

cautious, about the kinds of things and the amount of money that we thought the Shah should spend on his military. Suddenly to be able to say, "Well here's a half a billion or a billion. Let's get our military together and decide how we're gonna spend it," was essentially the way it was approached. Not on what they could usefully absorb. It was a real departure. General Twitchell was head of MAAG. His every effort was to make sure that whatever it was the Iranian military got, they were prepared to absorb and use before they got it.

Q: Without any waste?

Mr. Lehfeldt: Without any waste. With as little waste as possible. That flip-flopped the whole policy.

Q: But up through May 1972 that was the practice?

Mr. Lehfeldt: That as the practice, right.

Q: Did you know, at that time, if there'd been any inter-agency discussion in Washington of this whole issue? Was it debated, the pros and cons?

Mr. Lehfeldt: No. I have no knowledge of that.

Q: I have some questions about--this is covering relations, other than oil, during this period.

Now I've read--and I don't know how true this is--that beginning in the late 1960s US banks began to move heavily into Iran.

Mr. Lehfeldt: Yes, that's true. When you say heavily--I mean there's a considerable presence. Citibank, for instance, was a partner with Hassan Ali Ebtehaj in the Iranians Bank. David Rockefeller in Chase and Mannie Hannie and Chemical and Irving Trust, Bankers Trust, Pacific Security--you name the lot of them. Mellon Bank, Bank of America, Wells Fargo. They all had people either stationed in Tehran or in Lebanon, or coming through often. Because when the Central Bank floated a loan--100 million here, or forty million there, whatever--it was by and large syndicated, and all of these banks took part in it. One of the closest advisers to Mehdi Samii, for instance, in those days at the Central Bank was Minos Zabanakis, who was at that time with Manufacturers Hanover and later with the First Bank of Boston. I think it was First Bank of Boston.

Q: As these banks were setting up offices and so forth, did they consult with the embassy when they made their plans, or planned major investments?

Mr. Lehfeldt: Well [laughs], they came and talked to us about the general economic fundamentals. They came and talked about who was who in the banking business, who was trustworthy, who was not. Once in a while they would come and talk to us about whether or not they should fund a particular investment or not. But, by and large they made their own decisions.

Q: They just wanted information.

Mr. Lehfeldt: They just wanted information, right.

Q: Now apparently Citibank and Chase had a very competitive relationship in Iran?

Mr. Lehfeldt: Yes.

Q: Did this cause any problems?

Mr. Lehfeldt: No.

Q: Because I'd read that the Central Bank complained about Citibank's practices and that Citibank had to withdraw some of its people at some point.

Mr. Lehfeldt: Yes. Well, they got a little aggressive. They were moving in to areas where the Iranians didn't feel they should move. Yes, they did withdraw one fellow--I can't remember his name off-hand. That was part of Ebtehaj's operation. Citibank was trying to use the Ebtehaj connection for whatever it was worth.

Q: Were there any visits by David Rockefeller to Iran while you were there?

Mr. Lehfeldt: Yes. Well among other things Chase bank was known as the Shah's bank.

Q: His personal bank?

Mr. Lehfeldt: Yes. Although Bankers Trust did a lot of imperial family business. Chase would lead the Consortium on occasion when major lending operations were put together. But they did have a small piece of the Industrial Mining and Development Bank, along with Continental Illinois, I think it was. Then later on these several banks started private banks in association with other American banks. But by 1974 the only full blown joint venture was the Iranians Bank.

Q: The Citibank thing?

Mr. Lehfeldt: Yes.

Q: When Rockefeller came to Iran did he stop by the embassy and meet with people, or is it more complicated than that?

Mr. Lehfeldt: Well, sometimes yes. The ambassador would have a party for David. But more often the Shah would have a party for David and the ambassador would be present. Or, when we had the big financial conference there in 1972, led by David Rockefeller--and all kinds of other businessmen. Don[ald] Regan was there from Merrill Lynch. Bob Abboud and so on. It was an all star cast! Whenever David came to town, he had audiences with the Shah on a regular

basis.

