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سازمان برنامه

SUMMARY OF THE U.S. AID MISSION'S REPORT ON ECONOMIC AND SOCIAL TRENDS IN IRAN 1959-1964

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The Mission's report provides mainly a statistical analysis on the performance of the Iranian economy for the period 1959 through 1964. The major portion of the report is, however, descriptive and hence may not be of great interest to the Iranian reader. This summary attempts, therefore, to present the arguements and conclusions maintained in the report.

1- Inadequacy of Data: The author warns about reliability of some of the data and emphasizes the need for more reliable statistics in order to present a more objective evaluation of the social and economic trends.

2- Population and Labor Force: Comparison of the 1956 Census with the sample survey of 1963 indicates some changes in the populational structure of the country. Annual rate of population growth for the country as a whole is estimated at 2.4 per cent. For rural areas, growth rates range from 1.7 per cent to 2.0 per cent and estimates of growth for urban population range from 2.8 per cent per year to over 4.0 per cent. For Tehran the growth rate is 5.7 and for Abadan 5.4 per cent.

With respect to the active urban labor force, as a ratio to total urban population over 10 years of age, a reduction below the 45 per cent level shown in the 1956 Census appears to have occurred. The Manpower Survey of 1964 shows a ratio of 43 per cent for urban population over 10 years; females represent 16 per cent of the active population versus 9 per cent in 1956,

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unemployment reaches 16 per cent of which 62 per cent is for females, with the rate of male unemployment amounting to less t than 8 per cent.

3- Agriculture:

(a) Of the 21 m. hectares arable land some 6.8 m. hectares are under cultivation and the remaining area lies follow.

In the Khuzestan area, the issue of an optimum convergence of soil and water resources is most easily dramatized. Here it is technically feasible to impound the runoff of five major rivers to provide irrigation for up to one million hectares of arable land. At issue is whether the benefits of such an undertaking exeed the costs. At the moment, pilot operations are being carried out on 23,000 hectares of land irrigated by water from a large multi-purpose dam on the Dez River. The problem of irrigation in other parts of Iran except the Caspian Sea area is only the variation of that found in Khuzestan.

A 1962 USAID/Iran study shows that, in addition to required soil capability, deep well irrigation is economically feasible in many areas only if accompanied by the introduction of modern technological advances and cultural practices so as to raise the crop yields by 3 to 5 times.

(b) Livestock: The major livestock production comes from the 40 million sheeps and goats that feed from the 55 million hectares of low-quality grazing land. These are largely migratory flocks grazing on traditional range lands of tribal people. Because, however, of weight losses suffured by

livestock during fall migration, plus winter starvation, much of the weight gains experienced in summer grazing go unrealized. Yet, to avoid this meat loss, it would be advisable to cultivate feed crops over 700,000 to 1,000,000 hectares.

(c) Land Reform: As of March 20, 1965, a total of 9,511 villages had been distributed in whole or in part to 321,526 farmers under the first phase of the Land Reform Law. Approximately 70 per cent of the villages involved were only partially distributed. The distributed land was valued by government at 5.7 billion rials.

No data are available regarding the number of hectares involved, but it is conjectured that an average of about 5 hectares per farmer might be expected. This would imply distribution of some 1.6 million hectares, or perhaps 14 per cent of the 11.4 m. hectares of the total cultivated land of the country.

The impact of the land reform program on the tenure system of the country can be indicated by the fact that the number of owner - cultivators increased from 624,000 to 946,000 an increase of 52 per cent. In a similar fashion, the amount of owner-cultivator land which totalled 3 million hectares in 1960 rose to 4.6 million hectares, an increase of 53 per cent.

Regarding the impact of land distribution on agricultural production, no definite statement can be made. Some landlords with large holdings, have made investments in tea gardens, fruit orchards and mechanized farms. Also, some landlords have expressed a more positive interest in managing their land. At the same time a slow government response to a need

for managerial and technical guidance, limited amounts of supervised credit, and inertia in developing agricultural Co-operatives, may serve to inhibit production.

