CHAPTER FOUR

POLITICAL ECONOMY OF IRAN
Introduction:

Iran economy's great strength is its abundant energy resources: It holds 10% of the world's proven oil reserves and its supplies of natural gas are second only to Russia's. Moreover, having avoided the conflict that has engulfed neighboring Afghanistan and Iraq in the last few years, Iran is currently enjoying something of an economic boom. The economy has grown by more than 7% for each of the past two years, and is forecast to expand by a further 6.5% in 2004 and 2005. Low levels of public debt, a healthy trade surplus and rising government expenditure complete the benign picture. But despite these encouraging signs, analysts remain highly cautious about Iran's future prospects.

Despite all these positive improvement in economy, some analyst like Ratings agency Fitch describes investing in Iran as "highly speculative," carrying a similar degree of risk as putting money into the Ukraine, Indonesia, Lesotho, or Cape Verde.¹

One reason for this health warning is that Iran's fortunes remain closely tied to oil, despite efforts to diversify the economy. Its current strong

¹ - Neligan Niles, "Iran: Economy in transition", *BBC Business News*, 13 February, 2004
performance contrasts starkly with a period of stagnation in the late 1990s, when oil prices were a third lower than they are now.  

A second difficulty is that the Iranian economy is dominated by a sprawling, inefficient state sector, with private enterprise largely limited to small trading and service businesses. Opportunities for foreign trade, meanwhile, are restricted by sanctions imposed nearly nine years ago by the US, which accuses Iran of sponsoring terrorism.

These problems are exacerbated in turn by Iran's extraordinarily youthful population. Nearly a third of its 68 million people are below the age of 14, putting immense pressure on the country's labor markets.

With unemployment officially estimated at 16% of the workforce, but in reality to be far higher, Iran needs to create about 800,000 new jobs a year just to stand still. This puts the country under pressure to at least maintain, and preferably surpass, its current growth rate.

In other words, Iran’s economy is a mixture of central planning, state ownership of oil and other large enterprises, village agriculture and small-scale private trading and service ventures. President Khatami has continued to follow the market reform plans of former President Rafsanjani and has indicated that he will pursue diversification of Iran’s oil-reliant economy although he has made little progress towards that goal. The strong oil market in 1996 helped ease financial pressures on Iran and allowed for Tehran’s timely debt service payments. Iran’s financial situation tightened in 1997 and deteriorated further in 1998 because of lower oil prices. The subsequent zoom

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2-Ibid.
in oil prices in 1999-2000 afforded Iran fiscal breathing room but does not solve Iran’s structural economic problems, including the encouragement of foreign investment.

In 1990s, Iran's Economy got through two five-year plans and now is at the third year plan. The main objective of the first five-year plan (1989-1994) was the reconstruction of damages sustained by Iraqi imposed war against Iran with an emphasis on balance of economy. In the third five-year plan (2000-2004), economic structural policies have been followed. The objectives of the Plan were: 6% economic growth, creation of 760000 jobs per year, reduction of inflation of 15%, unification of foreign exchange rates, elimination of customs tariffs, alteration of non-tariff barriers to tariff indexes, trade liberalization, amendment of tariff structure, continuation of privatization trend, decrease of government's centralization, reforms in tax and budget structures. ³

Fortunately Iran's economic operations during the recent years show that she has experienced a growth rate of 5.5% in the past two years with the inflation rate of 11 to 12%. Since the inflation rate during the past two decades fluctuated between 20 to 25 percent. The move towards the control and reduction of inflation has been unique. The Central Bank of Iran has stated that it is following the trend to reach a one-digit inflation rate at the end of the third five-year plan. On the other hand one of the most fundamental measures adopted by economic planners has been clarification of the country's foreign exchange system.

Fortunately, Iran witnessed the unification of the foreign exchange rates in late March 2002. This shall bear good results for Iran's economy. The adopted measure shall assist foreign investors in easily calculating and sending out their profits. From credit point of view, Iran's credibility is increasing in insurance companies and capital market.4

Iran's foreign debts have been decreased from US $32 billion to US $8 billion, and Iran is reckoned as the least indebted country in the world. The country's foreign exchange reserves amount at US $17 billion at present. Meanwhile, in the third five-year plan a reserve currency account has been opened for the purpose of both saving oil revenues surplus which is the main source of budgetary revenues and decreasing the effects of fluctuation of oil prices on the annual budget. Foreign exchange facilities are granted from the mentioned account to the private sector, as well as foreign companies having joint venture with Iran.

Iran’s five-year economic plans have emphasized a gradual move towards a market-oriented economy and the development of the private sector, but political and social concerns have hampered the application of sound economic policy, and large external debt repayments have limited policy options. The third five-year plan, which came into force in March 2000, commits the government to an ambitious programmed of liberalization, diversification and privatization and the creation of 3.8m new jobs by 2005. A major policy objective remains the return to a single, floating exchange rate.