Q: To what extent was the embassy's function sort of to encourage investment?

Mr. Lehfeldt: Well, I considered that to be one of my functions. My major function, however, was to try to find sales for--my staff was trying to help American business find sales, and partners. Or to collect, as the case may be. It's strange but you got the feeling that American business wasn't all that interested in investments. They were interested in financing investment with local resources and then carrying the profits home. I became a little disenchanted with some of my stalwart American risk-taking businessmen.

Q: They wanted joint ventures.

Mr. Lehfeldt: They wanted joint ventures but locally financed, and make their participation comprise of the technology and some very expensive American talent and so forth and so on. Didn't work. The Brits and the Japanese and the Germans were willing to do other things.

Q: In general though, I guess you had talked about this big bankers conference in 1972. Was it a sense that it was to be growing national income that would make investments and loans more likely and possible?

Mr. Lehfeldt: Exactly. The purpose of the conference was to introduce a lot of American businessmen to Iran who had never been there before. The Iranians really put on a great show.

Q: The embassy helped set it up?

Mr. Lehfeldt: The embassy worked on it, but it was set up by the Iranians themselves at the initiative of David Rockefeller.

Q: What kind of problems did US companies have in doing business in Iran in this period?

Mr. Lehfeldt: Well, corruption was always a problem. Who to pay off? There were people with their hands out all the time. It reached up in to the royal family. More often than not.

Finding the right partner with the right degree of expertise and a certain amount of sophistication, financially as well as technically, was really one of the greatest problems. Financial resources was a real problem too.

Q: I think we better stop for now.

Mr. Lehfeldt: Yes.

[End of interview]

VA

Interviewee: William Lehfeldt

Session #2

Interviewer: William Burr

Washington, D.C.

February 9, 1988

Q: The second part of the interview with William Lehfeldt took place in Washington, D.C. on February 9, 1988.

Mr. Lehfeldt, what was your assessment of general Iranian economic conditions during the late sixties and early seventies, before the oil price explosion?

Lehfeldt: Well, there were some inequalities in the economy and certainly some leads and lags in terms of development, but in general, I felt very comfortable that there was a good solid team of economic technocrats, good technocrats, managing the economy and allocating resources in a rational way, insofar as it was possible in a somewhat erratic environment. Given the enthusiasms of the Shah and so forth, it was difficult to keep up with him sometimes.

But as one of the leftovers from the AID days, we had, during the first two years of my stay in Iran, the so-called annual review with the Prime Minister and the American Ambassador and whoever was allegedly running what was the AID mission at that time. And I took part in the last two in the fall of '69 and in the fall of '70, between Ambassador MacArthur [Douglas]

and Prime Minister Hoveyda [Amir Abbas]. And Mehdi Sammi, who was then the head of the Plan Organization.

They were not thorough-going reviews of the economy, but they did focus on the main thrust of the government's investment policies, the main thrust of their use of their foreign exchange, and were to some degree at least the basis for the justification of providing Export-Import Bank loans for arms procurement at the time, because that was run through the Export-Import Bank at the time.

And so they were useful, but not very exhaustive and certainly not very profound examinations. But those annual reviews enforced a discipline-- or seemed to enforce some sort of discipline-- on the Iranian economic managers.

Q: The Central Bank?

Lehfeldt: The Central Bank, the Plan Organization and so forth.

Those ended sort of by mutual consent, because the Prime Minister and the Shah thought once there was no AID mission any more and there's no AID program, why the hell should we permit this unwarranted intervention in our internal affairs.

But nonetheless, until about 1973, '74, when the oil prices started going up, this team of technocrats did quite a creditable job of allocation of resources. And by the time I left, although the team had been disbanded to some degree and politicians were in place-- when I left in '74, the politicians were in place--

nonetheless the general direction of the economy was still good.