(d) Agricultural Credit: The Agricultural Credit Bank is the principal government vehicle for extending credit to the agricultural sector. The Bank, however, does not concern itself adequately with the purpose of the loan and released loan supervision had made for some loan diversions. Moreover, the question of production loans versus consumption loans has not been treated by the Bank as a matter of prime concern. Particularly since the beginning of Land Reform, the Agricultural Bank has given consumption loans, both as a measure to limit farmer migration to urban communities and to mitigate the effects of unfavorable growing conditions. The extent to which such Bank Credit should be indentified as an income transfer to the rural sector is not readily discerned. Even if income transfer were the purpose, it must not divert the central goal of utilizing Bank Credit for production purposes. In spite of credits advanced by the Bank, farmers continue to rely on merchants, landlords, money lenders and relatives for supplementary funds.

Under the Land Reform Law, membership in an agricultural co-operative is a pre-condition to receiving land. Accordingly, the indicated sharp increase in the number of co-operatives in recent years, may be more of a proform than a substantive significance.

(e) Agricultural Extension: The Agricultural Extension Service has grown to encampass a staff of 1,244 persons providing extension services to about 10 per cent of the villages. Recently an Extension and Development Corps has been set up to help villagers with agricultural development practices and rural construction projects. At the moment 470 graduates of agricultural high schools and agricultural colleges are receiving a 4-month training under the Corps program. Despite the increase in Extension Service personnel, it must be observed that a large number of agents are performing non-extension duties such as land distribution, locust control and the training of Development Corps personnel.

4- Industry and Mining: Available industrial data are unreliable for making comparisons over time because of varying degrees of coverage between successive years. It, thus, makes it difficult to study industrial trends. The Industrial Survey of 1963 shows that there are 112,000 industrial establishments of which 62 per cent have less than 3 engaged persons. Only 2.8 per cent show 10 or more. Some 53 per cent of the total establishments have been established since the beginning of 1959. Of the total industrial establishments, 240 are public enterprises.

5- Education: Any effort to quantify investment in human resources with respect to economic development necessarily omits considerations of quality. At the same time quantitative aspects are indicative of underlying trends. In the

period 1959-1964 total public expenditures on education, including Ministry of Education budget, Universities, Plan Organization funds and Students Abroad, has increased from 6.4 billion rials to 12.7 billion rials. The number of student enrolement in technical and vocational schools has increased from 12,500 in 1959 to 14,200 in 1963. The number of students enrolled in Tehran University increased from 13,200 to 14,300 in the same period. Enrolements of the primary schools in the rural areas rose from 520,000 to 730,000 while enrolements of urban primary schools rose from 807,000 to 101 million. The student body of rural secondary schools rose from 26,000 to 31,000 and of the urban secondary schools from 222,600 to 338,100 in the period 1959-1963.

In an effort to measure progress over time, we may attempt a rough comparison between student enrolements in primary and secondary schools and the population of 10-14 age group and 15-19 age group. This comparison shows that in 1959 about 54 per cent of children of 10-14 age group were enrolled in primary schools while in 1963 this ratio was 67 per cent. The ratio of secondary school students to the population 15-19 age group rose from 14 per cent in 1959 to 16 per cent in 1963. As the above figures indicate primary education has expanded with a faster rate than secondary education.

6 - Health: Available data shows that health facilities are unevenly distributed among the regions - Tehran, for instance, with about 10 per cent of the population of Iran, accounts for 43 per cent of the total hospital beds, 35 per cent of the physicians and 21 per cent of the dentists. As of present time Iran has not official program pertaining to population control.

7 - Public Finance: In mid 1960 the Government launched the Stabilization Program to prevent further development of the inflationary trends. The Program prevailed through 1962 in the public sector.

