Foundation for Iranian Studies

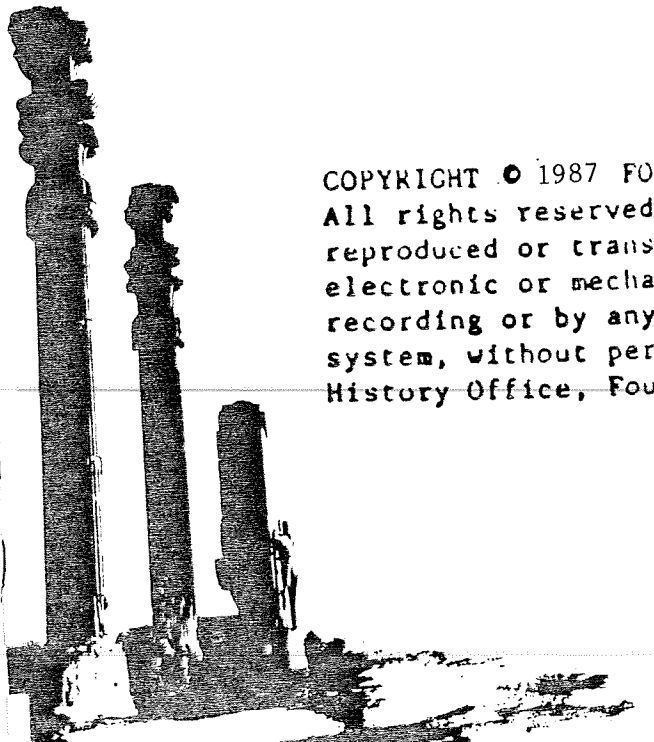
Program of Oral History

THEODORE L. ELIOT

INTERVIEWEE: THEODORE L. ELIOT

INTERVIEWER: WILLIAM BURR

JULY 29 & 30, 1986, SAN FRANSISCO, CA.



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The Reminiscences of

Theodore L. Eliot

Oral History Research Office

Colombia University

1987

Form H

Dear Dr. Grele:

This letter will confirm my understanding and agreement with the Foundation for Iranian Studies Oral History of Iran Archives and Columbia University with respect to my participation in a series of interviews conducted by the Columbia University Oral History Research Office.

1. The interviews will be taped and a transcript made of the tapes. The transcribed interviews will be maintained by the Oral History of Iran Archives and the Columbia Oral History Research Office.

2. I hereby grant, assign and transfer to the Oral History of Iran Archives all right, title and interest in the interviews, including the literary rights and the copyright, except that I shall retain the right to copy, use and publish the Work in part or in full until the earlier of my death or N/A 19 .

3. The interviews will be made available for use by researchers at both institutions in accordance with Foundation and University rules and general policies for research and other scholarly purposes with (no) (~~the following~~) restrictions.

Mahnaz Afkhami

Dr. Mahnaz Afkhami
Foundation for Iranian Stuies

Very truly yours,

Ronald J. Grele

Ronald Grele
Oral History Research Office

Director & Editor

Date May 14, 1985

Preface

The following oral history memoir is the result of two tape-recorded interview sessions with Theodore L. Eliot on July 29, 1986 and July 30, 1986. The interview sessions took place in San Francisco, California and were conducted by William Burr.

This interview is one of a series on Iranian-American Foreign Policy in The Post World War II era conducted as part of a joint project between the Oral History of Iran Archives of the Foundation of Iranian Studies and the Columbia University Oral History Research Office. Similar projects have been undertaken in England and France.

Mr. Eliot has reviewed the transcript and made only minor corrections and emmendations. The reader should bear in mind that he, or she, is reading a verbatim transcript of what is essentially spoken, rather than written, prose.

BIOGRAPHICAL NOTE

Theodore L. Eliot joined the Foreign Service in 1949. In 1958 he left the State Department for the Treasury, where he worked with Undersecretary Dillon and was first introduced to Iran. At the Treasury and later as the finance officer at the U.S. Embassy in Tehran, he gained great expertise on the Iranian economy. Mr. Eliot's interactions with U.S. as well as Iranian officials shed much light on economic as well as political policy-making in Tehran as well as in Washington. In 1962 Mr. Eliot became the Country Director for Iran at the State Department, a job which he retained until his Ambassadorship to Afghanistan in 1970. Upon his return from Kabul Mr. Eliot served as the Inspector of the State Department for a brief period prior to becoming the Dean of the Fletcher School of Law and Diplomacy. In 1979 he was selected as the American emissary to meet with Ayatollah Khomeini in Paris. Mr. Eliot is currently the Head of the Asia Foundation.

CORRECTIONS

P.7 Abol Hassan should be Abol Hasan

P.8 Manouchehr Goodarzi should be Manuchehr Gudarzi

P.8 line 5 from bottom national front should be National Front

P.10 Assadolah Alam should be Asadollah Alam

P.10 Hoveida should be Hoveyda

P.10 [Hassun] should be [Hasan]

P.10 Savak should be SAVAK

P.18 Behnia should be Behniya

P.21 Samii should be Sami'i

P.22 Toufanian should be Tufaniyan

P.22 line 3 Sammi should be Sami'i

P.22 line 7 from bottom Samii should be Sami'i

bottom line Samii should be Sami'i

P.24 Mossadeg should be Mossadeq

P.24 line 5 from bottom natioanl front should be National Front

P.25 Isfahan should be Esfahan

P.27 Abol Hassan should be Abol Hasan

P.31 Majlis should be Majles

P.31 Samii should be Sami'i

P.31 Purhomayoun should be Purhomayun

P.32 Samii should be Sami'i

P.33 Samii should be Sami'i

P.33 Ghasem Kheradju should be Qasem Kheradju

P.33 Fereidun should be Fereydun

P.42 Khaibar Khan should be Khaybar Khan

P.55 Houshang Ansari should be Hushang Ansari

P.55 Khosrovani should be Khosravani

P.66 Hoveida should be Hoveyda

P.67 Hoveida should be Hoveyda

P.67 Houshang Ansari should be Hushang Ansari

P.67 Hoveida should be Hoveyda

P.71 Houshang Ansari should be Hushang Ansari

P.75 Weltangschaung should be Weltanschauung

P.81 Mashad should be Mashhad

P.82 Daud should be Dawud

OB

Interviewee: Theodore L. Eliot

Interviewer: William Burr

Date: July 29, 1986

Place: San Francisco

Q: The following interview with Theodore L. Eliot by William Burr took place in San Francisco, California, on July 29th, 1986. The interview is part of a series sponsored by the Columbia University Oral History Research Office, and the Foundation for Iranian Studies.

