrial production had reached 75 per cent.³⁰

Large amounts of credit were obviously critical to the growth in private sector industrial projects, and were primarily allocated through the Central Bank (Bank Markazi) and development banks such as the Industrial Mining and Development Bank and the Industrial Credit Bank of Iran.³¹ During the 1960s and 1970s, the role of these banks in the extension of credit swelled in significance and began to
represent an increasingly substantial portion of the country’s total financial assets. Throughout this period, however, the Iranian state retained ownership over 72 per cent of the banks’ total assets, shared ownership over 27 per cent, while only 1 per cent lay exclusively in the hands of the private sector. Hence, due to its overwhelming control of these assets, the Iranian state was able to unilaterally determine the policies and patterns of credit allocation to the private sector.

As the economic reforms of the White Revolution got underway and the economy responded quickly and positively, the state’s allocation of credit to the private sector also rose exponentially. From a level of less than 100 billion rials in 1963, total credit allocation to the private sector increased annually to reach a level of 700 billion rials in 1974. Not surprisingly, the increasing allocation of low-interest credit coupled with favourable tax rates and other policies helped many industrialists to achieve remarkable success – many of them reportedly realizing profit margins from 50 per cent to as high as 200 per cent. Significant as well, this generous doling out of credit was viewed as quite a boon for a domestic private sector that had been severely weakened during the country’s recession from 1960 to 1962. After witnessing numerous bankruptcies, bank failures, and an unofficial interest rate of 30 per cent on credit during these years, the state’s rapidly increasing allocation of low-interest credit from 1963 onwards was understood as a tremendous opportunity for many entrepreneurs to begin taking part in the country’s industrial expansion.

But although an unprecedented level of credit was now being allocated from the state to the private sector, this did not result in a great expansion in the size of the private sector itself. In fact, much of the credit was given to a small group of the country’s already active pool of entrepreneurs. Yet while these individuals were able to capitalize on the opportunity to gain new industrial holdings (or expand operations), most of the country’s entrepreneurs were unable to take part in the Great Credit Giveaway. Chief among this group were those whose businesses were located within, or tied directly to, the country’s bazaar sectors.

Unsurprisingly, the inability of these entrepreneurs to obtain state credit acted as a signal that the state did not perceive them as playing an active role in the country’s industrial future. Additionally, it meant that new firms would soon emerge on the backs of state credit to act as the bazaar’s competitors. Especially for the tens of thousands of small manufacturers that were tied to the bazaar, this made their economic future appear rather grim. Though the steady import of mass-produced goods had been gradually taking a toll on their economic security over time (particularly in the textile sector), the state’s direct sponsorship of the rapid expansion in light industries accelerated this process faster and forced many of them to exit the market. At the same time, there was symbolic value in the state’s sponsorship of new, non-bazaar firms that would take on much political significance down the road – for whereas the bazaar’s economic competitors used to be only international producers, now state-backed domestic entrepreneurs were quickly emerging as well.

As a pointed example, in 1965 the Iranian state began to boost the country’s footwear industry by opening several new factories while banning imports and raising tariffs on leather. Although footwear production had traditionally taken place in small factories linked to the bazaar, the new factories – Kafsh-e Melli, Bella, and Vien – were beginning to export footwear in large numbers by 1968. As a result, bazaar-based manufacturers were unable to compete with the new firms and their
slice of the market sharply declined. Within a few years, footwear manufacturers in the bazaar had to shift to providing repairs or other services. Within a decade, footwear manufacturers in the bazaar became obsolete.  

To be sure, the above is an inevitable reality of the process of industrialization and has been experienced by informal economic sectors in countries that have even reached a middle level of economic development. However, being unable to obtain credit to sustain their businesses, expand operations, or produce inputs for the new state-sponsored firms only underscored the fact that limited opportunities for the bazaar lay ahead. In effect, the new credit lending institutions forced bazaar entrepreneurs to watch the country’s rapid expansion in light industries from the sidelines. And for many of these entrepreneurs, the state’s approach appeared completely misplaced given the role that bazaar sectors had continually played at the heart of the country’s small manufacturing industries. Indeed, in 1963, on the eve of the White Revolution, the bazaar was already established as the country’s centre of manufacturing production and employment: its small factories accounted for 96.8 per cent of total manufacturing industries and absorbed 67.6 per cent of all manufacturing employment.

