

ARTICLES

Statism, Left or Right? A Critique of the Development Project of the Shah in Iran

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In this article, we first provide a definition of the concept of statism and clarify its distinction from the idea of liberalism, which is based on respect for private property rights, in the way it confronts problems existing in societies. We then focus on a two-century-old problem in underdeveloped societies: the gap in the standard of living between these societies and developed societies. We explain that the decline of liberalism from the second half of the nineteenth century onward in developed Western countries and its gradual replacement with statism affected the fate of underdeveloped societies that, during the twentieth century, intended to fill the gap between themselves and developed Western societies. There is a direct connection between the widespread turn to statism in underdeveloped countries during the twentieth century and the incorrect explanation by the Western clerisy of the roots of development in their own societies. We focus on contemporary Iranian history as a case study, in particular the development program during Mohammad Reza Shah Pahlavi's period, and examine its relationship with modernization theory, as well as the relationship between modernization theory and statism. Using the teachings of Austrian economics regarding credit expansion, the price mechanism, the role of the entrepreneur in the production structure, and the failure of interventionist projects, we critically evaluate this development program.

According to Max Weber's (2004, 33) definition, the state is a form of human community that successfully claims a monopoly on the legitimate use of physical violence within a given territory. If we take Weber's definition as our basis for discussion, then statism can be defined as a mode of social thought that advocates addressing all or most societal problems through the application of physical violence or the threat thereof. This conclusion follows logically: first, if we accept the state as the instrument of legitimate violence; second, if we consider voluntary cooperation among societal members and the institutions arising from such cooperation insufficient or even the source of societal problems; and third, if we prescribe the use of state mechanisms to address these problems, then the inevitable synthesis is an intent to resolve issues through violence or credible threats thereof. In this discussion, the

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perceived reality or illusoriness of these identified problems is irrelevant. The reality of societal problems can only be assessed when we have criteria for an ideal society and define problems as deviations from those criteria. If one group's criteria for an ideal society differ from another's, and both groups adhere to statism as defined here, conflict and the application of physical violence between them become inevitable, because the state, as the sole institution of legitimate violence, cannot simultaneously serve multiple groups with differing analyses of societal problems.

Liberal thinkers can also define their criteria for an ideal society. These criteria can be derived from foundational principles of respect for individuals' ownership of their bodies, the fruits of their labor on unused resources, and what they have acquired through free exchange (see, for example, Rothbard 1998, 35–43; Hoppe 2010, 17–35). However, the key distinction lies in the fact that liberalism—in its formulation grounded in private property rights—is not a statist mode of thought. This means that liberalism not only refrains from seeking to address all or most societal problems through state mechanisms (violence) but, according to its own criteria for an ideal society, identifies the state's dominance over all spheres of society as the source of many problems. Consequently, in contrast to other social thought systems, liberalism's prescription is not to use state mechanisms to solve problems but rather to address those problems through the maximal expulsion of the state from various societal domains. Reducing the use of the state as an instrument of “legitimate” violence to control society and increasing reliance on institutions arising from voluntary cooperation lead to a reduction of violence in society (Mises 1983, 96).

Statism increases disagreements over what phenomena in society should truly be considered “problems.” For example, in Iran after the 1979 revolution, those who gained power regarded women's appearance in public without Islamic hijab as one of the “problems” in society—a problem that the state had to solve. In a society based on respect for private property, an individual might, for example, deem a particular type of clothing inappropriate and establish dress codes within his own property domain. Conflict arises when individuals seek to use the state as a tool to promote “appropriate” attire. The broader the scope of the use of the state as a mechanism for solving societal problems, the greater the intensity of conflicts over controlling this tool. Seizing state power not only monopolizes the approach to addressing societal problems in the hands of those in control but also grants them the privilege of determining which phenomena in society should be deemed “problems.”

The Displacement of Liberalism by Statism in the West

The most important event in the history of the last hundred years is the displacement of liberalism by etatism.

—Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War*

Throughout the nineteenth century, in parts of Europe and North America, and to varying degrees worldwide up to the present, the standard of living for people globally has risen in an unprecedented manner in human history, coinciding with an equally unprecedented population increase (McCloskey 2006, 14–18). It seems that no factor other than the widespread adoption of liberal principles in various spheres of social life and the establishment of capitalist economic relations can provide a convincing explanation for this rise in human living standards (Mises 1951, 24). Nevertheless, from the nineteenth century onward, thinkers have sought to explain this unprecedented phenomenon not by referencing the emergence of new social relations based on freedom but by attributing it to advancements in science and technology (Mises 1962, 126). Dependency theorists have also arisen who explain the gap in living standards between developed and underdeveloped societies through the exploitation of the latter by the former (e.g., Rodney 2011, 14).

The drift of artists and intellectuals in the West away from liberalism intensified following the European revolutions of 1848 (McCloskey 2006, 2). In the realm of politics, the First World War created a fertile ground for the rise of statist ideologies such as communism, fascism, Nazism, and Wilsonian interventionism. Without this war and the events resulting from it, the ascendancy of movements supporting these ideologies would have been far less likely (Raico 2010, 1). Many of the tragic events of the twentieth century across the world, including bloody conflicts between “left” and “right” political parties and movements following twentieth-century revolutions, can be attributed to the dominance of the idea of statism. The disagreements of these left and right parties and movements were rooted not in opposition to or support for statism and maximal societal control, but in competition over seizing control of the “monopoly on legitimate violence” and using it to address society’s “problems.”