Mr. Eliot, can you tell us some background--where you were born and raised?

Eliot: Born in New York City, raised mostly in Boston although I actually graduated from secondary school in Washington D.C. during World War II.

Q: What is your general educational background?

Eliot: I got my undergraduate degree from Harvard, class of 1948, where I majored primarily in what Harvard calls "government" and other schools call "political science," but I had a very strong dose of history as well. And then, while I was in the Foreign Service, I was sent back to Harvard in 1955-56, where I actually got a masters degree in public administration, but in fact it was structured in such a way that what I was doing at Harvard was Soviet studies.

Q: How did you come to join the Foreign Service?

Eliot: I come from a family that has always been very public service oriented, and I guess it was in my head during all my upbringing to consider a public service career. I came out after college to San Francisco, which had become my parents' home in 1946. They moved from Boston to Washington during the war, and then out here after the war, and I worked briefly for the Standard Oil Company of California, which was a major holder in ARAMCO. But when I could not persuade Standard Oil to send me into ARAMCO and hence overseas to Arabia, a recruiter came through town for the United States Foreign Service and I applied to become a clerk in the Foreign Service and was accepted in the spring of 1949. When I got to Washington to join up, a personnel officer said, "Look, you've got a Harvard degree. Why won't you take the Foreign Service Officer Examination?" And I'd never heard of it. So at that point, I took the exam, and passed it. In due course--I think it was in 1951--I was appointed a Foreign Service officer.

Q: What was your first diplomatic assignment?

Eliot: My first post was to our embassy in what was then called Ceylon, now Sri Lanka, where I spent a year as the embassy's administrative officer and then a year as the first political officer the embassy had ever had.

Q: And after that you went to--

Eliot: Then I went to Germany, and I ran what was known as an

Amerika House, a U.S. cultural center, in Southern Germany, in Tübingen. And after a couple of years at that I applied for Soviet specialization, and that's when I was sent to Harvard, and then the Middlebury Language School. Then in the fall of 1956 I went to Moscow for two years.

Q: You left in 1958?

Eliot: I left Moscow in 1958; came back to work for a year in the Office of Eastern European Affairs, and then was taken on the staff of Undersecretary of State Douglas Dillon. Then when the Kennedy administration came in, in 1961, he was appointed Secretary of the Treasury, and I moved to the Treasury with him. I was there until the summer of 1962, at which point I had to decide whether I wanted to leave the Foreign Service. So I went to the Personnel Division and said, "If I were to come back, what job would you have in mind for me?" And being the Foreign Service they said, "Oh, gee--You've been in the Treasury. You must know something about finance. We've got this opening in Tehran as financial officer in the Economic Section of the embassy. And I thought about it a little while. I went to Douglas Dillon, and I said, "You know, the only training I've had in international finance is working with you the last three years." To which he replied: "That shouldn't bother you, it's mostly politics anyway." I accepted the position.

Q: Before we get to the Tehran post, when you were Dillon's assistant at the State Department in late 1950s, what were your

general duties?

Eliot: Well, I was what the British would call a "private secretary." I ran his immediate office, and made sure that the paper flow was smooth, that the actions he wanted carried out were carried out, and saw that his wishes were being followed within the bureaucracy. Basically, the same job I did for him at the Treasury Department.

Q: Did you run into any Iran questions when you were working at that office?

Eliot: I don't recall any Iran questions, and I certainly didn't visit Iran myself in that period, though of course he would have been involved, because as undersecretary he was in overall charge of all our foreign aid programs, military and economic. So certainly plenty of Iranian papers crossed my desk. I remember on one occasion, he went to Iran. And I don't remember whether it was when he was in State or whether he was in Treasury. And I remember what seemed to impress him the most was the Shah--he was standing drinking with the Shah and the Shah finished his drink and he held out his hand and literally let go of the glass, and there was somebody there to catch it. And that gave Mr. Dillon a view of the kind of life the Shah was used to leading.

Q: I see. [laughter] When you were at Treasury before you were at State, were there any Iran issues that might have come up at that

point in the international financial field ?

Eliot: Again, I don't remember any, but that doesn't mean it didn't happen. It's just that there were so many other things going on: tax reform legislation, and so forth and so on, that I don't remember.

Q: You worked with domestic issues as well as foreign issues.

Eliot: The Treasury, of course, is in many ways more domestically oriented than it is internationally.

Q: Now, so I guess in August 1962 you became financial officer of the embassy. Approximately August 1962?

Eliot: I actually arrived--I think I got to Iran maybe even as late as the first of October. It was in that period in 1962.

Q: What were your responsibilities as finance officer?

Eliot: Well, the embassy was structured so that we had an economic counselor, at that time a man named James Swihart, who's now deceased. And in the Economic Section there was one officer, Milner Dunn, who handled the development questions--the economic development questions--who was really the embassy's day to day liaison officer with the U.S. AID mission. Than there was a petroleum officer whose name was Ed McGinnis--both Dunn and McGinnnis are still around. Then

there was a commercial attache, named Tom Stave, who's still around, and an agricultural attache, named Tim Engebretson, both of whom are deceased. And the fifth person, not necessarily in this rank or order, but the fifth person was the finance officer.

I was responsible really for two matters, at least initially. One was to report on Iranian financial questions: the financial condition of the government and the country as a whole, and the banks, and any other financial questions that might arise. And secondly, I was the point man, the action officer for any government-to-government financial--that really meant credit--arrangements between us and the Iranians. Now I also, for whatever reason, became responsible for some other matters. I became the embassy officer who was following the Shah's land reform program that got started. So I got involved in quite a number of other items as well. But those were my principal responsibilities.

Q: Before we get to some of the issues that you might have dealt with at that point, I have some more general background questions about Iran and American policy during those years. What were your general impressions of Iran in the early 1960s, when you arrived: in terms of its political, economic, state conditions?