Acoording to the Third Plan Law, Plan Organization was to receive 55 per cent of the oil revenues in the first year, with the proportion rising in increments 5 percentage points annually. Actually, Plan Organization received only 38.6 per cent of oil revenues in 1962. The Shah's Commitment to reform was formly established by his "Bahman 6 the Revolution" His major policy statement of January 1963. The Third Plan was gradually adopted to the priority of land and other reforms. Not only was the focus of the Third Plan spending shifted from capital to non-capital development outlays as an element of anti-recession spending, but there was also a concomitant setback in the planning and implementation of capital projects. These factors account for both the sharp rise in overall spending in 1963 and the parallel drop in capital outlays.

For 1964 the budget had a deficit of 514 billion rials, of the 2.6 billion rial increase in military expenditures, 1.1 billion rials represent supplemental funding through

Plan Organization , mostly for construction. The large budgetary deficit incurred in 1964 was financed through domestic borrowing from the Central Bank, chiefly on behalf of the Plan Organization. Regarding foreign loans, supplier credits dominated the picture, both in terms of drawings and repayments. The increase in cash balances follows from the excess of domestic borrowings relative to the budgetary deficit.

8- Money and Prices: In 1960 the Government adopted an economic stabilization program designed to relieve foreign exchange and price pressures. Yet, a lagged response to earlier expansion in monetary flow still made for an 8 per cent increase in the cost of living index. Restrictive credit policies were maintained on into 1961, although refined to shift permissible net credit expansion away from the public sector and into private sector. Private time and saving deposits increased by 21.8 per cent over 1960.

A similar monetary situation prevailed in 1962. Easy credit was made available to the private sector, while credit to the public sector was held in check. In the meantime, time and saving deposits increased to a large extent. During 1963 expansion in private credit continued but in the public sector a significant shift took place during the year, with credit to both Plan Organization and the Treasury rising substantially. At the same time, however, other government agencies increased their deposit balance so that the net change for the public sector as a whole was minor.

In 1964, the private sector showed a continued demand for credit, and the contractionary element of increased time and saving deposits was moderated. The government financial situation was improved due to the receipt of oil "bonus" money which accounts for both the increase in government deposits and the increase in net foreign assests. In April 1964, the Central Bank, as a restrictive measure, began requiring advance deposits against imports.

With respect to prive changes, the wholesale price index shows that prices increased by 5.4 per cent in 1964 while the price increase for 1963 was .4 percent. The changes in the Cost of Living Index implies to the same effect, this said index increased by 5 per cent in 1964 whereas cost of living index for 1963 rose only by 1.1 per cent.

9- Balance of Payments and Foreign Trade: The export of oil is the dominant factor in the external sector of Iran. In 1959 which was the "boom" year, a high level of imports resulted in a loss of gold and foreign exchange in excess of $50 million. This same situation continued in 1960 and the Government had to borrow $45 million from IMF. Foreign exchange pressures continued during 1961 inspite of the imposition of vigorious foreign exchange controls. The deficit on goods and services was financed by a U.S. Cash Grant totalling $45 million and by other loan drawings.

Deflotionary policies continued into 1962. Imports were again lower than the previous year's and a modest surplus on goods and services helped to finance liquidation of $64 million private short-term credits.

In 1963 imports were still lower, this time in part because of Iran's inability to develop projects suitable for foreign financing. Loan drawings fell to a level of $19 million, versus $59 million in 1962 and $110 million in 1961. In fact, in 1963 there was a net outflow of capital in the public sector totalling $45 million.

For 1964 a unique situation is apparent. Imports rose by 13 per cent over the previous years. Since this could not be financed by the 5 per cent increase in export earnings, there resulted a deficit on goods and services totalling $121 million. Oil bonuses in the amount of $185 million served to cover the foreign exchange deficit.

With respect to exports, probably the most noteworthy happening during the period 1959-1964 is the rise of Japan as a foreign exchange source for Iran. The Japanese share of Iranian exports, including oil, rose from 2.4 per cent in 1959 to over 12 per cent in 1964. If we exclude oil from exports, Russia with $22.6 million of Imports from Iran in 1964 becomes Iran's largest customer.

10- Social Welfare: Nutrionists point out that average diet in Iran, while adequate in terms of caloric and protein intake, are deficient by their overdependence on cereals. This deficiency is particularly significant with respect to diets during the formative years from infancy through early childhood.