On the other hand, the nineteenth and twentieth centuries marked an era in which people in regions outside Western Europe and North America became acutely aware of the profound gap between their societies and those of the West. For example, the military defeat of the Iranian Empire by the Russian Empire in the early nineteenth century first alerted a group of Iranian elites to the fundamental disparity between Western societies and Iranian society (Tabatabai 2006, 131). This defeat convinced Iranian authorities to address the gap by establishing diplomatic relations with rival

European governments and sending select Iranians to these countries to acquire modern scientific training. Gradually, throughout the nineteenth century, commercial, diplomatic, and cultural ties between Iran and Europe expanded. Travelers directly observed the stark contrast in living standards and civilizational levels between Paris, London, Vienna, and Berlin, and Tehran, Tabriz, Isfahan, and Shiraz. Naser al-Din Shah Qajar, who ruled Iran from 1848 to 1896, personally traveled to European countries three times. Guided by his reformist chancellor, he made the first attempt to establish a form of constitutional law in Iran, though this effort ultimately failed (see Adamiyat 1977, 190–227). Ultimately, Iran's first revolution in the modern era, in 1906, led to the establishment of a constitutional monarchy.

Five years prior to the 1906 Constitutional Revolution, William Knox D'Arcy, a British entrepreneur, entered negotiations with the Iranian government to secure a contract for oil extraction in southern Iran. It took nearly seven years until, in 1908, the first oil field in the Middle East was struck in Masjed Soleyman, Khuzestan Province. D'Arcy, as an entrepreneur risking his private capital and on the brink of losing his entire investment due to unsuccessful drilling efforts, ultimately succeeded in accessing oil. Following this event and up to 1914, the growing importance of oil over coal for fueling naval fleets significantly increased the British government's involvement in Iran's oil affairs (Ferrier 1982, 158).

The consequences of these two early twentieth-century events—the constitutional movement and the oil contract—have profoundly shaped Iran's modern history up to the present. This is a critical issue when examining statism in Iran.

Resorting to Statism to Bridge the Gap in the Standard of Living

A historical explanation grounded in liberal theory for the failure of Iran's Constitutional Revolution and the events surrounding Iran's oil industry in the twentieth century has rarely been undertaken and could prove valuable, though such an analysis is not the primary aim of this article. What is significant for the present discussion is the relationship between these two phenomena and the rise of statism in Iran. Two key points warrant attention here.

The first key point is that the effort to establish constitutionalism in Iran (1905–7) occurred precisely during a historical period when statist ideologies were gaining prominence in Europe and the continent was on the brink of World War I. During this time, a group of Iranian intellectuals and political activists, who both played roles in the constitutional events and were destined to assume significant political, economic, or cultural roles during Reza Shah Pahlavi's authoritarian and modernizing regime (1925–41), were present in Europe, particularly in the German Empire. They were engaged in theoretical and journalistic activities aimed at fostering Iranian nationalism

(Marashi 2008, 52). The official historical narrative of the Pahlavi regime portrayed the emergence of Reza Shah's authoritarian state as an inevitable consequence of the constitutional project's failure and the ensuing chaos in Iran due to the absence of an effective central government (see, for example, Pahlavi 1960, 65; Nafisi 1965). Notably, decades after the end of Reza Shah's rule, some historians and analysts continued to use this interpretation of history to justify authoritarianism and "top-down modernization" during his era (see, e.g., Ghani 1988, epilogue; Ajoudani 2007, 441). Afshin Matin (2018, 79–109) critiques this historical narrative. From Matin's (2018, 80) perspective, the idea that a strong ruler could forcibly elevate Iran to the ranks of civilized nations—an idea that we, from a different viewpoint, identify as statism—was developed independently of the constitutional failure, at a time when Iranian intellectuals in Europe were formulating it and Iran was gradually regaining stability after World War I. Indeed, it was a misfortune for non-Western countries like Iran that, at the very moment their efforts to bridge the gap with Western societies peaked, Western elites themselves had turned to statism, viewing classical liberalism—the true driver of their societies' unprecedented prosperity—as an outdated and reactionary idea.

The second key point is that the 1901 oil contract between D'Arcy and the Iranian government provided the Tehran-based government with a share of the revenue generated by the oil company's activities. What is significant for our discussion is the state's monopoly over oil revenue (Katouzian 1981, 129)—revenue which was initially limited but later substantial—and its profound impact on the growth of statism in Iran. Access to a relatively large and reliable revenue source like oil is neither a necessary nor a sufficient condition for the political empowerment of statist ideology in a country. There have been and continue to be countries worldwide that lack such an abundant revenue source, where kinds of government gained power that subjected society to extensive control and the will of state bureaucrats through significant violence and pursued large-scale social engineering projects—for instance, the case of Tanzania under Julius Nyerere can be cited (Scott 1998, 223–61). Nevertheless, government revenue from oil resources that is high compared to the investment required for extraction and refining creates a particular pattern of authoritarian social relations in oil-rich countries like Iran and leads to severe dependence of social classes on the state (Katouzian 1981, 245–46). The obvious prerequisite for taxing private income in a country is the existence of such income, which an interventionist state can then appropriate through taxation. Although taxation itself damages the structure of production, the existence of private income as a prerequisite for taxation forces the state to tolerate private enterprises to some extent, unless it opts for complete economic socialization. Access to a reliable revenue source like oil enables the government to impose regulations on private businesses more openhandedly and pursue more ambitious social engineering projects without formally adopting socialism.