Eliot: Well, I was there for four years, then I was Country Director for three more, so I saw it from 1962 to 1969 pretty intensively. And this was a period of enormous economic growth. But when I first got there, Iran was in financial difficulty. They were having

trouble meeting their payment obligations, for example, on Export Import Bank Credits, and that was one of my jobs--to try and go get payments from them. Also, the P.L. 480 Credits--they were having trouble meeting their loan repayments. Their oil revenues--I don't remember the figure, you can look it up--but if I do remember it correctly, they were quite low. The Shah was having trouble amassing the funds he needed for development programs. In short, they were struggling economically. On the political side, he was in the process of falling out with that whole coterie of American, and to some extent European trained economists, who in turn had been buttressed and helped by the Ford Foundation. There was a man named Kenneth Hansen who was very much involved in that. And their real hero is a man named Abol Hassan Ebtehaj, one of the great heroes of modern Iranian history, in many ways. And this whole crowd was being removed by the Shah. And so there was considerable doubt and question as to the viability of the Shah's regime. As of the time I went, John Bowling, who was in Washington, and I guess the head of the Iranian desk--I don't remember his precise title--I remember his telling me that the Shah's regime might last only another six months! So the political and economic situations as of the time I arrived, in 1962, were very tenuous.

Q: Were they concerned about the state of the Shah's regime partly because of the economic problems, or the political opposition, or a combination of both factors?

Eliot: I think it started, if my memory serves me right, with the

economic questions, and the implication that those economic difficulties would spill over on the political side. The National Front was still around. But as one of the National Front people, Manoucher Goodarzi, told me shortly after I arrived, they weren't really the kinds of people who would take to the hills with guns. I don't think they represented a threat to the Shah's regime. As of that moment, he did not have ranged against him the coalition that he had to face in 1978, although some of the religious leaders, and some of the Bazaar leaders were not happy. In retrospect, it's clear the political situation had not reached the critical stage that Bowling was afraid it had reached.

Q: What were your impressions of the Shah's political system in these early years of the 1960s? How would you characterize his rule?

Eliot: Well, this was another one of the problems that I think concerned Washington. He was a very indecisive man. He didn't seem to have the self-confidence that many of the people in Washington would have liked to have seen in a ruler in such an important country. He had also not, I think, at that time, developed the secret police network that he developed later. So although there were people going to jail--and as one national front friend of mine said, he went to jail in an American jeep with an American gun pointed at him, because we were supplying such things to the Iranian military in that period--the repression was nowhere near as harsh, in my view, as it became later.

Q: Did you ever get any impression of the Shah personally? Did you ever meet him?

Eliot: Well, I met him several times over the years. I was, of course, relatively junior in such meetings. He struck you when you saw him personally as a man used to being obeyed, and not desiring any back talk. At the same time, he was, I think, usually very clever with Americans in figuring out what Americans wanted to hear and telling them that. And he was, hence, a very effective negotiator for his country and his regime with most Americans that he met.

Q: What was the first time you actually met him?

Eliot: I think the first time I ever saw him was--just before we arrived in 1962, or sometime that summer or spring, there was a major earthquake in an area west of Tehran, and there were a lot of volunteer workers, including my wife and other people in the embassy, who helped rebuild one of the villages out there in the plain south of Qazvin. And there was a big ceremony one day when this reconstruction project was finished. The Shah came up to the ceremony. I think that was the first time I actually shook his hand. But then over the years, particularly when I was Country Director, he must have come to Washington three or four times, and I was involved in meetings with him with the Secretary of State and what have you. And I saw him two or three times in his palace in those years in Tehran, as well.

Q: Do you have some clue as to who the Shah's major advisors were, during this period, early in the mid-1960s on.

Eliot: Well, I was not really so close to that aspect of his regime. He, of course, always had [Amir] Assadolah Alam around him, and I think Alam in many ways was his most trusted advisor. But he used people like [Manuchehr] Eqbal and of course later, after Alam, [Amir Abbas] Hoveida. He used, clearly, some of the top people in the military, and [Hassun] Pakravan with Savak, and people of that kind. But I was not--my end of the embassy was not really involved with that kind of high politics.

Q: Do you have a sense of what the importance of Iran was in Kennedy's foreign policy during this period?

Eliot: Well, I think any American President then or now recognized the geo-strategic importance of Iran, plus the importance of Iran's oil revenues. And I think Kennedy was very much aware of that, and if he wasn't, he had people around him like Averell Harriman who would remind him. The Kennedy administration, in its early period at least, was greeted by the Shah with a great deal of concern, because he felt that Kennedy, in league with the Ford Foundation mafia, as it became known, was trying to push him in the direction of reforms which would really adversely affect his power position within Iran. And I think there was some truth in this. Fairly early in the Kennedy administration, the Shah came to Washington and went away

with a very uncomfortable feeling about the Kennedy administration's attitude. And I think on the part of the people in the Kennedy administration who felt this way, who pursued this policy, there was a belief that if the Shah did not make reforms, his regime was in jeopardy, and that therefore they were going to keep the pressure on him.

Q: How was reform defined? What kind of reforms did these policy makers have in mind?

Eliot: This was one of the problems I had in that period, and I don't really recall much other than general statements of "please move in the direction of more democracy" and so forth and so on. And I felt--I can't remember now whether I felt at that time or whether this was more hindsight--but I certainly in retrospect know I feel that one of the reasons the Shah got rid of Ebtehaj and the Ford Foundation mafia, and so forth, moved them aside, was because he wanted to put himself in charge of the political process, including any reform process. And after he put them aside, he launched the White Revolution. And in a sense, this was his answer to the Kennedy administration's pressure.

Q: Before we get back further to the reform issues, you mentioned that there was a geo-strategic interest, and a petroleum interest. How was the geo-strategic interest defined in terms of Iran?

Eliot: Well, I think at that period there were really, if I remember

correctly, there were two aspects to it. One was to deny the territory to the Soviet Union, and the other was to preserve transit rights across Iran for the West. This meant, of course, aircraft, in the first instance. So, if you take Iran out of the map and give it to the Soviet Union you could see what that would do to Western communications with Asia. So that, put very simply, was the concern. There was also, as I'm sure other contributors to this history have indicated, there were very specific intelligence interests that we had in Iran vis-a-vis the Soviet Union, which were very much in the mind of policy makers in Washington.

Q: Was there actual apprehension, or did they actually think it was possible that the Russians would invade Iran or put military pressure on Iran? Was that seen as a strong possibility?

Eliot: I don't recall that anyone thought that was an imminent possibility. My recollection again is that, then as now, there was concern that an unstable Iran would create opportunities for Soviet intervention. And that's what we were trying to prevent.