When scholars examine the Iranian state’s economic policies during the years after the White Revolution and prior to the 1979 uprising, there is a tendency to describe them as simply ‘corrupt’. Here, the argument holds that the Shah used state economic policy to bestow favours upon those closest to him while ignoring (or seeking to undermine) all who were outside of the royal orbit. However, such a description essentially implies that any real developmental logic was absent and the Shah’s sheer capriciousness determined most economic policymaking – including those that determined credit lending patterns during the 1960s and 1970s. Although it is undeniable that elements of cronyism and nepotism existed within the Shah’s government, the patterns of Iran’s developmental policymaking instead reflect more the state’s (rather commonplace) understanding of how certain economic sectors both can and should contribute to development, as well as how ‘modern’ economic institutions should operate in an industrialized nation.

With respect to credit lending institutions, this involved taking control of how credit was allocated while establishing new institutional norms that would guide the operation of these institutions throughout the industrial push. The main problem, however, was that the new institutional norms deeply contrasted with those of the credit lending institutions that had already been in place for centuries. Hence it was not merely that credit lending appeared to be unfair and discriminatory, but that the state had reconfigured how institutional norms operated and altered the rules of the game that determined how an entrepreneur was to signal his own ‘creditworthiness’. In particular, during the Shah’s economic development programmes, norms that were once non-existent became the ones most emphasized; norms that once determined a good reputation now determined a bad one.

Throughout the period from 1963 to 1975, two main norms guided credit lending institutions. The first was the norm that an entrepreneur needed to possess a favourable reputation with members of the regime in order to procure credit. Much of this was determined by the social distance an entrepreneur had from the royal family, which was also highly correlated with the level of wealth an entrepreneur (and his family) possessed. The further removed an entrepreneur was on a social level
from the Pahlavi family, the less chance he had of obtaining the low-interest loans that were given out during the industrial expansion.\textsuperscript{43} Although this did not exclude all bazaar entrepreneurs, many of whom were wealthy and possessed considerable political clout, it did exclude the majority of them. Describing the credit lending process during these years, Djavad Salehi-Isfahani writes that, ‘In Iran it was natural – indeed consistent with good banking practice – for the bank officials to view an individual’s creditworthiness as highly correlated with his connections to the Pahlavi regime.’\textsuperscript{44}

But what Salehi-Isfahani calls ‘connections’ can be understood more generally by thinking in terms of reputation. Indeed, for individuals who were not related to the ruling family through blood or marriage, their connections to the regime were built upon their reputation as allies of the government. When this reputation as an ally was marred by, for example, an individual’s support for an opposition movement or their failure to repay a substantial loan, the connections they had certainly still existed but were effectively non-functioning. Rewards that may have previously come with their connections would be limited given that their reputation was now tarnished. In this way, how the state perceived an individual’s reputation as an ally of the regime was one norm of credit lending institutions during this time period.

Here, it is also important to recognize that the above makes the assumption that a bank’s credit lending policies were exclusively overseen by the ruling regime, with the state being the sole adjudicator of who obtained credit and who did not. While it is important to recall that the Iranian state did have control over the lion’s share of the financial holdings of banks during these years, many scholars have also continually emphasized that all decisions related to economic policy were dictated by a highly insular state that micro-managed every aspect of the economy. Hootan Shambayati’s research reflects this notion, writing that it would be a ‘mistake’ to assume that the private sector had any influence on the state’s economic policymaking during this era, as the state ‘felt no need to consult the private sector’ on issues relating to the economy.\textsuperscript{45}

Perhaps predictable as well, the state’s influence in this respect even extended into decisions made within the private sector, as industrialists often required the ‘consent and . . . participation of members of the royal family’ when making decisions that involved large-scale investments.\textsuperscript{46} Indeed, the presence of an economically favoured (but politically weak) private sector feeding off the state is a leitmotif in the scholarly research on Iran during the pre-revolution period, giving way to descriptions of this segment of the private sector as ‘parasitic’ and a ‘comprador bourgeoisie’.\textsuperscript{47}