These factors, throughout the twentieth century and up to the present, have worked in concert to induce an extraordinarily high number of interventionist policies in Iran: the nationalization of major industries; the nationalization of water resources, forests, and mines; land reform; the design and execution of eleven development programs over the past eighty years; the imposition of extensive labor regulations and minimum wage laws; the requirement for permits for even the smallest economic activities; and many other interventionist measures. Notably, all these actions were undertaken by two regimes—the Pahlavi monarchy and the Islamic Republic—that were not socialist and, in certain periods, engaged in severe suppression of socialist parties. In the case under examination here, Mohammad Reza Shah Pahlavi's regime in Iran was, as previously noted, an ally of the Western bloc, had a history of military involvement beyond its borders to suppress communist insurgents in Oman (known as the Dhofar Rebellion), and engaged domestically in serious, at times armed, confrontations with parties espousing communist ideology or a fusion of communism and Islamism (such as the People's Mujahedin Organization). These seemingly contradictory facts must be explained through a more precise theoretical concept that transcends conventional political notions of left and right.

Statism: Left or Right?

The history of the socialist movement in Iran dates back to the period of the Constitutional Revolution. Socialism entered Iran from the Caucasus region, which was part of the Russian Empire during that time, through Iranian political activists residing in the city of Baku who were in contact with Caucasian social democratic parties (Adamiyat 1984, 17). Throughout the twentieth century, various parties with pure socialist ideology, or with combinations of Islamism and socialism, were able to attract a large number of supporters, particularly in major cities, and pose serious challenges to the established governments. Despite all this, except for two periods lasting less than a year each and in the form of local governments with centrifugal tendencies, socialists never succeeded in carrying out a revolution and forming a government in Iran. During the reign of Mohammad Reza Shah (1941–79), and especially during Richard Nixon's presidency, Iran was considered an important ally of the Western bloc and also a customer for advanced US weapons (see Alvandi 2014). Of course, Mohammad Reza Shah in some cases stated that he had no fear of being sarcastically called a “communist” because of certain positions he held about some social issues (Pahlavi 1960, 363), and at least one point he even declared, “I am more Leftist than the Leftists” (Pahlavi 1974). Nevertheless, if one wished to use such political terms as “left” and “right,” it is unlikely that he would be inclined to apply the term “left” or “socialist” to describe the government of one of the most important allies of the Western bloc during the Cold War. It is true that the shah had a tendency toward state ownership in certain areas of economic activity, such as power plants, railways, and petrochemicals—in

addition to the oil and gas industry, whose state ownership in Iran is generally taken for granted—or at least toward maintaining the government’s upper hand in managing these areas (see Pahlavi 1977, 102; Alikhani 2001, 57). Yet he did not seek the complete abolition of private ownership over all means of production or the total elimination of inequality in wealth distribution (see Pahlavi 1977, 174). In fact, Mohammad Reza Shah believed he had succeeded in discovering another mode of social organization suited to the specific conditions of his own country and beyond the dichotomy between socialism and capitalism (Pahlavi 1977, 283). Overall, the terms “left” and “right,” in a precise theoretical analysis, have the potential to conceal many truths and cause confusion for the researcher.

In fact, being recognized as right-wing or conservative, or even engaging in severe conflicts with socialist parties, cannot by itself negate the presence of prominent socialist elements in the thinking and actions of government officials, theorists, or political movements. Rainer Zitelmann’s (2022) analysis of Adolf Hitler’s National Socialism demonstrates an example of this; additionally, the experience of Otto von Bismarck’s alliance with Ferdinand Lassalle and the creation of a kind of “social monarchy” represents one of the earliest instances of socialist and statist policies implemented by a conservative government (Mises 2002, 69). Hans-Hermann Hoppe (2010, 96–97), in his book *A Theory of Socialism and Capitalism*, speaks of the “socialism of conservatism,” whose goal is to maintain the existing unequal distribution of wealth by using the tools of politics and the state.

However, maintaining the status quo or striving to preserve the class system in society cannot in any way provide an accurate description of Mohammad Reza Shah’s government. Mohammad Reza Shah proceeded to implement an extensive land reform program despite the Iranian parliament’s opposition. Following the holding of a “referendum” on January 26, 1963, he announced the “White Revolution”; from that time until the end of his rule, he repeatedly employed the term “revolution” to describe the actions of his government in both the media and the books he published prior to his fall in 1979, and insisted that he was the “leader” of this revolution (Majidi 1999, 57). None of the actions of his government, particularly after the announcement of the six principles of the White Revolution—principles that were gradually expanded in subsequent years until they ultimately reached nineteen—can indicate his inclination toward “conserving” the status quo in society. If our interpretation of conserving the status quo is equivalent to the effort by incumbent rulers to maintain their governance, then all governments and rulers in the world, including, for example, the rulers of the former Soviet Union, must be regarded as desirous of conserving the status quo. Of course, this interpretation is not entirely incorrect. Naturally, those who hold positions of superiority and rule are inclined to conserve their positions. However, this interpretation provides no theoretical tools for gaining a deeper understanding of the actions of a number of governments

that came to power primarily in the twentieth century in underdeveloped countries and implemented extremely extensive changes in the societies under their command. For such an understanding, we need a term that can explain both the actions of communist governments inclined toward the Eastern bloc and similar actions in noncommunist governments inclined toward the Western bloc. The term “statism,” with the definition provided at the beginning of the article, offers an appropriate description of the actions of political systems that primarily came to power in the twentieth century, and after the First World War in underdeveloped countries, regardless of whether those systems are described as left, right, socialist, nationalist, conservative, nonaligned, or other designations.