Q: You thought it was developing along healthy lines?

Lehfelddt: Reasonably healthy. In the agricultural field there was absolute chaos, because they were moving into so-called agrobusiness and industrial agriculture and so on and literally screwing the small farmers. Prices were not permitted to rise at the farm level.

Q: There were price controls, weren't there?

Lehfelddt: There were price controls, both to the producer and to the consumer, and they filled the gap, because naturally there wasn't any production coming in from the farms-- or not very much at any rate. But they filled the gap with imports.

Q: What kind of impact did the land reform program have? Was it a positive impact, by and large, or were there some negatives?

Lehfelddt: Kind of hard to say, because without the freeing up of an agricultural economy, land reform itself became a political act rather than an economic act, and it was political in large part and did break up a lot of large land-holdings and certainly there were a lot of small farmers who benefited from it in terms

of gaining title to their land. But many of them were forced into farm cooperatives.

Q: Corporation farming?

Lehfeltdt: Farm corporations. Cooperatives. But they operated in the same way. And, of course, they had mixed experience with them. Some were showcases. The government poured lots of money into them and so forth and so on. And there was one outside of Persepolis that every foreign diplomat and statesman had to go visit. I'm sure they paid everybody to be there.

You know, land reform was one of the touted accomplishments of the White Revolution, so-called, and when I first got there in '69, the romance of it was still alive. But by 1974 such early supporters and admirers of land reform as Ann Lampton, a British Scholar, had turned a hundred and eighty degrees around and were quite critical of the implementation of land reform.

Q: Were there experts at the U.S. Embassy that sort of monitored the program?

Lehfeltdt: No.

Q: Or people in U.S. AID?

Lehfeltdt: Well, AID, you see, closed up before I got there.

John Westberg, who was a lawyer, was the last one there. So there was no AID program to speak of.

Q: So there was no U.S. technical assistance at this point for any of these programs?

Lehfelddt: No. Except in a couple of technical things, the Regional Pulse Improvement Program, stuff like that. But nothing--

Q: A lot of secondary accounts from various writers, who have written about Iran in the seventies and sixties, have argued that the Pahlavi family and its associates distorted the economy through their control of the banking system with their political influence. It was from this allocation of credit and financial resources, because of the Pahlavi family's influence in certain respects. How much evidence did you see of that when you were there?

Lehfelddt: Well, the Pahlavi's direct influence on the direction of loans, no. There was not that much. Certainly some of the institutions, as Bank Omran, which was an arm, as I recall of the Pahlavi Foundation, and it was used to finance and run the PL 480 program, for instance, and there was a lot of money rubbed off there. But in terms of running the banking institutions for the benefit of the Pahlavi family, I don't think that's a sustainable

charge. There were enough opportunities for the Pahlavi family members to become partners in profitable businesses without distorting the banking system. I'm not saying that they were not active in banks on occasion, but it was not a publicly evident activity. Ashraf's first husband-- I can't think of his name right now, but a very distinguished gentleman-- was the head of a bank, but that was after he was her husband.

Q: This is the Shah's sister?

Lehfeldt: Right. The Shah's twin.

Q: I have some questions on the economic assets of arms sales. Did the Embassy's commercial and economic staff play much of a role in arms sales matters?

Lehfeldt: Not really, except in the sense that we were called upon to provide the analysis of the economy.

Q: Mostly annual review?

Lehfeldt: Both for the annual review and for just general economic analysis of the economy for the purposes of the U.S. government generally. We put out a six month semi-annual review that was published, an unclassified thing. And we were usually called upon to draft the economic justification for arms credits,

and, you know, we made our points at that time, when it came to use of foreign exchange. We had lots of rules of thumb in those days, about how much foreign exchange earnings, the percentage of foreign exchange earnings one should devote to servicing loans, foreign loans. And, of course, those rules of thumb have long since gone by the board all over the world, but generally speaking, in those days any country that was using more than twenty to twenty-three per cent of its foreign exchange earnings annually to service foreign debt was considered to be in trouble.