The second norm of credit lending institutions was that the more positive an entrepreneur’s reputation was among bazaar entrepreneurs the less chance he had in procuring credit during the industrial expansion. For certain, there is an element of irony here. In one sense, the state adopted one of the same institutional norms of credit lending that had persisted among Iran’s bazaar entrepreneurs – yet it flipped around its meaning. An entrepreneur that would have been most likely to be granted credit in previous times – for example, by commanding a large segment of their respective market, remaining socially active in local bazaar associations, showing a high level of religiosity, and coming from a family that had maintained a good reputation in the bazaar over generations – was now the least likely to be granted a loan during the country’s industrial expansion.
From the regime’s perspective, the logic here was that bazaar entrepreneurs as a whole were anti-modernization, economically weak and unable to contribute to industrialization, anti-secular, and anti-government. This stereotyping of bazaar entrepreneurs had the effect of tainting their reputation in terms of creditworthiness and helped to eliminate their access to the state’s channels of credit. As Arang Keshavarzian finds during the Great Credit Giveaway: “The vast majority of medium sized and smaller (typically labor intensive) manufacturers were shut out of these sources of capital. . . . Those who had nationalist or religious credentials, as most [bazaar entrepreneurs] did, were unable to compete for these highly subsidized loans.”

But while the state’s first assumption of bazaar entrepreneurs (anti-modernization) is debatable and the second (economically weak) is inaccurate, the third and fourth assumptions (anti-secular and anti-government) are largely on the mark. Though many scholars have made the point that bazaar entrepreneurs of all political (and even religious) stripes existed in the years prior to the 1979 revolution, given the social links between bazaar entrepreneurs and the Islamic clergy and the bazaar’s prior political activism, the Shah’s assumptions in these regards can be understood as quite rational. Especially when one takes the historical record of the bazaar’s political activities into consideration, it is clear that many of the watershed state–society conflicts in recent Iranian history – the Tobacco Rebellion of 1891–92, the Constitutional Revolution of 1906, and the Mossadegh movement of 1951–53 – were also events that witnessed highly mobilized bazaar sectors, most of which were opposed to the state.

But by reconfiguring how institutional norms of credit lending operated in Iran’s industrializing economy, the state signalled to bazaar entrepreneurs that the reputations they had worked to build up were now worthless. Though credit would continue to be lent at substantially higher interest rates (and in far lower volumes) among lenders from the bazaar itself, many bazaar entrepreneurs who had possessed highly positive reputations and significant economic potential were in fact the ones that were most restricted from the state’s credit. Hence it can be understood that the norms of the new credit lending institutions changed the rules of the game and preference structure of entrepreneurs. Once the industrial reforms and new credit lending institutions were in place, an entrepreneur preferred not to be perceived as a member of the bazaar with a positive reputation or as an individual socially removed from the ruling regime.

It is also important to consider the state’s introduction of new institutional norms in light of the process of institutional change. As my above depiction suggests, Iran’s credit lending institutions – though intended to resemble the practices of Western banks – were far from what any scholar would consider ‘formal’, nor can they be understood as complementary to the informal credit lending institutions that already existed. In the former respect, they did not codify requirements for credit based on relevant characteristics, they did not shift regulation of lending policies to an impartial third party, and they did not seek to prevent the manipulation of policies to favour the allocation of resources towards one group over another.

But would bazaar entrepreneurs have welcomed the state’s introduction of new credit lending institutions that were actually formal? Other studies of informal sectors would suggest against this. In John Waterbury’s illuminating examination of Morocco, for one, the perspective of one entrepreneur is that the formalization of
credit lending institutions is ‘dangerous because it is depersonalized’. Yet if depersonalization is a main characteristic of formal credit lending institutions, one can safely conclude that the Shah’s Iran was quite far from achieving this. Thus, in one way, the new credit lending institutions in Iran stand as a prime example of how economic modernization, industrialization, and even the introduction of a Western-inspired banking system does not necessarily bring about actual informal-to-formal institutional change. In fact, it is more an example of the endurance of reputational norms among economic institutions.

The Iranian state’s introduction of new institutional norms of credit lending amidst tremendous industrial expansion had a number of important effects on the politicization of bazaar entrepreneurs. In one way, because credit has always been critical to the economic activities of informal economic sectors (described as their ‘lifeblood’ and ‘[credit is] more than simple access to capital; it secures their position in the flow of trade’) the denial of low-interest credit was the main symbol of the state’s efforts to restrict economic opportunity to the bazaar sectors. And if we are to sincerely believe the oft-quoted statements from the Shah’s memoirs, this was precisely his intention. The dying monarch explained his actions by writing: ‘I wanted a modern country. Moving against the bazaars was typical of the political and social risks I had to take in my drive for modernization.’ However, it is unlikely that the Shah was aware that what he called ‘moving against the bazaars’ would produce such a concerted political response.