Modernization Theory: “Designing and Implementing” a Capitalist Society

As we mentioned earlier, the modernist supporters of Reza Shah—similarly to those of Mustafa Kemal Atatürk in Turkey—sought to modernize society through the use of the tools of state power controlled by an authoritative figure (Atabaki and Zürcher 2003, 4). This mission of modernizing the country, which the Pahlavi regime considered its own mission, continued after Reza Shah during Mohammad Reza Shah’s era—especially after 1953, the year of the dismissal of Prime Minister Mohammad Mosaddegh—with the difference that at this time the majority of technical and financial assistance, as well as intellectual models, came from the United States instead of continental Europe. Nevertheless, the mode of thinking exported from the United States to Iran was not the libertarian and enlightened thought upon which the political and economic institutions of the United States were founded, but rather a technocratic mindset and a form of social engineering program aimed at guiding underdeveloped societies toward progress—that is, toward where the United States stood. David Lilienthal, the then-director of the Tennessee Valley Authority and one of the most prominent representatives of this mode of thought, played a role in the design and implementation of large-scale regional development projects in several countries, including Iran. Lilienthal was one of the first individuals to attract the attention of President John F. Kennedy for participation in “overseas development” (Ekbladh 2008, 492). We will refer below to his contributions to the development plan for Iran’s Khuzestan Province.

In his inaugural address on January 20, 1949, which led to the emergence of the what became known as the Point Four Program, President Harry Truman proposed utilizing American science and technology to eliminate poverty and hunger in underdeveloped countries—countries that became known as the “Third World.” In that speech, he spoke of freedom, democracy, and the necessity of unity among free nations, but he did not employ the term “capitalism” even once (see Truman, n.d.). Of course, new technologies and innovative methods in the optimal utilization of scarce resources have

the potential, under certain conditions, to contribute to the reduction of poverty and the increase of welfare. However, those conditions exist only in a society based on individual freedom and respect for the principle of private property, enabling entrepreneurs, motivated by profit-seeking, to gradually discover the most optimal method possible for exploiting technologies and new innovations. In performing this function entrepreneurs utilize the tool of prices that have not been distorted by interventionist factors. As Mises (1998, 666–67) states:

The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy. Deluded by Marxian, nationalist, and militarist ideas they think that all that is needed for the attainment of this end is the introduction of European and American technology. Neither the Slavonic Bolsheviks and nationalists nor their sympathizers in the Indies, in China, and in Japan realize that what their peoples need most is not Western technology, but the social order which in addition to other achievements has generated this technological knowledge. They lack first of all economic freedom and private initiative, entrepreneurs and capitalism. But they look only for engineers and machines. What separates East and West is the social and economic system.

Western and American modernization experts who engaged with underdeveloped countries adopted an approach contrary to Mises's recommendation, formulating and prescribing government-led programs aimed at steering these countries toward the creation of a society exemplifying the American capitalist society. In other words, to prevent these countries from succumbing to communism, they employed methods remarkably similar to those used by communist parties in countries where such parties had seized power; and in promoting the capitalist system, they advocated the violation of its fundamental principle—namely, respect for private ownership of the means of production.

An influential example of thinkers of this kind was Samuel Huntington, who was in certain respects a critic of modernization theory. He endorsed Leninism “as a theory of political action” (Huntington 1971, 337), while viewing liberal democratic and pluralistic governments as serving the perpetuation of “antiquated social structures” (136). Beyond the discussion of modernization in underdeveloped societies, Huntington harbored fundamental doubts about American political institutions that disperse power, labeling them “antique” in comparison to the more centralized European institutions (98). He expressed astonishment at the observation that American society resists political modernization while being enamored of every other form of novelty and having managed to create the “most modern and efficient economic organization” (130). Nevertheless, if one incorporates

into his analysis the relationship between the emergence of efficient and modern economic organizations and minimal government intervention in spontaneous social processes, as well as the relationship between the dispersion of power and political freedom, then no room for astonishment remains. The United States has been able to achieve this efficient economic organization precisely because of those “antique” political institutions that disperse political power and enhance individual freedom. It is remarkable that forty-six years after Huntington published this view, his prominent student Francis Fukuyama (2015, 65) expressed a similar view regarding the political institutions of the United States and their historical comparison with Prussian political institutions.

What Huntington, Fukuyama, and modernization theorists such as Walt Rostow have pursued is the “design and implementation” of societies similar to the United States across the world, either without much interest in American political institutions or without much belief in the connection between American achievements and these institutions, which originate from individual freedom in society. The prescribed tools required for executing their grand modernization projects consist of a powerful government dominating the country’s main economic resources, honest bureaucrats who are intended to expend those economic resources on the “common good,” experts whose specialty is the correct identification of this common good, and citizens who have placed trust in this government, its bureaucrats, and its experts, and consequently are willing to surrender a significant portion of their freedom in the pursuit of creating a better society.

In the subsequent sections of the article, we will enumerate instances of this approach, focusing on economic events in Iran during the reign of Mohammad Reza Shah, and endeavor to examine them through the insights provided by Austrian economics.

Capital-Intensive Projects Without Risk Acceptance

In the second stage of Rostow’s five-stage¹ economic growth model, “preconditions for take-off,” he enumerates three characteristics of social overhead capital that, in his view, result in insufficient private investment for capital-intensive projects, thereby making government intervention necessary (Rostow 1990, 24–25):

1. Long periods of gestation and of payoff, meaning that it may take years for the investment to become profitable.

¹ Stage 1: traditional society; stage 2: preconditions for takeoff; stage 3: takeoff; stage 4: drive to maturity; Stage 5: age of high mass-consumption (Rostow 1990, 4–16).

2. Lumpiness, meaning that the project in question will not enter the stage of profitability until it is completed. Rostow cites the example of a railway project between two cities, which in terms of profitability differs in no way from nonimplementation of the project until it is fully completed.
3. Indirect routes of payoff, meaning that the profits from such investments accrue more to society as a whole than to the investor, thereby leaving little incentive for investment. In the theoretical literature of academic economics, this is cited as one of the instances of “market failure” (e.g., Krugman and Wells 2015, 491).