Q: Before we get to some of the foreign aid questions that you were involved in, I want to ask you some questions about the embassy staff. You mentioned some of the people you worked with. ambassador Holmes, Julius Holmes was ambassador from 1961 to 1965, I think. How did he approach his job? Did you get a sense of how he approached his job as ambassador?

Eliot: Well, Julius Holmes was one of the really superb Foreign Service officers I've ever worked with. I think he had a very clear idea of the U.S. national interest in Iran. I think he had a very clear concept of how the Iranian system had operated for a long, long time with the Shah on top of the heap, and that it was his job, among other things, to help the Shah succeed in maintaining not only a stable society but one that would develop economically. Julius Holmes had a lot of problems with some of the instructions he'd get from Washington, asking him to lean on the Shah in one direction or another, because he felt that really was not productive, that the Shah was not going to make major changes in his policies that would affect his own power position just because the United States asked him to do that. And at the same time, Holmes was concerned about some of the weaknesses in the Shah's own personality, his tendency to vacillate and his difficulty in making up his mind, and so forth. And I think he tried very hard to strengthen the Shah's own determination to move ahead and to help Iran, if you will, move into the 20th century. I think Julius Holmes in many ways was the last ambassador we had in Iran who could talk man-to-man to the Shah. He was never intimidated by the Shah. And had a quite unusual relationship with him, where he could be very, very frank and open, but he was not going to use that carefully honed ability to communicate with the Shah to ask the Shah to do things he knew the Shah wouldn't do. And some of his instructions from Washington were in that category.

Q: How successful was he in countermanding those instructions, in

saying "we can't go on this". Could he prevail?

Eliot: My impression is that he prevailed very successfully, often by in effect ignoring his instructions, often by appealing directly to the Secretary of State or to the President. His particular bete noire in the White House staff was Robert Komer, and he--well, God rest his memory, but he did make some rather fun jokes about Komer to his staff there in Tehran. Komer really didn't know much about that part of the world.

Q: What were some of the differences between him and Komer?

Eliot: Again, you're going to stump me on the details. I just remember the atmosphere, which was quite electric when some of these messages would come in from Washington and Holmes would have a staff meeting and say: "I've just gotten another one that obviously came from Komer."

Q: Okay. Now besides the ambassador, who were some of the influentials at the embassy, like who was the D.C.M.?

Eliot: The D.C.M. during much of that period was Stuart Rockwell, who again was a very competent Foreign Service officer, but not a man of the same imagination as Holmes, or the same ability to deal with Washington. Stuart, later of course, became Ambassador to Morocco, and he was an excellent professional Foreign Service officer. But Holmes had an air of worldliness, sophistication, and wit and

intelligence which was matched by few Foreign Service officers I ever met. Stuart Rockwell was a good chief of staff for him in the embassy. There was then, in the early period I was there, Harry Schwartz was the political counselor. I didn't have too much to do with him. He was succeeded--must have been 1963, 1964, probably 1963--by Martin Herz, who was also a very interesting man, a superb officer, an intellect, and a man who really dug deep into Iran. He and I worked very closely together. Many of the assessments that the embassy produced on what was going on in Iran, he and I worked on jointly. I'd do the financial-economic, and he'd do the political. And he's one of the few political counselors I met at that time who really understood the importance of economics in the political situation.

Q: Is he still living?

Eliot: No, Martin Herz died two or three years ago. He ran the Institute for the Study of Diplomacy at Georgetown and got cancer. From the standpoint of this oral history, among other things, it's a great loss. He was a very keen observer of the Iranian scene.

Q: Do you recall if Col. Gratian Yatsevitch was C.I.A. station chief?

Eliot: Yes, he was there most of the time. He left while I was still there--maybe 1965 he was succeeded. He, too, had a very close relationship with the Shah, and one of the difficulties in the

administration of American policy had been that the head of the MAAG [Military Assistance Advisory Group] and the head of the C.I.A. station had their independent access to the Shah apart from the ambassador. And one of the things Holmes worked on, and I think successfully, was to make sure that all approaches to the Shah, all conversations with the Shah, were coordinated with him.

Q: Do you have a sense of what the C.I.A.'s role was in Iran in the early 1960s?

Eliot: Other than its function of gathering intelligence, including on the Soviet Union, not just Iran -- I was not really involved with them. They were not really involved in the things I was involved in.

Q: You know who replaced Yatsevitch, as the Station Chief?

Eliot: I believe it was Alan Conway.

Q: Okay. Alan Conway. I was wondering about that. I've seen him referred to, some writers talking about his replacement. I wasn't sure.

Eliot: I think he was. Again, I hasten to add, that's not my department.

Q: I read some of the things that Kermit Roosevelt wrote. He mentioned a Gen. Locke, who was on the embassy staff. Maybe he was

on the MAAG staff, I'm not sure.

Eliot: Rings no bell, no, the chief of the ARMISH-MAAG for most of that period was Jablonsky, I think I remember his name correctly.

Q: Do you recall a first name?

Eliot: Everybody called him Jabo.

Q: Jablonko?

Eliot: And I think he went on into Northrop after he left the service. The other person who is still alive who will remember the ARMISH-MAAG set up a lot better because he was the political military officer is John Armitage, who is now at the University of Virginia. And he and I had served together in Moscow. We served together in Iran. He was later political counselor at Tehran. He succeeded Herz, I believe, as political counselor.

Q: In your preparations for your assignment as finance officer, did you learn much about the policy review undertaken in August 1961--the Iran task force? Did you read about its deliberations?

Eliot: I don't recall having done that. I came on the scene just after the Amini [Ali] government had turned to Holmes and wanted a major aid grant, in effect saying: "If you want to save the Amini government, you got to give us this grant." And I came in at the

middle of that debate in Washington. I remember attending a meeting in the assistant secretary's office, Phil Talbot, where that was discussed, but I was just reading myself in at that point.

Q: So Amini was trying to get financial support,basically?

Eliot: That's my memory, but again I wasn't even there. I mean, I was literally just arriving on the scene, and I can't even remember--Jack Miklos will know this history backwards and forwards. I can't even remember how much we gave him at that point, either. This was the summer of 1962.

