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ROUND TABLE

Writing Capitalism into Iranian History

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Capitalism used to be a singular term, but, like many keywords in English, now is often presented and discussed as a plural: capitalisms.[1] Whereas capitalism formerly stood for what today is called industrial capitalism, scholars currently talk about varieties of capitalism: commercial capitalism, industrial capitalism, financial capitalism, and neoliberal capitalism, to name but the most prominent historical variants. Given this proliferation, and the inherent difficulty of defining capitalism, singular, it is important to be clear about the meaning and function of our object of inquiry. After all, "different definitions lead to different conclusions and may make for very different histories."[2]

To prevent capitalism from becoming too many things, and for the "original" form of capitalism, industrial capitalism, to have any use and validity as an organizing principle, at a minimum its definition must include a few notions. These typically include private property, enforceable contracts, and markets with responsive prices. Additional commonly accepted ingredients are the availability of wage labor following agricultural transformation, as well as a certain level of state centralization and institutional capacity. In contrast to the now old-fashioned notion of laissez-faire capitalism, in which the state plays a minimal role in economic life, modern interpretations of industrial capitalism emphasize the significance of state support for the accumulation of capital, infrastructural investment, and the creation of banking facilities. Also inherent in capitalism is the idea of growth, not as wealth accumulation, but as development.

By these criteria, Iran, like most of the globe, was precapitalist well into the twentieth century—even though segments of its economy were drawn into the global economy in the course of the nineteenth century. Capitalist labor relations, I submit, did not come into being until the development of the country's oil industry following the First World War. Sustained state support and the codification of property rights have their origins in the reign of Reza Shah (1921–41). Fundamental agricultural transformation through land reform only came about in the 1960s. In the early twentieth century, factory-based industry in Iran probably provided no more than 850 jobs.[3] As late as 1940, only 28 out of a total of 382 factories employed more than 500 workers.[4] Until the advent of the Pahlavis, what existed by way of economic development amounted to "primitive accumulation" in Marx's words, necessary for the formation of capitalism but in and of itself not tantamount to it.

[1] For various new interpretations, with a focus on the American experience, see "Interchange: The History of Capitalism," *Journal of American History* 101, no. 2 (2014): 503–36. The arguments made in this essay are more fully developed in Rudi Matthee, "Iranian Capitalism: Exceptionalism and Delayed Development," in *Capitalisms: Towards a Global History*, ed. Kaveh Yazdani and Dilip M. Menon, 349–80 (Delhi: Oxford University Press, 2020).

[2] David Washbrook, "The Cambridge History of Capitalism: India," in *Capitalisms*, 129.

[3] Willem Floor, *Labor and Industry in Iran, 1850–1941* (Washington, DC: Mage, 2009), 22.

[4] S. Djalal Madani, *Iranische Politik und Drittes Reich* [Iranian policies and the Third Reich] (Frankfurt: Peter Lang, 1986), 14.

A better case can be made for early modern Iran as a country of flourishing commercial capitalism, a term originally introduced to denote the innovative commercial operations of late-medieval Italian city–states; the early modern merchant-dominated, internationally oriented economy of the Low Countries; and antebellum America with its powerful traders, shippers, and bankers.

Safavid Iran (1501–1722) especially may be said to conform to this model. Its highly developed commercial life was market driven, fiercely competitive, and largely credit based. The most successful merchants were the indigenous Armenians, the New Julfans, who were organized in family firms and whose agents operated across Eurasia, from Amsterdam to Thailand. They used sophisticated techniques, including risk-sharing commercial partnerships and letters of credit, to transfer goods and capital over long distances. Locally grounded, able to respond quickly to the vagaries of the market, and benefiting from low overhead costs, they were serious rivals of their main competitors, the Dutch and English East India companies. The *tojjar*, domestically active wholesale merchants, the majority of whom were Muslims, were practitioners of a noble and respected profession. A mutually dependent and beneficial relationship existed between the prominent merchantry and the state, at least under Shah ʿAbbas I (r. 1587–1629), who famously expanded commercial facilities, exploring new trade routes and markets for his country's silk exports, building numerous caravansaries, and providing unprecedented road security.

Many of these features survived the turmoil of the eighteenth century and appear in the Qajar period (1790s–1920s) as well. Iran's merchantry continued to be dynamic and resourceful. Literate, highly respected, and well-connected to the political class, merchants were a formidable interest group—as they would demonstrate during the Constitutional Revolution of 1905–11. Possessed of a high degree of shared identity, they pooled resources when needed, forming commercial companies to stave off foreign competition.

But for merchant capitalism to have any meaning—beyond a desire to demonstrate that capitalism did not just originate in Europe but has orthogenetic roots in non-Western societies—it must amount to more than vibrant commercial activity, the rational pursuit of profit, or even capital investment and occasional state support. It requires the transformative potential that comes with infrastructural facilities enabling easy transportation, a solid legal foundation providing security and predictability, and merchants as a status group playing a key role in society, in sustained collaboration with the state and its institutions.