Now-- you know--

Q: Much more than that?

Lehfeldt: Oh, yes.

Q: Now when you worked on these reports, did Armish-MAAG people scrutinize them?

Lehfeldt: Yes. We provided them to-- well, General Twitchell and his successors and predecessors were always provided with our analyses. That is not to say that they necessarily had much real effect on situations, because these arms recommendations were primarily political considerations. Although in General Twitchell's day, he had a very strong feeling that there was a finite sort of rate of absorption for rational use of foreign military equipment and upgraded military equipment that an Army

such as Iran's could possibly use, and use effectively. His thesis at the time was that we had to try to fit what we were providing them with what they could rationally absorb. So the economic justification found a good friend in that approach to arms sales.

But the Shah, of course, was not persuaded. And on the political level, certainly President Nixon was not persuaded.

Now this is in the pre-oil price--

Q: That's right. Before '73. Exactly. Did you ever run into an official named David Alne? From ISA?

Lehfeldt: Well, yes, I ran into him, but he had several-- Dave Alne. Henry Kuss, who was one of his predecessors.

Q: They all played a role in arms sales considerations?

Lehfeldt: Yes, they all played a role. And I've forgotten who the latter ones were, but they took their advice from the Armish-MAAG missions. And after the oil price increases, of course, other considerations came in. What the Shah could afford to spend was- - or what he wanted to spend, rather.

Q: You came to the Embassy in '69. Was the Ex-Im Bank already playing a role in financing arms, arms sales?

Lehfeldt: Yes. Yes. Arms and others.

Q: Did any people from the Bank come to discuss-- ?

Lehfeldt: Well, Henry Kearns would come out quite often, every year or so. Well, almost every year. And other bank officers would come out to assess the economy and talk to different people. And the World Bank always had its people out there too, looking around and assessing the economy, and those analyses fed back into the U.S. system as well.

Q: When it came to negotiations over, say, the interest rates
[?] , would your office take part in those?

Lehfeldt: No, the interest rates were out of our province. No, that's a function of domestic U.S. policy as much as anything else.

Q: Now in 1971 the U.S. was running its first trade deficit, since, I guess, the 1890s. In the late 'sixties, early 'seventies, the U.S. aero-space industry was somewhat in the doldrums. To what extent did those kinds of considerations influence arms sales policy? From your vantage point in the Embassy? Were those things that were discussed as having a bearing on arms sales?

Lehfeldt: Surely they had a bearing on arms sales, but not in that bald a depiction, because what we saw at that end was the competition between the various firms-- the McDonnell Douglas, the Northrops, the General Dynamics, the Grumman-- for sales of a particular type of plane or system. There was one effort by Lockheed to sell-- this was-- well, I was still the Economic Counselor the C-5 to Iran, that would permit the reopening of the line for U.S. purposes. That was a slightly different focus, because the U.S. Air Force wanted some more C-5s, and in order to open the line, if the Government of Iran would pay for a good deal of it, yes, that would be helpful.

There was always the consideration that for every plane sold abroad, the average price of the planes, both to the foreign buyer and to the U.S. Air Force, would come down, because you were writing off the development cost over a time. And that was a consideration, but not a main one.

Q: When you were in the Embassy, did you provide assistance to companies who were trying to sell particular weapons systems to the-- or was that more a function of Armish-MAAG?

Lehfeldt: That was more a function of the Politico-Military section (of the Embassy) and Armish-MAAG, but, yes, they usually came down to talk to me. When I say down-- because my office was on the first floor as opposed to the Political Section on the second floor. They usually came and talked to me, generally

about the economic scene and about who was doing what to whom, just generally, and this involved the question of who was a good representative. They would oftentimes toss names at me to see how I would react. I tried to steer away from endorsing any of them. Some were better, more honorable, than others. Not all of them.