Q: You mentioned earlier that you worked on credit issues, government to government credits. They were being negotiated and allocated in the early 1960s. You mentioned also that the Iranians had trouble repaying, amortizing their debts, apparently. How were these things negotiated with and dealt with, in practice? Can you remember some--

Eliot: Well, I remember one incident very clearly: the finance minister was a man named Behnia. And he was really a throwback to an earlier period in Iranian history, even though I believe he was educated in France. And I went to call on him. I guess the economic counselor, James Swihart, and I went together. And it was one of these wonderful scenes that you still see in many parts of that part of the world, but later disappeared in Iran. You'd walk into the finance minister's office, and there would be twenty people already

sitting around the room, some trying to talk with him, including some mullahs with their worry beads. And here you were supposed to say: "Mr. Minister, I'm here to tell you that you're overdue in your payment of debt." Well, we did have this discussion with him, and his response was: "Well, you really didn't expect us to repay that debt anyway, did you?" And this was the sort of atmosphere into which you had to go when you tried to get them to repay. We had a similar problem with the Central Bank, on, in effect, a budget support or foreign exchange support loan that the Ex-Im bank had given the Central Bank. The Central Bankers were a little more sophisticated and realized they had to worry about Iran's credit rating. But it was still difficult to get them to repay at that point. We finally had to put the screws on, in the sense that if you want any more credits, you've got to pay back what you already owe, or at least arrange a schedule of payment.

Q: When the loans were negotiated were there escape clauses that would have allowed them to pay in foreign currency, or local currency, as opposed to dollars? How liberal were the terms?

Eliot: P.L. 480, I believe--you'd have to look at the loan agreements at this point--P.L. 480, I believe, had local currency repayment provisions, but Ex-Im Bank didn't, if I recall correctly. Now, all of this atmosphere obviously disappeared when oil revenues started going up dramatically. In fact, as time went on in the early 1960s, and oil revenues went up, we shifted more and more to credit rather than grant aid. And as you know, by--I guess the AID Mission

closed down in 1967 and the military grant program was shifting over to credit programs probably as early as 1965. I don't remember the precise dates. And it's because we were moving in that direction in both the economic and military field that my job became more and more important. It became a key part. I didn't plan it this way, it was one of these accidents that happens to you. My job became a critical job in the embassy, because so much of our relations with Iran were on the financial side at that point. And hence it was logical in 1966, when the Johnson administration set up the Country Director system in Washington, that I became the first Country Director in Washington for Iran. And so, the whole credit relationship with Iran became of fundamental importance.

Q: But in the early 1960s, most aid was in the form of grants?

Eliot: Most of it was in the form of grants, and the man at the Economic Section who was a liaison with AID was at least as busy as I was in that period. I was worrying about the financial condition of the country: whether they could repay their loans, whether they could balance their budget, whether they had enough money in their budget to put into their development program, and questions of that kind. But he was actually really worrying about the substance of the AID program.

Q: When loans were extended by the Ex-Im Bank, where there ever policy issues that were attached to the loan? Did they have to make certain reforms as a condition of getting aid? Or was that more done

with grants? Tying fiscal and other kinds of reforms to it?

Eliot: No, the Ex-Im Bank was pretty much a straight, commercial operation. We occasionally--with the Plan Organization, which was responsible for negotiating most of those Ex-Im Bank loans, or with the American manufacturers, whose exports were being supported through those loans--we'd occasionally have some issues having to do with the language of loan agreements and what have you. But before the issue--the best way to put it is: the issue of resource allocation came into play very much when we got into the military credit field. And I can address that now or later, as you desire.

Q: I was going to ask you that, actually. How early were military credits being offered by the U.S. government?

Eliot: Again, you'd have to check the published record or somebody else's memory. But certainly before I left Iran in the late Spring of 1966 we had moved into the military credit field. And the military relationship up to that point had really been handled--of course the ambassador was involved but it was the ARMISH MAAG and the Iranian military. And suddenly, when we shifted to credits, the embassy Economic Section in the person of myself had to get involved. And I'll never forget the first sort of policy meeting on these military credits. One of my close Iranian friends, then and now, was Mehdi Samii, who was then Governor of the Central Bank. And Henry Kuss was the principal negotiator in the Pentagon for military sales credits. And he came with a delegation, and he had a meeting--I

believe, General Toufanian and various other Iranian military people were involved. And we walked into a big room in the Iranian Ministry of Defense. And I'll never forget the look on Mehdi Sammi's face when he saw me walk in the room. This was the first time he realized that the civilian side of the Embassy was going to be involved in this kind of military arrangement. And one of the reasons I was involved, maybe the principal reason, was that we insisted from the outset that the Iranians would have to do an annual review of their resource allocation between development and military before we would decide on the amount of military credits we would be willing to give. And through this process, we hoped we would focus the Shah on the question as to whether his military appetite wasn't hurting his development program. Because it was still very much part of the American policy towards Iran that the long-term stability of Iran would depend on economic and social development. And we felt that the Shah's military appetite often was larger that it needed to be, and we were looking for ways to force him to look at his resource allocation problem, and we thought that this annual review would provide such a way. I think in some sense it had that effect. I wouldn't want to exaggerate its effect, but it certainly gave people like Samii and the head of the Plan Organization and so forth and other people on the economic side of the Iranian government, for the first time, some input into the decision process, as to how much money would be spent on the military. Given the Shah's reliance on the military for his own power position, I don't want to exaggerate the influence that these people had. But we did, I think, give them some input. I've talked to people like Samii about it subsequently,

and he, I think, tends to "pooh, pooh" how much influence this process gave him. I think he regarded it more as a funny paper exercise the Americans forced him to go through. But my own impression was--very marginally, it helped. It certainly--this is a cynical comment--it certainly eased a lot of American consciences.

Q: I have a question on this review process. It lasted from about 1962 through the late 1960s, early 1970s?

Eliot: Well, it didn't really start until the credit program began, so it didn't start until whenever that was, 1964, 1965, somewhere in that period. I think it really lasted till the Nixon administration, whenever that more or less blank check that the Nixon administration gave the Shah as far as military purchases were concerned. But by that time we lost control of the action, anyway. The Shah had so much money, he could always say: "If you won't sell me such and such a piece of military equipment, I'll get it from someplace else," and we knew he had the money to get it.

Q: What was the role of the ARMISH-MAAG in working out this annual review policy?

Eliot: Well, we worked very closely with them. The political military officer of the embassy, Jack Armitage--I can't remember now who in the ARMISH-MAAG was working on this with us--and myself formed an embassy team, working obviously with the political counselor, the economic counselor, and the D.C.M. and the ambassador. We

coordinated our end of it very well, I think.

Q: I guess during 1963 you became First Secretary of the embassy? Is that so?

