Iranian Studies, Volume XVIII, No. 1, Winter 1985

Letters to the Editors

To the Editors:

One would not normally respond to book reviews, and Mr. Askari is entitled to his views. However, since the two examples which Mr. Askari quotes from my book are due to some theoretical misunderstandings of my arguments, I might be permitted to clarify the position for readers of *Iranian Studies*.

Mr. Askari's first point is that I am wrong in saying that "theoretically one would expect a lower investment-output ratio for more capital-intensive techniques." In his view, "one would expect the opposite, namely a higher investment-output ratio for more capital intensive techniques of production, as higher capital intensity means precisely that more capital (real investment) is required for a unit of output." This could indicate a basic confusion over the concept of capital intensity, for the proper index of capital intensity (to which I have been referring) is the ratio of capital to *labor* ($K/_L$), whereas Mr. Askari's reference is to the ratio of capital to *output*.

A slightly more sophisticated interpretation of Mr. Askari's point (which, however, is not evident from his text) is that for the production of a given level of output, a higher capital-labor ratio would also result in a higher capital-output ratio. This is familiar stuff from elementary textbooks of micro-economic theory where the problem is one of the *static micro-economic allocation of resources for a single firm*. The context of my argument, on the other hand, is the *dynamic macro-economic accumulation of resources in a growing economy*.

According to simple growth theory, an increase in the ratio of accumulation per head (which would raise the capital

https://doi.org/10.1080/00210868508701652 Published online by Cambridge University Press

intensity, $K/_L$) would be associated with a corresponding rise in output per head ($Y/_L$) such that the capital-output ratio ($K/_Y$) would remain *constant*. That would be the case if "other things" remained "equal." However, in the rapidly growing Iranian economy of the time (which depended on the imports of advanced technology, and benefited from an expanding as well as protected market), for a given rate of capital accumulation, a combination of embodied technical progress and increasing returns to scale should have ensured a higher rate of output. This would have resulted in a lower capital-output ratio in conditions of full capacity production. Hence my remark that there was probably slack capacity due to the shortage of skilled labor force.

This is an extremely minor point, indeed a fleeting remark, in the context of my book, and it would have been absolute folly to go through the motion of explaining such insignificant points in this manner. But I do admit that on a few other occasions I have taken a significant amount of economic and social knowledge for granted. That is why I myself said in the book's introduction that my overriding objective was to provide an *analytical framework* for the study of the Iranian political economy, past and present. Yet, it may be true that in a few cases the novelty of the argument may have warranted less brevity, and Mr. Askari's second example is a case in point. For, unlike his first example, this refers to one of the more substantive arguments of the book.

Here, Mr. Askari's confusion of my argument is even greater than in the previous example. He takes me to task for saying that much of the industrial (and other) capital which accumulated in the relevant period was due to the direct and indirect hand-outs of the state to a select group. Having been misled by the remark that some of these businessmen had had little initial capital of their own, he points out that this has often been the case everywhere. In fact, whether or not they began with little capital is entirely immaterial to my argument. What is important is that the process of capital accumulation did not result in the development of an independent capital class which would have helped transform the despotic nature of the political and economic system. In a word, the revolution was not a consequence of the development of capitalism, but a consequence of its lack of development.

Capitalism had developed through the accumulation of capital via the agency of an *independent* social class which had saved and reinvested a large proportion of its own income, and so expanded industry. In Iran, much of the financial capital which was seemingly invested by modern firms in fact belonged to the state, and was acquired by borrowing at low, zero or even negative real interest rates from state banks and other state institutions. The fact that, rather than resulting from business thrift this encouraged highly conspicuous and demonstrative consumption may superficially appear to be unimportant. But what is absolutely fundamental is that this relationship led to many *un*-capitalist features of Iranian development including the complete lack of *independent* political power by the modern business community. Hence property ownership could carry no weight against the will of the state, and this is consistent with the theory which I have offered for the historical sociology in Iran in the same book (and, more comprehensively, in the *International Journal of Middle Eastern Studies*, June 1983). Likewise, my argument that in spite of the inevitably capitalistic nature of modern technology--hence the rapid growth of an industrial work force based on wage contracts--Iran's was not a capitalist system, has been developed at every stage in various chapters. Yet, the argument was novel, and defied habits of thought. For this reason, I should probably have devoted more pages to it.

Therefore, Mr. Askari's attribution of the above argument to my "political views" is as hasty as it is unwise. I have made my political views abundantly clear in the text. And this I would clearly not have done if--as it unfortunately happens all too frequently in our times--I had wished to dress them up in the guise of apparently dispassionate and objective statements. At any rate, the proper measure of the truth or falsehood of any argument is the strength of the reason and evidence on which it is based. Mr. Askari would have been well advised not to attribute motives in a case where there has been none to hide.

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Homa Katouzian

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To the Editors:

Mr. Rajaee has written a superficial and silly review of my book, *Paved with Good Intentions: The American Experience and Iran*. First of all, he plays with the title--and his apparent reading of only the first ten pages of the book--to imply that I argue the U.S. interest in Iran was based on American altruism.

Whole chapters of the book are spent discussing the strategic and economic basis of U.S. policy over several decades. The U.S. "main objective" in the Third World "was the prevention of the spread of Soviet influence" (p. 56); in the 1950s "Washington's commitment continued to be essentially limited to Iran's protection from direct Soviet attack" (p. 91) but by the 1960s U.S. policy sought to use Iran "as the key pillar of support for American interests" in the Gulf, making it "into a regionally dominant power" and building it up militarily (pp. 124-25). I go into great detail on these geostrategic policies.

Outright falsifications obviously do not bother Mr. Rajaee either. He claims I do not mention the post-1953 U.S. oil company interest in Iran but it is clearly set forth on page 95. He claims that I describe Ayatollah Kashani as--to quote his review "the leader of the Fada'iyan-e Islam"(p. 40). But if one looks at that page one sees that

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