The error in this mode of thinking stems from an authoritarian understanding of the purpose of economic activity and investment. The goal of investment is to produce goods or services that are needed by customers. The investor, by anticipating customers’ needs and hoping for the accuracy of his anticipation, risks a portion of his capital to produce goods or services. This inherent risk in the act of investment arises from the fact that no one can definitively predict future customer needs, as customers possess free will, and free will can lead to different actions by individuals at any moment. The magnitude of this risk may increase due to factors such as the novelty and unfamiliarity of the field into which capital is invested or the amount of capital invested. If the entrepreneur succeeds in attracting a sufficient number of customers in a new area of goods and services production by accepting such risks, he will achieve profits higher than the norm; however, if he fails, he will incur losses (see Rothbard 2009, 547). Everything here depends on the will of customers and the degree of success the investor has in predicting this will within the investor’s intended time frame. Prices serve as the primary tool assisting investors in this endeavor: both for forecasting the amount of investment required to procure factors of production and for estimating the prices of produced goods and services in the future. Under normal circumstances, it is highly unlikely that all investors in a society would simultaneously undertake such risks. Consequently, investment in more capital-intensive schemes is more likely to occur when customers’ basic needs have largely been satisfied and the amount of available capital in society has reliably increased. In any case, it is customers’ needs and the time preferences in the society that must determine the direction of investment, and customers’ needs and time preferences manifest themselves in the form of prices in the market (see Rothbard 2009, 400).

The statist perspective on the economy regards government experts and bureaucrats as more competent than individuals themselves in identifying individuals’ needs. The consequence of such a view is that “economic development” is defined not based on the success of an economy in fulfilling individuals’ desires in greater quantity and higher quality, but according

to the subjective criteria of those in positions of power; for example, one can point to the insistence of intellectuals and politicians on employing a novel and magnificent tool or technology without attention to market needs (Rothbard 2009, 545). In fact, needs are being met here as well: the needs of those who possess political power. Risks are also being borne: risks on the capital of those who do not possess political power. The government bureaucrats and their economic advisors do not bear any risk, because neither the will of individuals nor the customer's right to choose plays a role in the outcome of their performance, nor is their owned personal capital at risk. Therefore, they proceed with greater ease to implement ambitious plans. Additionally, the government's access—in many cases exclusive—to the country's primary natural resources, the possibility of credit expansion, and the power to collect taxes eliminates the need to convince other investors to share part of their capital in the form of joint-stock companies for executing larger projects.

Contemporary Iranian economic history possesses a rich collection of such projects. The Trans-Iranian Railway project during Reza Shah's era serves as an example of prioritizing military and political considerations over those related to fulfilling individuals' needs and economic profit and loss (see Katouzian 1981, 116). The construction of railways in Iran had been a dream of some Iranian intellectuals since the Qajar era. For example, Sani' al-Dowleh, the first speaker of the parliament in Iran, wrote a pamphlet titled *Railway: The Path to Salvation*. Another writer attributed all of Iran's poverty and misery to the absence of railways (Ghaninejad 2016, 169). These assertions were made without addressing the issue of what need a country with a population of less than ten million people, very difficult and mountainous terrain, and very limited industrial production had for a nationwide railway line. Ultimately, Reza Shah's powerful government managed to execute the Trans-Iranian Railway project by imposing taxes on sugar and tea—two important consumer goods in Iran—and covering the deficit with government credits. The \$160 million cost of implementing the project, according to *Time* magazine's report at the time, was nearly three times Iran's annual budget. This amount was spent on building a railway that passed through no important city in Iran except Tehran (*Time* 1938).

A similar episode was repeated later during Mohammad Reza Shah's era, this time concerning the establishment of an integrated iron-smelting and steel complex in Iran. The German company, which harbored doubts about the economic viability of the plan, was reluctant to engage in joint investment with Iran for its implementation. The expert employed by the World Bank, after examining the matter in 1961, also recommended pursuing a less ambitious plan. It is worth recalling that at that time, Iran's oil revenues still did not permit the country to advance such projects without international financing (Baldwin 1967, 106–110). In Iran, this reluctance to participate financially was attributed to the unwillingness of industrial countries to assist

in Iran's economic and industrial growth and development, and internal opposition to the project was attributed to a deficiency in patriotism (e.g., Majidi 1999, 107; Niazmand 2016, 191–94). Ultimately, the Iranian government in 1965 succeeded in securing, through a contract with the Soviet Union, that country's participation in implementing the project and financing it in exchange for the delivery of Iranian gas to the Soviet Union. The cost incurred solely for constructing a pipeline capable of transporting Iranian gas to the Soviet border is estimated at up to \$700 million (Katouzian 1981, 278). For comparison, the total government budget of Iran in the solar year 1345 (1965–66), at an exchange rate of seventy-one rials per dollar, was approximately \$2.7 billion (Majlis Research Centre 1966).

The sudden surge in oil prices in 1973, which elevated the Iranian government's oil revenues from less than \$2.5 billion to \$21 billion within two years, considerably expanded the scope of the shah's visionary aspirations regarding the country's future, which he termed "the Great Civilization." He also gave this title to a book, published less than two years prior to the 1979 revolution, dedicated to depicting that glorious future (Pahlavi 1977). In this context, Iran's Fifth Development Plan (1973–77), following its approval in the parliament, was revised according to the shah's directive to incorporate modifications in light of the new oil price increase (Ghaninejad 2016, 274). Abdolmajid Majidi (1999, 207), who served as the head of the Plan Organization of Iran from 1973 to 1977, identifies among the additions mandated by the shah the construction of nuclear power plants, the electrification of railways, new military bases, and the expansion of iron-smelting and petrochemical projects beyond initially projected levels. From Majidi's (214, 216) account, it is evident that the shah insisted on completing several major projects before the end of his life, disregarding the fact that prioritizing the rapid execution of these large-scale projects led to insufficient investment in sectors such as urban sewage systems, where more immediate needs existed.