Eliot: Well, I can't remember what rank I was when--I held the same job the whole time I was there. I may have been promoted while I was there. It would depend on your Foreign Service rank. I can't remember when I went from Second Secretary to First Secretary. But it didn't make any difference in terms of the job I had.

Q: Functionally, no. Okay. I was not sure about that. Well, you mentioned earlier some of the concerns that policy makers and officials had about the stability of the Shah's regime in the early 1960s. Now, was it part of embassy policy generally to make contacts, or have contacts, formal or informal, with some of the opposition people, National Front and otherwise?

Eliot: Well, that ebbed and flowed a little bit over time. In the early 1960s, when I first got there, the memory of most of the Mossadeg period was still fairly recent, certainly in the mind of the Shah. And the younger Western trained intellectuals in the National Front, such as it was--it really wasn't an organized national front, in my opinion, at least in that period--these younger Western educated people tended to feel in many cases that one of their problems was the United States. So it wasn't easy to get to know them, and on the other hand, there was always a concern in the

embassy that there might be some problems if we consorted too openly ourselves with the opposition to the Shah. I was very fortunate personally, because one of the people I got to know well in the embassy was a fellow named Bill Miller, William G. Miller, who was a young political officer. He had served as Vice-Consul in Isfahan and he knew a lot of these people. And Bill and his wife, and my wife and myself, hit it off well together, and Bill began to introduce me to some of these contacts of his. And then when he left the embassy, and I can't remember now--this was 1964 or thereabouts--on another assignment, he in effect willed these contacts to me. And I kept them going, and in fact when Armin Meyer succeeded Julius Holmes in 1965, I remember saying to him that I knew some of these people very well, and I thought he should meet them. And I remember arranging a meeting at the embassy residence, where he met three or four of these people and had a good conversation. Now to jump historically a little bit, the Shah in due course co-opted most of these people. Many of them ended up in high positions in the government. Some were not co-optable. Some of them refused ever to work with the Shah. But the Shah, I think, was very clever in giving these people an incentive to work for him.

[end of side one of tape; beginning of side two]

Q: I read somewhere that William Miller got into trouble--he helped a group draft a constitution-- helped an opposition group draft a constitution? And the Shah heard about it or something like that? Was that so?

Eliot: Well, I don't--he had a little bit of trouble with ambassador Holmes and Stuart Rockwell, because I think they felt he was a little freewheeling with some of these opposition people he knew. And I also thought, and Bill Miller knew I thought that he was sometimes too willing to listen to them and tended to loose sight of some of the positive aspects, from the standpoint of the United States, of the Shah's regime. But he didn't get into any serious trouble I'm aware of in that period. Later on he was involved with the Peace Corps, and came to Iran in that capacity. And at that point he did fall afoul of--I think maybe ambassador Meyer was still there. And he was, as I recall it, asked to leave the country, and so forth and so on. But in the 1960s I don't think he got into trouble of that kind.

Q: I remember that under Meyer something happened, apparently.

Eliot: Yes. I only have a vague memory of that now.

Q: It's been alleged--I've read this in a couple of places--that the C.I.A. phased out its contacts with opposition figures--phased out its network of agents in the 1960s, later, in exchange for the right to have stations to monitor Soviet missile tests and so forth. Did you ever hear of anything like that?

Eliot: I'm not aware of any such agreement. No, I have no knowledge of that at all.

Q: I've also gotten the impression that during the course of the 1960s, or maybe the early 1970s, the C.I.A. and the embassy became more and more depended on the SAVAK for its information about internal political conditions and social conditions. Was that a phenomena that you found in the 1960s?

Eliot: Well, God help us if we were dependent on the SAVAK, because SAVAK's--certainly, I think--well, it was so much a creature of the Shah that it didn't want ever to produce any bad news for him, so it didn't produce any bad news for anybody. In the period I know of--1962 to 1969--I think we had pretty good knowledge of what was going on in Iran. But you also have to remember that in that period, things were going wonderfully in Iran. These opposition people, many of them had been co-opted into the government; many of the senior people in the government were Western educated, progressive types; the Shah's reform programs were moving along; the land reform program was going great guns. Sure, there were people on the outside who were--I used to go and see Abol Hassan Ebtehaj regularly because I felt he helped me keep in balance. He'd tell me all the awful things the Shah was doing, and through those meetings I felt I kept myself in perspective. But it was hard to deny in the 1960s that the Shah was doing extremely well, and that our interests were being very well served.

Q: Okay. Now towards the end of 1962, the Shah announced the six-point White Revolution program. I guess in early 1963 he had a national plebiscite on the six-point program. How did embassy

officials evaluate this effort, this reform program?

Eliot: Well, the part of it that I had most to do with was the land reform program. And we had, all of us, I think, steeped ourselves in some of Ann Lambton's writings, and Wolf Ladejinsky's writings, and so forth, on land reform. And I think we were well aware of the pitfalls that you can get into if you give peasants land, and yet don't supply the financial wherewithals, seeds, and all the other things that peasants need to make land reform a success. We spent a lot of time--I spent a lot of time going out around the boonies in Iran, just dropping in on villages and seeing how things were going. And it was a mixed bag. Politically, I think in those years it had a positive effect in terms of popular support of the regime. Now later on when some of the problems of land reform or some of the diversions from the original principles were adopted--then it was a different story. [telephone interruption]

Now there were other aspects of the reform program which also I recall something about. One was the Literacy Corps, where young urban people--sort of modeled after our Peace Corps--were sent out into the boonies to teach people how to read and write. Herz and others raised the question as to whether sending a bunch of city kids out into the rural areas wouldn't cause more trouble than it would solve problems. So I think we had a realistic view of some of the difficulties that the reform program would give rise to, but at the same time I think we felt that from a political standpoint, that is to say from the standpoint of the longer-run stability of Iran, these

were positive developments.