Still, throughout Iran’s industrial push, the state was busy constructing policies that systematically favoured certain segments of the private sector over others, of which credit lending was an important one. Although such a move would be unproblematic under a different context, I argue that introducing such credit lending institutions within the context of the 1960s and 1970s in Iran was important in taking the effect of the new institutions to a conflict-inducing level. Indeed, from the perspective of the bazaar the contextual backdrop was incredibly important for the purpose of framing the effects of the state’s new institutions. For when Iran was playing the role of a run-of-the-mill ‘resource curse’ state, chugging along during the 1940s and 1950s with a lukewarm industrialization programme, the introduction of new institutions with contrasting institutional norms would be unlikely to cause conflict between the state and those economic sectors dependent on the prior institutions. However, once the White Revolution had produced much industrial success the context was now markedly different and, as a result, pushed the bazaar sectors towards responding politically to the state.

I argue that four main contextual factors were critical in causing the introduction of new institutional norms of credit lending to produce conflict between the state and bazaar entrepreneurs: (1) Iran’s rapidly industrializing economy from 1963 to the mid-1970s; (2) an oil boom in 1973 which injected massive revenues into the state and signalled increasing economic opportunities to domestic entrepreneurs; (3) increasingly large amounts of credit allocated from 1963 to 1974; and (4) the introduction of Western-style banking in the early 1960s that gave entrepreneurs hopes of more egalitarian credit lending practices. Because these contextual factors occurred alongside the state’s attempt to implement new institutional norms, this signalled to bazaar entrepreneurs that their opportunities during the industrial
expansion would be minimal and that they needed to resort to their tried-and-true methods of political mobilization to contest the state. As a group, certainly, they had much to lose by being denied economic opportunities, having historically dominated the country’s commercial, trade and financial networks, and a political response became the only feasible option.

Below, I examine and analyze the actual patterns of conflict that emerged between the bazaar and the state in the period prior to the 1979 revolution. By 1975, bazaar entrepreneurs began responding to the state’s efforts to eliminate their role in the country’s economic future through the form of offensive political protests as well as financial support for other challengers of the Shah’s regime. Especially important among these forms of political protest was the collective shutdown. Given that collective shutdowns had often worked in the past for the bazaar whenever they were opposed to state policies, this same tactic resurfaced during this latest struggle and was employed in increasing fashion from the middle of 1977 until February of 1979. Though highly detailed accounts of shutdowns and mass protests are few in the literature, the logistics and significance of the bazaar shutdown has been analyzed by some Iran scholars over the years – most describing it as the ‘secret weapon’ the bazaar had against the state. Davoud Ghandchi-Tehrani, for one, emphasizes the political significance of the bazaar shutdown in his extensive study by writing: ‘The political implications of the bazaar strike have been much more important than its economic effects on the society. The bazaar strike has been one of the most effective means of protest against the government in the modern history of Iranian political struggles.’

In essence, the shutdown involved an orchestrated stoppage of economic activities and was typically organized by the most prominent and respected bazaar entrepreneurs from a given sector or physical bazaar area (called the moetamed). Describing the role of these individuals during the shutdown, Ghandchi-Tehrani also explains:

The moetameds . . . usually make the decision to close down the bazaar. The traditional place to disseminate the news concerning the decision was the bazaar mosque. . .[T]here the news about the bazaar close-down informally spread among them by word of mouth. This ‘information network’ . . . has been so effective that even in the major bazaars, like the Tehran bazaar, news concerning a bazaar close-down could circulate in hours.