The Rural Family Survey indicates that 58 per cent of rural population or 8.7 million persons have an annual per capita income of about Rls. 6,800 of which between 65-70 per cent is spent on food. A comparison of urban family and rural family expenditures shows that on the average the rural family expenditure is about half of the urban family. The urban Family Expenditure Survey shows the upper 7.4 per cent of the sample households spending an average of 347,000 rials per year.

On an income basis, the divergence would be still greater, since high-expenditure families are also high-saving families. We may point out that for millions of people in Iran living is little more than subsistance.

Labor Unions have legal sanction in Iran and have the legal right to strike. In practice there is little of an independent labor movement. Government paternalism prevails over the 280 existing labor unions or syndicated, and job security appears to take priority over questions of wages and work-hours. Legal restrictions against dismissing workers have an impact on employer behavior and often leads him to the replacement of labor by capital. The workers Profit-Sharing Law affects close to 100,000 workers, and such benefits are taken into considerations by employers as they calculate changes in wage rates.

A modest social security system is operative in Iran. Government employees numbering 115,000 are covered by one health insurance scheme. Special arrangements provide health benefits to another 250,000 personnel in such organizations as the Military, Gendarmeries, NIOC, Central Bank and Plan Organization. A pension system also exists which

varies for different categories of government employees. For private employees an operating comprehensive social insurance system covers over 340,000 manual workers and provides pensions, marriage allowances, sickness and other benefits.

11- Development Planning: The Second Seven-Year Plan followed t the "sum of projects" approach to planning. In April 1957, an Economic Bureau was established within Plan Organization. The Bureau was intended primarily to advise on Second Plan Projects and to undertake macro-economic studies and financial analysis preliminary to preparation of the Third Plan. The Economic Bureau mobilized for key positions some of Iran's top economic talents. In addition, foreign technical assistance was available.

The Third Plan draft was approved by the Cabinet in March 1961. The next 15-18 months was a period of re-examination discussion and even controversing. In part the discussion centered around the role of Economic Bureau. In September 1962 the Third Plan was launched. While the original draft Plan had proposed an outlay of 190 billion rials, the Plan Law reduced this figure to 140 billion rials, although no change was made in the 6 per cent target of growth in GNP. Subsequently, in December 1963, with a more optimistic outlook on oil revenue, Plan size was increased to 200 billion rials.

As of this date, Plan Organization has become largely a co-ordinating and funding agency, though still retaining the key-function of project approval. Further, the presence

of a Planning Division in Plan Organization, serving as the Secretariat to the High Planning Council, insures attention to macro-economic considerations. Todate no action has been taken regarding preparatory work on policy guidelines for the Fourth Plan. Nor is there any current evidence of new directions for Plan Organization, although a possible revision of the Third Plan is currently under examination.

12- External Resources: Iran appears to have available for utilization, loans and credits amounting to over $420 million. In addition to official loans and credits, Iran has access to foreign private investment the magnitude of this type of investment is of course, largely a function of domestic investment "climate". Iran also has access to foreign technical assistance.

Impressions and Observations

Limiting Factors: Standard literature exploring the process of economic developement custormarily lists the obstacles to growth as including a skill limitations, a low saving capacity and a shortage of foreign exchange. With respect to Iran, none of these limitations is present in any seriously inhibiting fashion. Instead the impediments to maximum growth more nearly encompass considerations of motivation, attitude and similar cultural characteristics. These, however, are endogenous constraints related to a particular value system and for which evaluation must be made in terms of Iranian perceptions. At the same time this aspect of development is decisive in that it will determine whether Iran's economic grows at 4 percent or 6 per cent.

In the same sense, there would be no purpose in attempting a critique of Iranian development. Whether we refer to the Review of the Second Plan to the 1,064 pages of literature covering the Third Plan, or to various speeches and public pronouncements, in all cases Iranian officials have repeatedly demonstrated their capacity for self-criticism and for a shrewed understanding regarding the obstacles to a full flowering of ecomomic growth potentials . Anything we could say on this matter would be no more than unproductive repetition.