Q: I got the impression that in early 1963, during the spring of 1963, some officials in Washington--apparently including Robert Komer and Kenneth Hansen--were sort of questioning whether the pace of reform was fast enough. Whether the embassy in Tehran was putting enough pressure on the Shah to execute his programs; whether the U.S. should intervene so the Shah would take a stronger approach on reform. They accused the embassy of taking a passive approach to the question of reform. Did you get a sense of this debate? [telephone interruption]

Eliot: Well, this goes back to something we were talking about before: the Holmes versus the Komer and Hansen argument. Holmes, I think, felt the same way about Hansen as he did about Komer, maybe even a little more so, because Hansen really tried to preach to the Shah. One of the interesting documents that I hope lies around the files somewhere still is Hansen's farewell interview with the Shah. And it's a very revealing document as I remember it, in terms of Hansen trying to tell the Shah how to run the country. Now Holmes just wouldn't operate that way. We weren't the imperial power running Iran. You had to handle the Shah in a way that you would persuade him that such and such a policy would be in <u>his</u> interest, not preach to him. So there was a fundamental difference there on how you dealt with the Shah. And I would add to that--this may be hindsight--that Iran was in those days--obviously still is--a very traditional society. And you don't move traditional societies

quickly. In fact, in retrospect, it's clear that one of the reasons the Shah got into trouble was he tried to move Iran too quickly. So I agreed with Holmes then and would agree with him in retrospect, that you had to have a gradualist reform program. You couldn't change a society like that overnight.

Q: In terms of the land reform program, was there any debate on whether to influence the pace of the reform program, the allocation of land among small peasants, and so forth?

Eliot: I don't recall our getting involved in the pace of the reform. I think, if I do remember correctly, some of us were amazed that it was moving ahead as rapidly as it was, and seemingly as successfully as it was. We were aware that there were some circles in Iran--obviously landlords, and mullahs who were landowners, and so on and so on--the conservative landed elite of Iran, that were having real problems with this reform. And there was some concern that if the Shah moved too quickly, he would stir up that kind of opposition. And in fact, I think the riots, uprising--whatever you want to call it--was it June 1963?

Q: Yes, it was.

Eliot: --had some relationship to land reform. I think this was one of those alliances of mullahs and bazaar merchants and to some extent the landed class of Iran against reform--an alliance which had been seen earlier in Iranian history, and of course was seen again with a

vengeance in the 1970s.

Q: In April 1963, during a tour of Asian capitals, Secretary of State Rusk stopped in Tehran. Did he make frequent stops? Where they every--

Eliot: I remember Rusk being there two or three times while I was there. But I don't remember myself having much to do with those visits. I saw a lot more of Rusk when I was Country Director, when I was involved in the Washington end of our Iranian policy. But again, you have to recall I was number three or something in the economic section, and fairly far down the line in this period.

Q: You mentioned a minute ago June 1963 demonstrations and riots in the major cities against the Shah, against the Shah's program. How did embassy officials interpret this development?

Eliot: Well, one of the aspects of this, of course, had to do with our status of forces agreement with Iran, and how that was handled in the Majilis. That wasn't my department and I'm not really able to run through the details of that episode. But certainly, there was a very direct American aspect of that situation. Again, I can only talk from my own recollection of it. I was--the day that started I had a call--I called on Mehdi Samii down at the Central Bank. I can't remember whether he was number two or whether he had already become Governor of the Central Bank. At any rate, the Governor was a man named Purhomayoum, who was something of a neanderthal. So Samii

was the guy who I dealt with when I wanted straight answers. And as I was sitting in his office down there in the bank , we began to hear gunfire down at the end of Ferdowsi Street, where the Bazaar was. We had been discussing the economic situation; how to encourage more private investment and the pick up of the private side of the economy. Samii turned to me as soon as he heard the gunfire, and said, "I think this will not be good for business confidence." [laughter] So that was one of the ways I had of looking at it. My memory is that it was put down rapidly and ruthlessly and its after-effects on the economic and reform situation, from where I sat, were not terribly significant or long-lasting. I think anybody--Iranian or foreigner--thinking of investing in Iran in those days usually had engaged in some political risk analysis, and I doubt if that added a great deal to the fears they might have felt already.

Q: Was there any concern among the embassy officials about the degree of violence used, that it might have a counter-productive effect?

Eliot: I don't really recall on that. My memory is much more on the other side--that we felt the Shah had been very decisive. And this was an indication that he really was in charge.

Q: Okay. Now you mentioned a minute ago that you were talking with a person in Central Bank about efforts to encourage private investment. What kind of programs did the U.S. try to encourage in that respect?

Eliot: Well, one of the institutions that we paid a lot of attention to in those days was the Industrial Mining and Development Bank of Iran, which had been started certainly with World Bank, or International Finance Corporation help, but the United States--again, I don't remember the exact financial arrangements, but I think we put some money into it also. Maybe the Ex-Im Bank, or elsewhere. It was the Iranian vehicle for--it was the Iranian investment bank, really. It was the bank in Iran that was involved with encouraging, through financial means, private Iranian investment. And it was very well lead. Samii was able to bring Ghasem Kheradju back from a position with the World Bank in Washington to head it. Its deputy head was Reza Amin, a University of California trained fellow, first-rate; his father had been an industrialist in Isfahan. Its chief economist was a man named Fereidun Mahdavi, who in the 1970s became the Shah's very controversial Minister of Commerce, but who was a German educated, former National Fronter and a good economist. Its legal counsel was Cyrus Ganhi, an American trained lawyer, again with National Front connections. He never did work directly for the government. So it had a superb, well trained staff. And we were doing our best to encourage that particular operation. And we were, of course, talking to a lot of American business people who were looking the situation over. But there was very little American investment in that period. That came much later with the big oil boom of the 1970s.

Q: Where any major corporations making small investments or

beginning to make investments at that time?

Eliot: Outside the petroleum sector, not much, if I recall. Foremost Dairies, which later became part of the McKesson Corporation. They had an operation there. It was pretty small stuff. Some agriculturally based investments, but until the 1970s this was pretty small.

Q: Did you work on monetary policies?

Eliot: Well, I followed monetary policies very closely, watching how the Central Bank was doing, and so forth.

Q: But in the early 1960s, the I.M.F. sent a team there to work on monetary policy in Iran. Do you know if I.M.F. had a role later, during your tenure there?

Eliot: My mind is blank, which may or may not be significant. I remember regular I.M.F. reviews of the Iranian situation run by a very fine man at the I.M.F. named John--it's either Gunter or Gunther. And the only reason I'm hesitating is of course, John Gunther was the name also of the--

Q: He was an American.

Eliot: Yes, he was an American.

Q: I think it's Gunter, because I think he was with the Treasury earlier.