Land Reform: Capitalist Agriculture or Centralization of Power in the Capital?

The implementation of land reform was a highly prevalent phenomenon in the twentieth century across underdeveloped countries and was not unique to Iran. The demand for land reform in Iran was first raised by the Social Democratic Party in the era of the Constitutional Revolution in the early twentieth century (Hooglund 1982, 37). During Mohammad Reza Shah's period, land reform was intended to be part of the Third Development Plan (1962–67), which was designed for the Plan Organization with the assistance of American experts. The shah initially removed land reform from the Third Plan, but shortly before the beginning of the plan's implementation, the government suddenly announced the start of land reform execution (Laylaz 2013, 91). Undertaking this reform, which had exceedingly broad economic

and social consequences and absorbed a substantial portion of resources, rendered the execution of the Third Plan virtually meaningless (Baldwin 1967, 70). In fact, the shah did not wish for anyone other than himself—particularly not the American advisors dispatched to Iran—to be recognized as the initiator and executor of an extensive social reform program such as land reform (Majidi 1999, 169).

One definitive consequence of land reform was the complete extension of state power to all rural areas and the replacement of the old landowners' stewards with government emissaries in the villages. Eric Hooglund (1982, 78), who conducted extensive research on land reform in Iran, regards this very extension of state power to the villages as the primary motivation for the shah's implementation of these reforms. On the other hand, Ann Lambton (1969, 347), a researcher on the history of land relations in Iran who, like Hooglund, was present in Iran for a period and witnessed firsthand the government's actions regarding villagers, held a more positive view of these reforms in Iran. It may be predictable that the shah himself presented his motivation for carrying out these reforms as extricating the vast mass of the country's deprived from their miserable medieval condition (Pahlavi 1966, 43).

Our goal here is not to question the intentions of the shah and the members of his government or to adjudicate between the differing assessments of Hooglund and Lambton, as the centralization of power in the central government for the purpose of "optimal" utilization of resources in pursuit of modernization objectives does not necessarily conflict with the benevolent intentions of statesmen and is, in fact, an essential component of this program. From Rostow's (1990, 46–47) perspective, economic development occurs when incomes are transferred from less efficient individuals to more efficient ones. This is a viewpoint with which one can agree. However, who is supposed to be the judge of the efficiency of individuals? On what basis will this judgment be made? Is there any method other than the market and customer choice to accomplish this purpose? It appears that Rostow held a different view. According to his five-stage model, in the preconditions for takeoff stage, it is primarily the function of "political leadership" to channel resources and talents toward the "domestic task of modernization" (30). For the subsequent stage in the process, namely the takeoff, Rostow proposes several solutions: under conditions where the government is more productive than taxed individuals, according to him, confiscatory taxation devices can serve as effective methods (47). Other tools he considers include "inflation," as well as banks that expand the supply of working capital (48). The point of significance for our discussion here is that none of these tools—including credit expansion even by privately owned banks—is feasible without the existence of a centralized governmental authority.

In contrast to this approach, James Scott (1998, 101–2), a critic of large-scale social engineering schemes, identifies three factors as obstacles to the ambitious programs of “high-modernists”: first, the belief in the existence of private spheres in which the government should not intervene; second, the position of the private sector in the liberal economic system; and third, the existence of effective and elective institutions that provide society with the opportunity to express opposing views and exert influence. Therefore, the modernizing state, to realize its dreams, must first overcome this barrier of “liberal political economy,” as Scott terms it (102).

However, overcoming this barrier is far more difficult in countries such as the United States or Britain, due to their long history of liberal institutions, than in a country like Iran, which only began efforts to establish these institutions at the beginning of the twentieth century. Following the success of the 1953 dismissal of Prime Minister Mosaddegh, independent political parties and movements such as the National Front were barred from political activity, the communist Tudeh Party was severely suppressed, and the power of the royal court increased considerably. Nevertheless, due to the presence of some landowners within it, the parliament had not yet been fully transformed into a ceremonial institution. The first land reform bill, presented to the parliament by the government with the shah’s support, was subjected to such extensive amendments that, according to the shah, it deviated greatly from its original objective (Pahlavi 1966, 43). With John F. Kennedy’s ascension as president of the United States, Ali Amini—who had established good relations with Kennedy during his time in the United States—was considered by many to be a candidate for prime minister who enjoyed US support and would possess a high degree of independence from the shah’s power (Abrahamian 1982, 422; Rahnema 2021, 236). Amini was appointed prime minister shortly thereafter. At Amini’s request, the shah dissolved the parliament on the pretext of irregularities in the elections that had led to its formation. Thus, Amini governed without a parliament until the next elections and the reconvening of the parliament in October 1963. Amini described the parliament in Iran’s conditions at that time as a “luxury” for which the people were not yet ready—a quotation that Huntington (1971, 181) cited directly in his book. During this period of parliamentary absence, the land reform bill was approved by the government. These facts are significant in that they can prevent us from attributing such authoritarian actions exclusively to the shah personally. The disagreement was less about the essence of executing such actions than about who would carry them out. Ultimately, through a trip to the United States, the shah managed to win the trust of Kennedy’s government. Upon the shah’s return to Iran, in a political struggle over the military budget and also due to the shah’s other opponents’ lack of cooperation with Amini, Amini’s government was weakened and fell.

