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NIE 46 - CURRENT OUTLOOK IN IRAN

1. The current situation in Iran is dominated by political rather than economic factors. The Majlis elections, which began in Tehran and the northern provinces on December 18, are a decisive factor. The present expectation is that the 17th Majlis, which will succeed the present Chamber at the expiration of its term of office on February 19, 1952, will contain a large National Front majority and a small communist (Tudeh) minority. The major unknown factor in any forecast is Mosadeq's future. Our present estimate, subject to his death, is that he will remain as Prime Minister until the convocation of the next Majlis and will continue to be the dominant political figure after that period whether in or out of office.

2. Economic conditions in Iran, since the withdrawal of the AIOC, have undergone no fundamental change. Wholesale and retail prices have remained relatively stable, supplies of essential consumer goods are apparently ample, and government employees, the armed forces, and the unemployed oil workers have been paid more or less on schedule. Holdings and current earnings of foreign exchange are adequate to sustain satisfactory levels of consumer goods imports for an indefinite period. Within six to eight weeks, however, the government will be faced with the necessity for undertaking some new or unorthodox fiscal operation in order to cover its budgetary deficit, or, alternatively, to seek emergency foreign assistance.

State Dept. review completed

Review of this document by CIA has determined that

CIA has no objection to declass

It contains information of CIA

Interest that must remain

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Authority: HR 70-2

It contains nothing of CIA interest

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3. There is no economic reason why the Iranian Government should not be able to deal with its budgetary problem by domestic measures such as further diversions of the country's monetary reserves, a national loan, or much more effective tax collections.

Such measures will require a degree of governmental will and courage and this in turn probably will depend on the support that can be expected from the new Majlis. If the government proves unable or unwilling to take the necessary fiscal steps, and in the absence of emergency foreign aid, its inability to meet governmental payrolls could, in the short run, produce serious unrest in the army and bureaucracy and among the unemployed oil workers. The possibility of an insurrectionary situation developing out of these circumstances cannot be discounted. The eventual outcome of such an insurrectionary situation is not foreseeable although it could be expected that both the Tudeh Party and the right-wing elements opposing the National Front would attempt to gain power out of it.

4. In connection with the possibility of emergency foreign aid, it should be noted that there is doubt as to the willingness of Mosadeq to accept US economic aid except as such aid was offered virtually without any accompanying terms. In this attitude, Mosadeq reflects the dominant Iranian determination to do without foreign aid from any sources if such aid is accompanied by what the Iranians consider a threat to the independence and complete sovereignty of Iran.

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5. There is no likelihood now of a successful move by Mosadeq's conservative opposition to replace him. Should the Shah attempt to remove him at the present time, his action would probably result in widespread civil disturbances with the possible defection of a significant part of the security forces. It is possible that the Shah might be assassinated. Should Mosadeq die or be assassinated, it is probable that the Shah could name an interim Prime Minister, possibly Hoseyn Ala, and might declare martial law. But it is doubtful whether he could or would dissolve the Majlis or cancel elections, unless communist control appears certain.

6. No oil agreement is in sight. It is unlikely that Mosadeq will accept the conditions which the British Government and foreign oil companies insist upon if they are to resume the purchase of Iranian oil. If that is the case, it is likely that Mosadeq will insist upon selling to any purchaser who will provide transportation.

7. Although the Tudeh Party does not now appear to be capable of seizing power, it might acquire that ability in the course of national disturbances such as those mentioned in paragraphs 3 and 5. It is probable, moreover, that the current elections will return a significant minority of Tudeh sympathizers to the Majlis. Over the course of the next six to twelve months, in any event, the government's ability to check the growth of Tudeh strength will depend on its holding the loyalty of the

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security forces, maintaining at least the present measure of economic stability, and sustaining the crusading nationalist spirit directed against all foreign interests that has marked Iran in recent years.