As an alternative, we may attempt to identify those country problems we see as looming over the horizon, and which will require resolution in the near future if Iran is to perform in accordance with her innote capacity. For illustrative purposes we have highlighted eight issues of basic import-

ance as follows:

a - Low Pruductivity in Agriculture: Iranian officials already acknowledge that low investment in agriculture is related to low returns from agriculture. The challenge posed is whether this situation is immutable. The answer can be found only in research and analysis. The process of adoption and diffusion of modern farming practices have to be studied seriously. We can say that the goal of land reform will be frustrated without a further peneteration into the causes of backwardnen in agriculture.

b. Broadening Industrial Investment Horizons: Capital is in ample supply, but the problem is to find suitable alternatives to quick pay-off traditional investments in trade and construction.

Industrial investments whether in the public or private sector, should be based on the principle of profitibility. This does not deny the possibility of social and political criteria. Instead it invites a determination of the economic cost of a social or political decision.

c. The economics of Water: Iran as an arid country is naturally preoccupied with problems of water supply. But this preoccupation may lead to a waste of scarce investment resources on irrigation projects which are not technically and economically sound. For each envestment there still should be a determination that benefits exceed the costs.

d. The oil Sector: Although the oil refinery contribution alone to value added is equivalent to the contribution of the entire industrial sector, yet it does not imply that Iran is using her oil resources to the best advantage. Oil is a potential energy, and energy is the foundation of a modern society. If Europe can afford to import Iranian oil with its added costs of transportation, why should not the use of this energy in Iran

offer a still greater return. The availability of low cost energy in the form of oil and gass offers a great advantage to Iran in terms of industrialization. Inaddition to generating electricity, oil can be used as a raw material input into a petro-chemical industry which would increase Iran's exports.

e. Population Control: Population growth in Iran is estimated at 2.4 per cent This is associated with a birth rate of about 46 per thousand and a death rate of about 22 per thousand. Death rate in Iran compared with that in many developing countries of the world is more than double, The "White Revolution" can be expected to reduce death rate, it will, then, be quite difficult to hold the population rate of growth at 2.4 per cent. If, however, increased per capita income is the goal, population control must not be ignored.

f. Investment in people: Investment in education and health must be considered as investment in man. Man is both the means and the end of production. Education must be expanded and be adusted to the needs of a developing society. Analytical studies have to be made concerning the rate of return of investment in human resources. Such studies may provide guidelines for bringing about changes in educational system and for expansion of health.

g. Aspects of a Dual Society: We have already pointed out the magnitude of the gap between the rich and poor. Income differences are not only due to individual differences in terms of capacity and hard work, in many cases family relationships and other chance elements play a significant role. Accordingly, any effort to redress the griovanes flowing from chance occurance must give thought to the means and consequences of altering income distribution.

Land Reform has made a gesture in this direction. By purchasing land below the market price for distribution to landless peasants, a form of capital levy has been imposed on landlords. In principle, the income tax offers an alternative vehicle for syphoning off that portion of individual or business income that accrues, not by virtue of a unique individual effort, but solely as a by-product of participation in the existing social framework. In Iran, income taxes contribute less than 10 per cent to central Government revenues. Opportunities for tax avoidance are manifold, with the result that direct income taxes presently offer little scope for serving as a countervailing force to the increasing concentration of income and wealth into the lands of a few. While a redistibution of income does not imply an egolitarian society, social justice would seem to direct that rewards and opportunities should temper the forces which tend to make individuals hostage to fortune.

h. Coordination and Team work: There is limited Co-ordination and teamwork in the administrative structure of Iran. A-part from cultural characteristics, one can explain this lack of coordination and co-operation as follows: Iranian decision-makers lack the staff studies which set forth the full dimensions of a problem. As a consequence, they tend to avoid a confrontation on issues that require resolution or a blending of talents necessary for achievement of common goals. Thus the availability of analytical studies may serve to remove obstacles to co-ordination and teamwork.