Three major obstacles stood in the way of such transformative change in Iran. One was the country's physical environment. Much of Iran's arid interior had little agricultural potential; the plateau was markedly low on timber; and mineral deposits were hard to access and exploit. A high percentage of the small and dispersed population was nomad-pastoralist. The country had almost no navigable rivers. Iran also was virtually landlocked, tenuously connected to the coast and so to the wider world. The Persian Gulf was climatologically ill-suited to large-scale settlement and the development of vibrant port cities—the incubators of capitalism in many other countries. All this complicated the conveyance of goods and made for high transportation costs, impeding the creation of a unified national market. It also slowed Iran's integration into the world economy.

Geography is not destiny. At least as important a factor was a (court) culture, which was open to doubt and disputation but continued to value metaphysical speculation over "useful" knowledge and its practical application. Early modern European culture, although obviously not free from religious and even obscurantist beliefs, increasingly embraced empiricism, validated manual labor, and was attentive to the applied sciences. This is what gave rise to the modern idea of the economy as a separate, secular field of inquiry and action, in pursuit of growth and development.[5] Iran's literati and scientists produced great works of philosophy, mathematics, medicine, astronomy, and astrology, but paid little heed to

[5] For the economy as a separate field, see Joel Mokyr, *A Culture of Growth: The Origins of the Modern Economy* (Princeton, NJ: Princeton University Press, 2017).

applicability—exceptions being weaponry, which elicited real interest; astrology, which guided the shah's behavior; and astronomy, which helped determine the times of prayer and fasting.

The final factor was a relationship between merchants and the state that, although close, was marked by separate interests and mutual distrust. For all their prominence, Safavid and Qajar merchants did not operate at the center of political decision-making.[6] The New Julfans enjoyed religious freedom and commercial privileges, but they remained a non-Muslim service gentry, unable to count on sustained government support and vulnerable to changes in the political leadership. Shah ʿAbbas's forward-looking commercial policy indeed withered under his successors. The final decades of Safavid rule saw growing pressure on non-Muslims in the form of increasingly onerous taxation and the application of discriminatory measures involving clothing and limits on their movement, which caused many Armenians to decamp to Russia and Italy, taking their considerable wealth with them. The turmoil that followed the fall of the Safavid state in 1722 climaxed with the extortionate rule of Nader Shah, spelling the end to New Julfa's commercial vibrancy. In the process the links with especially the Ottoman Empire were disrupted and Iran became disconnected from the wider world for up to a century.

A measure of stability returned under the Qajars. Yet throughout the nineteenth century Iran largely remained a subsistence economy which, plagued by a perennial shortage of current coin, operated in part on barter. Those who worked the land did not ordinarily own it; rural banditry was rife; and the country suffered recurrent epidemics and famine exacerbated by hoarding, corruption, and mismanagement. In these circumstances it is not surprising that New Julfa never regained its former luster, and that, for all their political clout, merchants in the Qajar period remained undercapitalized and confronted by a state intrusive in terms of extraction yet uninvolved regarding protection. Like the Safavids before them, the Qajars habitually seized property and assets, encouraging those with money to hide their wealth. Government offices were farmed out and offered for sale to the highest bidder into the twentieth century. Labor was hardly free; most peasants were sharecroppers, effectively tied to the soil, and although the late nineteenth century saw a movement toward the cultivation of cash crops, formal serfdom continued to exist in remote parts of the country.[7] Contracts were faith- or kinship-based and hard to enforce in an opaque judicial system riddled with corruption. Property rights issues often led to endless litigation.[8] To the extent that Qajar merchants wielded political power, they (correctly) tended to see change, especially change coming from abroad, as inimical to their interests. Qajar society underwent many changes, but its underlying structure remained thoroughly traditional and premodern.

Not all was bleak, though. Qajar Iran was not without private commercial initiative that carried with it transformative potential. The best example of such activity was the commercialization of agriculture, with tobacco, cotton, and especially opium turning into cash crops for export in the mid- to late-nineteenth century. Cotton found a ready market in Russia, and Iranian merchants dealing in opium managed to evade British tolls and tariffs in South and Southeast Asia in their attempts to supply the Chinese market. This type of commercial life functioned quite well within the prevailing premodern system, although much of it eluded foreign observers, who tended to point out what prevented the emergence of a modern economy: a lack of capital, expertise, and innovative thinking.[9] They also mistook

[6] See Rudi Matthee, "Merchants in Safavid Iran: Participants and Perceptions," *Journal of Early Modern History* 4, no. 3–4 (2000): 233–68.

[7] Willem Floor, *Agriculture in Qajar Iran* (Washington, DC: Mage, 2003), 89–91, 111.