The shah incorporated land reform as the first principle among the initial principles of the White Revolution. The shah's government program for villagers extended beyond merely introducing changes to land ownership relations in Iran. His vision for Iran's villages, as he himself articulated in explaining the eighth principle (namely, the establishment of the Extension and Development Corps), was as follows: "Our villages should become centers resembling the newest villages in progressed societies and benefit from the most complete technical advancements in terms of roads, electricity, water, sanitary buildings, schools, sports facilities, libraries, cinemas, cooperative organizations, educational and social institutions, various insurances, and other things that are necessary for contemporary progressive life, and they make the best use of the land at their disposal using the best technical and scientific principles of the present era" (Pahlavi 1966, 160).

One noteworthy example in relation to the government's programs for villages after the elimination of landowners was the establishment of Rural Cooperative Societies. Theoretically, Rural Cooperative Societies were intended both to fill the functional void left by the elimination of landowners in matters such as purchasing machinery, tools, seeds, and fertilizers and to grant loans to villagers for investment. In practice, however, the cooperatives became part of the governmental bureaucracy under Tehran's supervision and a tool for the direct exercise of government control over the villages (Hooglund 1982, 105).

Another noteworthy case is the agribusinesses, which were intended to introduce the most modern agricultural methods from developed countries into Iran. The idea of modernizing agriculture under government guidance dates back to before the announcement of the White Revolution, to the period of Abolhassan Ebtehaj's presidency over the Plan Organization (1954–59). David Lilienthal came to Iran at Ebtehaj's invitation to participate in the design and implementation of a large regional development plan in Iran's Khuzestan Province. According to Ebtehaj (1991, 384), the shah had heard Lilienthal's name before this invitation. Lilienthal's presence in Iran marked the beginning of his long-term involvement in Iran's development programs, from 1956 to 1977. During this period, Lilienthal made twenty-nine trips to Iran, and the shah received him twenty-three times (Neuse 1996, 267). The construction of the Dez Dam (completed in March 1963 and originally named after the shah), which was considered a major project at that time, was the heart of this regional development plan, providing the necessary water and electricity for it. Lilienthal described the Dez Dam project to the shah as a "heroic structure" and compared it to the pyramids (Neuse 1996, 269). He later participated in the implementation of a similar plan in the Mekong Delta of South Vietnam, which was intended to serve as an example for the development of the rest of the regions of the country (Ekbladh 2008, 500)—a goal that was similarly pursued in Iran. The Khuzestan regional development plan was carried out without regard to warnings from Iranian

experts or United Nations Food and Agriculture Organization experts regarding the region's hot climate and the salt in the water (Ekbladh 2008, 502). These assessments, which were expressed in Lilienthal's presence, caused great distress to Ebtehaj, although Lilienthal assured Ebtehaj that he would not pay attention to them, as similar statements were made during the implementation of the Tennessee Valley development plan (Ebtehaj 1991, 385–86).

In the subsequent decades, within the framework of the White Revolution plan, several agribusinesses were established across the country. To create these agribusinesses, numerous instances of violations of property rights and forced relocation of villagers occurred in the areas designated for these companies' activities, which generated considerable dissatisfaction (Hooglund 1982, 85). Nevertheless, despite all the initial optimism and fantastical notions surrounding high-tech agriculture, the government ultimately had to allocate budgets for the continuation of several agribusinesses and, in some cases, even take direct control of their administration (Hooglund 1982, 86). Most of these companies were managed very inefficiently. By 1977, only 2 percent of Iran's total arable land belonged to agribusinesses and other industrial agricultural and livestock companies (Sodagar 1990, 318). It is noteworthy that Mohammadreza Sodagar (1990, 320), an Iranian Marxist historian and sociologist, in tracing the roots of the failure of agribusinesses, points to the facts that government projects caused an increase in operational costs and the cost of the final product, and that among agribusinesses, only those cases were successful that had been established by the private sector.

What warrants skepticism and critique in relation to politicians' programs, promises, and visions for the future of the country under their governance is not their sincerity in the promises they make, but rather their unrealistic assessment of the government's capabilities—an assessment that leads to authoritarian behaviors. One function of economic theory is to elucidate the connection between such authoritarian behaviors and the damage inflicted on the production structure and businesses in the market, damage that ultimately yields outcomes contrary to what the politicians intended.

Liquidity Guidance, Granting Privileges, and Business Cycles

As previously discussed, investors and entrepreneurs utilize the price mechanism to forecast the amount of capital required for investment and to obtain an estimate of future customers' needs in the market. We also noted that, from a statist perspective, those bureaucrats who are concerned for the "common good" and the genius specialists involved in designing and implementing large economic projects have little need to concern themselves with price trends. However, beyond this, if the government engages in credit expansion to execute its megaprojects, the functioning of the price mechanism is disrupted, providing economic actors with data contrary to the reality prevailing in the market (see Huerta de Soto 2020). It makes

no fundamental difference whether these projects are directly executed by the government or whether the government, under designations such as “industrial policy” or “liquidity guidance,” entrusts the execution of projects to private investors benefiting from government credits. Private ownership of the means of production, as the primary hallmark of a capitalist society, mandates accountability for the preservation and proper management of capital. The market, through customers’ right to choose, deprives those who fail in preserving and managing capital of ownership of the means of production. When ownership of the means of production is acquired not through conventional market relations but through access to generous government credits, we will observe a diminution of this sense of accountability.