Though the shutdowns from 1975 to 1979 varied in duration and degree of compliance among bazaar entrepreneurs, it must be recognized that – partly through the role of the moetamed – much Olsonian scepticism regarding collective action was largely avoided during this time period. Indeed, this is highly surprising given that the bazaar is a group whose livelihoods are directly dependent on their ability to trade, sell, or produce, and thus an entrepreneur would rationally choose to support himself and his family rather than engage in potentially dangerous political activities that carried a steep economic as well as existential price. This being said, however, tens of thousands of bazaar entrepreneurs closed down their operations – some for over 14 months – and, as Charles Kurzman finds, those who could afford a lengthy shutdown were quick to take pride in their political activism.
Along with collective shutdowns, bazaar entrepreneurs also took part in other activities geared against the Iranian state, such as organizing and taking part in political demonstrations. In addition, they operated as the main channel through which political writings and audio cassettes of speeches from exiled clerics (such as Ayatollah Khomeini) entered the country and were distributed to the Iranian masses. Bazaar entrepreneurs also served as a key source of financial support for other social sectors mobilizing against the state. They established funds to pay the salaries of individuals who were engaged in organizing demonstrations and/or lost their jobs due to political activism, such as teachers, professors, civil servants, oil workers, factory workers, journalists, the families of individuals who had been killed by the military during protests, and – most significantly in terms of future state formation – the Islamic clergy.

As the above makes clear, there is a common theme that runs through all these forms of the bazaar’s political mobilization: the sacrifice of capital. To be sure, collective shutdowns, demonstrations, and financial support for political dissidents all require entrepreneurs to donate an often significant share of their wealth to the anti-Shah movement. In one way, this picture conflicts with studies of informal economic sectors which are more often portrayed as subsisting ‘on the fringes’ of the economy and are understood as being highly risk averse. Indeed, if this were truly the case it is unlikely that bazaar entrepreneurs would have engaged in such lengthy collective shutdowns, given that this resulted in the state and foreign firms having to fill the gap in demand for many necessary goods.

Instead, the bazaar did respond politically to the state’s actions during these years and used this opportunity to continually press their demands for a government that would view the group as part and parcel of the future of the national economy. And yet the standard view in the literature on the Iranian revolution is more that the bazaar was responding to the discriminatory nature of private sector policies. However, all states in all time periods implement discriminatory private sector policies by favouring one sector, firm, or individual over another, and the literatures in rent-seeking and public choice theory address this thoughtfully. To argue that the Iranian state was more discriminatory in its private sector policies as opposed to other states, or more during this time period than others, seems an inadequate explanation of the causes of conflict between the state and the bazaar. At the same time, it is important to note that economic decline cannot explain why bazaar entrepreneurs politically mobilized against the state as the bulk of scholarship suggests that they in fact did not decline during this period.

For certain, when we extend our gaze beyond 1975 other significant factors emerge that helped to act as an ‘accelerator’ of conflict between the state and the bazaar. For one, the aggressive and highly punitive anti-profiteering campaign that the state unleashed on entrepreneurs between 1975 and 1977 has been shown to have had an important effect on the group’s ongoing mobilization. In addition, violent standoffs between the state and demonstrators, the state’s murder of dissident leaders, and the increasing link between the political goals of bazaar entrepreneurs and the Islamic clergy also led to more concerted mobilization and shutdowns during the time between 1977 and 1978. By this time as well, the Iranian economy began to reach an economic crisis – thus providing more fuel for the fire.
However, it is critical to recognize that the presence of any of these later forces occur after the initiation of the bazaar’s political mobilization against the state. And as I have striven to show above, this conflict was caused by the introduction of new institutional norms during economic reforms which transformed the way a key institution that was foundational to the sector’s economic opportunities operated. Signalling a clear threat to the availability of these opportunities, political mobilization began as an offensive attempt of the bazaar to oppose the state’s economic policies, challenge its ability to govern the nation properly, and advocate a change in leadership.

In the final analysis, it is perhaps interesting to consider a famous quote from Clifford Geertz, who once referred to informal economic sectors as ‘entrepreneurs without enterprises’.

Given the experiences of Iran, one cannot help but wonder whether, even if this is a correct assessment of these entrepreneurs’ economic potential, it is a politically dangerous assumption for states to adopt. For certain, the overarching lesson from Iran is that those economic institutions which may seem the most beneficial to the encouragement of industrialization and economic development can also serve as prime fodder for the political mobilization of the economic groups that are most negatively affected by their introduction. However, as I have argued, whether or not this state–society conflict arises is partly determined by the extent to which the norms of the new institutions are different from those of the institutions that are already in place.