[8] Hadi Enayat, *Law, State, and Society in Modern Iran: Constitutionalism, Autocracy, and Legal Reform, 1906–1941* (New York: Palgrave Macmillan, 2017), 36–37, 127–29.

[9] For a summary of these reasons, see Ernst Otto F. H. Blau, *Commercielle Zustände Persiens: Erfahrungen einer Reise im Sommer 1857* [Commercial conditions in Persia: experiences of a journey in summer 1857] (Berlin: Königliche geheime Oberhofbuchdruckerei, 1858), 99–101; and James Greenfield, *Die Verfassung des persischen Staates* [The constitution of the Persian state] (Berlin: Verlag von Franz Vahlen, 1904), 307–8.

the soundness of much of the resistance to new ideas and methods among stakeholders in the traditional system for stubborn ignorance and subterfuge.[10]

The nineteenth century periodically also saw state-sponsored modernizing efforts, including attempts to set up industries—initiated by Crown Prince ʻAbbas Mirza and grand viziers Mirza Taqi Khan Farahani (Amir Kabir) and Moshir al-Dowleh. But they were episodic, poorly planned and, in the face of opposition by various interest groups and in the absence of sustained royal support, desultory. In keeping with prevailing economic thought, the goal also was self-sufficiency, mainly in textiles. Autarky through import substitution might have worked if it had been part of a more comprehensive economic policy going beyond defensiveness. Among other things, such a policy would have necessitated credit facilities available beyond kin and faith. A modern (national) bank, long scuttled by Naser al-Din's unwillingness to guarantee deposits against arbitrary seizure, only came into being in the late 1880s, and long proved no match for the traditional personalized money-changing *sarraf* system. The result was much hoarding and little long-term investment. These endeavors failed to generate long-term growth beyond the accumulation of private wealth for reasons ranging from a lack of quality control to high transportation costs, inadequate financial and infrastructural state support, and foreign competition.

External factors in the form of foreign competition cannot be ignored as an impediment to the development of an indigenous manufacturing industry in Iran. Iranian merchants were no match for their Russian and British peers, who gained toll and tax advantages over them following the unequal trade agreements that their governments imposed on Iran in 1828 and 1841, respectively. Russian and British manufactured goods soon flooded Iran's markets, putting domestic craft production out of business. Yet it is unwarranted to blame foreign intrusion, not just for obstructing Iran's capitalist development, but for being the sole cause of the tardiness. External meddling was undeniably present and consequential in Iran throughout the nineteenth century. Yet it is not at all clear how foreign interference stymied capitalism as such, much less how it *caused* the country's "underdevelopment."[11] Iran's poppy fields did not turn into "ghost acres" at the hands of London capitalists, as had happened, a century earlier, in Caribbean colonies with sugar plantations. Iran in fact was hardly a hot investment market. Foreign capitalists saw it as a high-risk country, and no Saint-Simonians and Benthamites warmed to it. And just as the operation of the Dutch and English maritime companies had generated business for local economies in the late Safavid period—Kerman's goats' wool market is a prime example—so foreign entrepreneurial activity in Qajar times created not just obstacles but also opportunities for Iranians, if only because it helped connect their country to the wider world. A case in point is the much-needed infrastructural improvement that took place under foreign supervision. The telegraph was introduced under British auspices in the 1850s; Austrian advisers led the first road construction a decade later. Such projects primarily benefited foreign entrepreneurs, to be sure, but there is no reason why they should not have given a boost to Iranian-led and Iranian-owned enterprises as well.

Beginning in the early 1850s, Iran saw some industrial development, with the creation of factories producing porcelain, sugar, glass, and paper. They all fizzled, however, for reasons having to do with the issues outlined above. Ultimately, textiles, bolstered by foreign capital, heralded factory-based capitalist development. In the 1870s, Soltanabad, modern Arak, became the epicenter of a German-led weaving industry producing carpets for export, set up in response to a growing European demand for handmade carpets. This process was

[10] See Manfred Schneider, *Beiträge zur Wirtschafsstruktur und Wirtschaftsentwicklung Persiens, 1850–1900* [Contributions to the economic structure and economic development of Persia, 1850–1900] (Stuttgart: Franz Steiner, 1990), 346–49.

[11] Shahbaz Shahnavaz, *Britain and the Opening Up of South-East Persia, 1880–1915: A Study in Imperialism and Economic Dependence* (Abingdon, UK: Routledge, 2005); Hooshang Amirahmadi, *The Political Economy of Iran under the Qajars: Society, Politics, Economics and Foreign Relations, 1796–1926* (London: I. B. Tauris, 2012).

an important step in the transition from putting-out craft production to industrial development through mechanized manufacturing and wage labor. Yet systemic, sustained, and self-reinforcing (industrial) capitalism had to wait for the dramatic changes wrought by the discovery of oil and the creation of an (exploitative) industry around it in combination with the type of logistical state support and legal codification that only the Pahlavi regime would provide.

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