At the beginning of Alinaghi Alikhani’s tenure as Iran’s minister of economy (1963–69), a large number of loss-making businesses had emerged in Iran as a result of the previous credit expansion policy. One of Alikhani’s policies was the government’s temporary seizure of failed businesses from investors; the repayment of these businesses’ debts, rendering them profitable; and the subsequent return of the businesses to the previous investors—a policy that faced criticism from the Iranian press at the time (Alikhani 2001, 77). Alikhani (72–73) himself confirmed that most private industries at that time had been established with low-interest loans sourced from the revaluation of banknote reserves. Homa Katouzian (1981, 266) opposed the application of the term “capitalism”—or the term “state capitalism,” which is favored by Marxist analysts (e.g., Sodagar 1990, 134)—to the economic relations during the period in question, since a substantial portion of private investments were actually investments made with low-interest government loans, many of which were allocated to the real estate sector. Ultimately, Iran’s industrial exports, excluding oil and gas, did not experience significant growth, rising from \$137 million in 1963 to \$520 million in 1978 (Katouzian 1981, 325).

As long as the flow of increasing oil revenues persisted, the government could either conceal the consequences of its incorrect credit policies or place the primary burden of them on the shoulders of social strata that possessed lesser opportunities for political protest. Alikhani (2001, 148) quotes Amir Abbas Hoveyda—prime minister of Iran from 1965 to 1977—as saying that the Iranian government was first and foremost a “government of urban dwellers” because their potential for rebellion was greater than villagers’. This statement was made under conditions where, according to the 1965 census, approximately 62 percent of Iran’s population was rural or nomadic (Donya-e Eqtesad 2018). According to Majidi’s (1999, 212) analysis, oil revenues were allocated to investments that lacked rapid returns, with investment in the housing sector serving as a prominent example. As a result, oil revenues accrued to investors who obtained loans from the government to implement their projects. The increase in consumer demand from this class in the

market without supply rising at the same pace led to inflation, the burden of which had to be borne by the majority of the population, thereby laying the groundwork for heightened political dissatisfaction.

The shah vainly endeavored, through coercive methods and the successive addition of new principles to the White Revolution's reforms, to halt the ever-escalating prices of goods: The title of the fourteenth principle of the White Revolution was "Combating Inflation and Price Gouging and Defending Consumers' Interests," and the title of the eighteenth principle was "Combating Speculative Transactions in Lands and Immovable Properties" (Pahlavi 1977). Following the formation of the single Rastakhiz Party (the word *Rastakhiz* means "resurrection") and the official declaration of a one-party system, teenage party members were dispatched to combat price gouging by confronting merchants in the markets. Price gougers were threatened by the shah himself with prosecution in military courts:

For this task [curbing inflation], a national jihad against price gouging and illegitimate profiteering was declared, and a general national mobilization to fight price gouging was initiated. Immediately after the announcement of the fourteenth principle of the revolution in August 1975, the government was obligated to undertake all necessary measures to expand the fight against price gouging, including a fundamental revision of the guilds' organizations and the formation of groups to monitor and control prices. The Rastakhiz Party of the Iranian Nation also committed to participating in the national movement against price gouging by utilizing all the country's national and administrative forces. Furthermore, it was warned that if satisfactory results were not achieved from these efforts within one month from the commencement of this movement, the law pertaining to the trial of hoarders and price gougers by military courts would be enforced against them. (Pahlavi 1977, 169)

Following this declaration of "jihad," 250,000 businesses were fined and closed, 8,000 merchants were sentenced to prison terms ranging from two months to three years, and 23,000 people were also exiled (Keshavarzian 2007, 242; Sodagar 1990, 222). Arang Keshavarzian (2007, 241) confirms that the price increases were not, as the shah imagined, due to price gouging by shopkeepers, but rather due to the massive capital injected into the economy for implementing the development projects envisioned by the shah following the sudden increase in oil prices in 1973. These punitive actions widely alienated the bazaar merchants from the regime and prompted their participation in the 1979 revolution.

Conclusion

The statist approach toward underdeveloped countries like Iran was not a conspiracy by the West against these countries, but rather a continuation of a trend from the second half of the nineteenth century onward in the United States and England themselves which has consistently been critiqued by thinkers advocating freedom there (e.g., Hayek 2007, 193–209; Rothbard 2010, 11; Peikoff 1982). Nevertheless, during the period under discussion in Iran, such critiques—raised from a libertarian perspective and involving consistent opposition to statist thought—were not well known.

What was critiqued by Iranian opponents regarding the policies of Mohammad Reza Shah's government was not statism per se, but rather the manner in which the tools of the state were utilized. Of course, violations of democratic rules, restrictions on freedom of expression and the press, and the shah's interference in governing affairs—a practice contrary to the rules of constitutional monarchy—were consistently opposed by movements such as the National Front (the remnants of Mosaddegh's supporters) and the Freedom Movement (a party splintered from the National Front that sought to combine Islam with the rules of modern life). However, their opposition did not fit within the framework of the understanding of liberalism that is intended here. The shah's secular opponents were bewildered by the announcement of the White Revolution principles and were unable to present any coherent viewpoint about them in their writings (see, e.g., Rahnema 2021, chap. 23).

The reason for this perplexity, in our view, was the absence of a theory in opposition to statism. Admittedly, a society's success in compelling the government to adhere to democratic norms and freedom of the press can, in itself, create a significant barrier to the expansion of statism and the implementation of large-scale social engineering programs. Every individual naturally resists physical coercion and the violation of his fundamental rights. Nevertheless, statism has been extensively theorized by various schools of thought over the past two centuries and has become entrenched in the minds of a large portion of the intelligentsia worldwide. This reality makes a coherent and comprehensive theoretical critique of statism inevitable. The absence of such a critique can lead to the reproduction of statism in other, even more interventionist and aggressive forms—an event that occurred in Iran after the 1979 revolution. In advancing its specific ideological goals today, the government of the Islamic Republic mainly uses the same tools that were created during the Pahlavi monarchy period in the fifty-four years prior.

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