Eliot: Yes. So there were regular reviews of the Iranian monetary situation. They looked at domestic and foreign credit, and money supply, and all the things that the I.M.F. is supposed to look at. And I thought they were very helpful to the Central Bank and the other financial people in Iran, but didn't have a great deal of influence because they didn't have much leverage. Iran, as it became increasingly prosperous, didn't need the I.M.F. so much. And certainly in fiscal reform, which Iran needed a lot of, and wasn't getting much of--tax policy, and things of that kind--they had very little influence. But their reviews of the Iranian economy were very helpful to me. They gave me insights I never would have had otherwise, and I suppose I could play that back in some of my conversations with Iranians. The I.M.F. and the embassy were mutually supportive.

Q: O.K. Now, after Lyndon Johnson became President in late 1963--I guess in the following year or two, was there any shift in the direction of policy toward Iran?

Eliot: Yes, I think the--sort of the, pardon the word, "crusading" aspect of some of the people around Kennedy dissipated pretty quickly. Johnson was not the kind of fellow who was going to tell other chiefs of state how to run their business. He was going to look after American interests, and maybe do some prodding and pushing

here and there, but the kind of Bob Komer-Ken Hansen activity was over by then. Actually, I think Holmes had won that victory even before Kennedy was assassinated.

Q: So the sort of push for reform receded in those years?

Eliot: Well, the question of our telling the Shah how to run his business receded. The American enthusiasm for reform did not disappear. Because we continued to believe that reform programs and balanced allocation of resources were important to Iran's future stability. And until Iran's oil revenues really took off, and the Shah was still dependent to some extent on our credit systems, we had leverage.

Q: According to one book on Iran which I saw, public opinion polls were taken in the early 1960s, which showed that young Iranians had a very critical view of U.S. policy toward Iran. For example, a poll showed that they thought the U.S. was propping up the status quo, that foreign aid was designed to make the rich richer, and things like that. Those were some of the views expressed in these polls, apparently. Did the embassy make any kind of effort to influence domestic opinion in Iran, or where there information programs designed to--

Eliot: Not to my knowledge. I mean, our U.S.I.A. program was largely aimed at telling the Iranians about the United States, and emphasizing cooperation between the two countries. Sure, as there is

in any country, youth was restless, and it was clear the United States was the power behind the throne, so to speak, and the old National Fronters, and the Ebtehajes, and his coterie and so forth, were disturbed about some of the aspects of the Shah's regime. But as late as 1969 this had not really become a major item on the internal Iranian agenda, hence not on our agenda. It was later. It was in the early 1970s that I would begin to trace the beginning of the end of the Shah's regime. As late as 1969, things really looked great.

Q: Okay. I have questions about the grant aid, which I forgot about earlier. Apparently in 1964, the U.S. phased out military grants, from what I've read, and replaced it with credit arrangements. They were formalized, I guess, in mid-1964, July 1964?

Eliot: Again, the precise dates I don't remember. 1964-1965 is my memory.

Q: Something like that, yes. But I guess the initial credit arrangements involved a deal for 200 million dollars in military credits, which would be allocated on an annual basis of, I think, 50 million dollars, something like that.

Eliot: Your memory is better than mine. It now rings a bell.

Q: That's what I've read recently. Did this deal involve any discussion or debate in the embassy or the administration back in

Washington?

Eliot: Oh, it was debated at great lengths. I mean, there were of course the issues of what would the money be spent for, what kind of equipment. There were all those military issues. But in addition to that, there was the question of resource allocation, and whether this kind of credit and the need to repay that kind of credit would put a crimp in the Shah's economic development program. And that gave rise to the process of the annual economic review, which became an integral part of our consideration of military credits.

Q: Now I read somewhere that Johnson was reluctant to approve that credit until the Shah convinced him otherwise, that he needed it. Do you recall if there was anything at all?

Eliot: I don't recall that. There certainly was a lot of to and froing between the embassy and Washington, but I was on the embassy end, so I didn't know what debate was raging in Washington.

Q: Now how freely could the Shah spend these credits? You mentioned this annual review process, did that influence what he could spend the money on to some extent?

Eliot: No, I think that was handled separately. In other words, once we agreed to extend the credit, and he looked at his resource allocation problem, by that time we had already agreed on what the credit would be spent on--what kind of equipment: tanks, or

anti-aircraft, or you name it. And that was all part of the package. So that had to be agreed to. There was not only an economic review, there was an analysis which we had to make together with his people of what his precise military needs were. And soon after I became--about the time I became Country Director, in 1966, one of the major issues that came up was F-4s. In the earlier period, it had been F-5s. But the first major event in this military credit program, which really caused a major debate was the F-4 transaction in 1966, where the then Deputy Assistant Secretary of Defense, Townsend Hoopes, was sent on a special mission. The Shah was threatening to buy MIGs, and so forth and so on, which I never regarded as a credible threat, but nevertheless he was threatening. And we couldn't believe, and I think we were right in not believing, that he would change his airforce from American to Soviet procurement. But the question came up how many F-4s, and what would the credit terms be, and again, what effect would it have on his economic development program. And there was a major debate in Washington on this whole issue that went to the top in the White House before we agreed to sell F-4s. The embassy at that time was very much--Armin Meyer was ambassador at the embassy--was very much for it.

Q: And the deal went through?

Eliot: And the deal went through.

Q: Was there much competition between arms producers, the U.S. arms producers, to get their sales funded with those credits?

Eliot: Well, they were sort of like bees around honey. They all came to Tehran and tried to influence the situation there, as did other American corporations. I mean, David Rockefeller on behalf of Chase Manhattan was there, and his counterparts at Citibank were there, dropping in, trying to see the Shah and getting to be known and liked and what have you. And the same thing was true of defense manufacturers. And the Shah had a habit of sometimes using those people to work his will with the U.S. government. He would say: "The F-4 is obviously your best aircraft, and I've talked to the manufacturers of the F-4, and why don't you give it to me? It's the best airplane." In fact maybe he would even say: "I've flown in one!" [laughter] These salesmen were pretty effective. But the decisions were made by Uncle Sam, by the government, as to what kind of equipment he would get in the final analysis.

Q: Were people like Kermit Roosevelt on the scene in Tehran from time to time as arms salesmen, or representatives of Northrop Corporation?

Eliot: I guess Kim at one point, at least, had a connection with Northrop, but I think he had some oil company connections as well. I used to see quite a lot of him, not so much in Tehran, but when I became Country Director, because I felt that Kim knew the Shah very well. He had very good connections with the Shah's entourage. And he was another person I bounced a lot of ideas off of. And I had to be careful, obviously, not to engage in a conflict of interest