At the same time, it is not merely the introduction of new norms (damaging as their effect may be on a sector) that determines whether or not the new institutions are benignly ignored by society or they drive large segments to attempt grand feats of collective action. Also significant is how the new institutions are contextually framed within the larger scheme of a country’s institutional project, and the extent to which the state succeeds in actually implementing the new institutions.

Notes

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7. The enduring influence of Emile Durkheim and Talcott Parsons are responsible for this view. See T. Parsons, The Social System (Glencoe, IL: Free Press, 1951). Also see Bendix, Max Weber; Moore, Jr., Social Origins; Weber, The Protestant Ethic.


10. Throughout the study I employ an understanding of institutions that is inspired by Avner Greif’s work: an institution is ‘a system of rules, beliefs, norms and organizations that together generate a regularity of . . . behavior’ (see Greif, Institutions, p.30).


14. See ibid., p.34. Suzanne Berger and Michael Piore also hold that traditional sectors will remain present even among the most industrialized countries because their ‘political and economic interests overlap with those of the modern sector’ (see S. Berger and M. Piore, *Dualism and Discontinuity in Industrial Societies* [New York: Cambridge University Press, 1980], p.87).


24. I thank Joel Migdal for reminding me of this.

25. Robert Keohane writes that ‘Credit markets depend on institutional reputation, which cannot be created in a short period of time, or through promises or argument alone, but is based on past performance, . . . every banker knows that if he has to prove that he is worthy of credit, however good may be his arguments, in fact his credit is gone’ (R. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* [Princeton, NJ: Princeton University Press, 1984], p.130). Also
Though other state- and group-related factors obviously play a role too (especially in determining the feasibility and character of conflict), my focus here is on how institutional change can operate as a necessary cause of conflict.


Ibid.


Zahedi, *The Iranian Revolution*, p.94.


A small factory here is defined as fewer than 10 employees.


The term ‘comprador bourgeoisie’ is used by Ervand Abrahamian. See Abrahamian, *Iran Between Two Revolutions*, p.60. Michael Tien-Lung Liu refers to them as ‘parasitic’ (M.T.-L. Liu, ‘States and Urban Revolutions: Explaining the Revolutionary Outcomes in Iran and Poland’, *Theory and Society*, Vol.17 (1988), p.190). Also see R. Graham, *Iran: The Illusion of Power* (New York: St. Martin’s, 1979), p.47; Zahedi, *The Iranian Revolution*, p.94. This particular state-private sector relationship was not new to Iran, but had existed for a long time. See N. Keddie, ‘Iranian Revolutions in Comparative Perspectives’, *The American Historical Review*, Vol.88 (1983), p.593 on the eighteenth and nineteenth centuries. Additionally, it is important to notice that a positive reputation with the regime would have helped entrepreneurs in delaying the loan’s repayment or acquiring new loans to cover debts. This became common practice throughout this period and by the mid 1970s Iran’s development banks consistently had 20–100 per cent cost overruns (Salehi-Isfahani, ‘The Political Economy’, p.373).
52. Roy Mottahedeh makes the observation that ‘When political life comes to a boil, the bazaar is not just the public assessor of values – it becomes a direct arena for political expression’ (R. Mottahedeh, Mantle of the Prophet [New York: Pantheon, 1985], p.35).
53. For statistics on the level of lending see Graham, Iran: The Illusion of Power, p.221.
54. Waterbury, North for the Trade, p.179.
55. See Greif, ‘Cultural Beliefs’, p.916.
57. M.R. Pahlavi, Answer to History (New York: Stein & Day, 1980), p.156. It should be noted that, in many ways, the Shah’s economic modernization program was an accelerated version of the move towards modernization initiated by his father and predecessor, Reza Shah (r. 1925–41). At the same time, the modernization program is also the result of the social and political ideologies that were influencing the country over the course of the twentieth century. See essays in E. Kedourie and S. Haim, Towards a Modern Iran: Studies in Thought, Politics and Society (London: Frank Cass, 1980).
59. For example, during the Tobacco Revolt and the Constitutional Revolution of 1905.
63. Ibid., pp.109–10.
68. Graham, Iran: The Illusion of Power, p.223.
69. Ibid.
71. Ibid.
73. See Smith, ‘Collective Action’.
76. See the discussion of ‘accelerators’ in C. Johnson, Revolutionary Change (Stanford: Stanford University Press, 1982).
78. Geertz, Peddlers and Princes, p.28.