Q: Could you give a sort of indication as to who would be more reliable? Or you couldn't do that?

Lehfeldt: No, I really couldn't do that. All I could do was-- and I tried not-- well, I avoided making recommendations about anybody. If they asked me about somebody, yes, I would say what I knew about them, how acceptable they were up in the Palace and what their general reputation for probity was in the business community. I had a little lecture about you have to decide for yourself whether you think you need that kind of representation or not. If you think you have a proposition that is saleable on its own and needs no personal representation or enhancement, then by all means avoid it. If they want it bad enough, they'll buy it. But if you are out there selling snake oil, why then you decide accordingly.

Q: You're talking about arranging intermediaries between the companies and the government?

Lehfeltdt: Yes. The present-day Albert Hakims, the Khashogis, the Abdol Fath Mahvis, and the Khayamis, and the Hindujas and so on down the line.

Q: So the people who were operating at that time--

Lehfeltdt: Oh, they were operating in those days.

Q: So you could basically provide information to the firms? Could you go beyond that? What other kinds of assistance could you give them besides information as to who the--

Lehfeltdt: You know, I had a slightly different view of my role in assisting U.S. business than some of my more timid colleagues in the Foreign Service. I felt that I was there to be helpful to them and I wasn't there to play mother hen to all American companies and try to-- if one came to me for help and nobody else did, I would give that one who asked me help. But if, say, General Electric and Westinghouse and Combustion Engineering all came to me for help, I would give them all equal help, but that didn't mean that I had to go-- if only one of them came to me, I had to go, say, to the other two and say, "Hey, General Electric is after this and I'm going to help them and I'll be glad to help you too." That's not the way you play the game. Some companies felt the need for help and some didn't, and I take the view that those who ask for help deserve it.

So I would make appointments, I would send people along with them to help interpret, if they had that problem. I did a lot of things that were not in the ordinary run of services that Economic Conselors used to provide. I guess commercial attaches do more so now than they used to, but I still get-- I have complaints myself. [LAUGHS]

Q: Also in the present-day experience?

Lehfelddt: Yes.

Q: I guess there are certain limits that were placed on what could be done for a company? Were there limits?

Lehfelddt: No, no. No. There are no legal limits whatever. Certainly there are some things you couldn't do, but if the Ambassador was willing, you could have him entertain some people with and for the businessmen.

Q: That happened, I'm sure.

Lehfelddt: That happened. The British Ambassador used to do it all the time. He gave a party once, when they were selling the 1011, the Lockheed 1011, because it had Rolls Royce engines as an option on it. And he gave a big party-- a reception at the Embassy for the businessmen and the military and what not, and

Iran Air, who were going to buy it, as part of the support for British industry, but also supporting American industry. [Tape recorder turned off]

Q: During our last meeting, you mentioned that-- you went into the problem of corruption in Iranian political and business circles, and sometimes it reached to the top levels of the Pahlavi family. Many writers have discussed this problem and its implications for the way American corporations did business in the country during the seventies. Now how common was it for U.S. companies to actually use corrupt methods to make sales in the country?

Lehfeldt: Well, now let's back up a little minute. The term "corrupt methods" is a misunderstanding of how you do business, not only in Iran, but all over the Middle East and in other parts of the world. We have a very puritanical view of the world, but when you do business in the Middle East, you do business their way. And traditionally, for thousands of years--I'm exaggerating a little bit--but the closer to the throne you got, the richer you were supposed to be. Or the closer to the throne you were, the richer you were supposed to get. It was just, you know, a fact of life in Iranian and other milieus that if you were going to get something done, you had to pay for the services.

Now, viewed in that sense, it is not corruption. When the payments become exaggerated and the services are of dubious value, then that is corrupting the system, but it's still not