A) Comparing Pre and Post-Revolution Economic Systems:

4 -Ibid.
The Pre and Post-Revolution economic systems in Iran continued to remain essentially government-oriented and based on single resource, viz. oil export. However, the main difference was, while the Pre-Revolution Iranian economy was totally modeled on the Western nation of modernization and nearly relied on Western support, the Post-Revolutionary economy emphasized more on the doctrine of self-sufficiency and self-reliance.

During the reign of Mohammad Reza Shah, significant increases in oil revenues, coincident with the centralization of the economy, compounded societal stress and imbalance. The modernization that continued throughout the Shah's rule affected the economic infrastructure but not the monarchical political structure. The gap between the two was accentuated by the pro-Western industrial policies promulgated by the Shah.

In the 1960s, economic planning focused on four main goals. The first was rapid development of large industries by capital-intensive methods and the use of the latest technology; the second was employment of foreign advisers and technicians to guide the modern industrial complex. The third was encouragement of large industrial profits, and the fourth was control of wages by reallocating savings from labor costs to capital investment. It was assumed that wealthy industrialists would reinvest their capital in the economy, thereby stimulating economic development. But such investment did not occur, and the gap in income between industrial owners and the commercial class, or bazaar (traditional middle class merchants), was never
closed, which contributed to the revolutionary pressures that eventually brought down the regime.  

"The bazaar did not benefit from the 1974-78 oil booms; as a consequence, bazaar members helped lead and finance the Revolution. The series of national reforms and development programs that Mohammad Reza Shah had embarked on in the 1950s came to be known in 1963 as the "White Revolution". The White Revolution was simultaneously the Shah's attempt at economic modernization and his attempt at political stabilization. He intended to accelerate nation-building and to enhance his regime's image as the promoter and guardian of the public welfare."

Land reform was a major element of the Shah's economic development program. Land reform affected both the economic structure and the social mores of the agrarian component of society. The Third Development Plan (1962-68) and the Fourth Development Plan (1968-73) together infused US$1.2 billion into agriculture through land reclamation, subsidized irrigation projects, and land redistribution programs. These programs undermined traditional rural authority figures, encouraged commercial farming, and transformed the rural class structure. By the 1970s, the rural class was divided into three components: absentee farmers, independent farmers, and rural wage earners.  

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5 - For more information about economic situation of Pahlavi dynasty see Theda, Skopol, (1979), "State and Social Revolution" (Cambridge, MA: Harvard University Press)

The third plan was transitional to a new time frame of five years for development plans. Oil revenues supported the US$1.9 billion national budget, which fostered an economic boom in the public and private sectors. The government concentrated its activities on heavy industries, dam building, and public utilities, as well as on expansion of oil and gas production. Private industry benefited from bank credits given as part of the third plan.

The fourth plan accelerated economic growth and integrated regional concerns into a national development program. During the fourth plan, the annual rate of growth in gross domestic product (GDP) averaged 11.8 percent, which exceeded the growth target. The strongest growth occurred in industry, petroleum, transportation, and communications. Several large projects under construction during the fourth plan included a steel mill, an aluminum smelter, a petrochemical complex, a tractor plant, and a gas pipeline leading to the Soviet border. Farming and crop production were given low priority during this period of industrialization, which widened the large gap between the industrial and agricultural sectors. The third and fourth development plans affected the urban population in particular because of the emphasis on the increased production of consumer goods and the expansion of industries such as gas and oil. Between 1963 and 1977, many industrial facilities were constructed, primarily in urban areas.

The Fifth Development Plan (1973-78) set investment at US$36.5 billion; this figure almost doubled to US$70 billion as a result of large increases in oil revenues during the period. Almost two-thirds of the capital allocated under the fifth plan was concentrated in housing, manufacturing and mining, oil and gas projects, and transportation and communications. Some
additional oil revenues were spent on ad hoc defense and construction projects rather than on the fifth plan's priority areas.

In the period between the quadrupling of oil prices in 1973 and mid-1977, Mohammad Reza Shah pushed both industrialization and the establishment of a modern, mechanized military much too rapidly. As a result, inflation increased, corruption became commonplace, and rural-to-urban migration intensified. In addition, because of a lack of technically trained Iranian personnel, the shah increasingly brought foreign consultants into Iran. This further exacerbated an already severe housing shortage in Tehran.

In mid-1977, the Shah appointed Jamshid Amuzegar as prime minister, and the latter immediately launched a deflationary program. This sudden slowdown in the economy led to widespread unemployment, especially among unskilled and semiskilled workers, which further increased the gap between rich and poor. The economic slowdown was a major factor in radicalizing large segments of the population and turning them against the Shah.

Some argue that rapid modernization created the disequilibrium that brought about the shah's fall. Others, however, stress the importance of the way in which the rapid modernization was implemented. After the economy's initial development, inequalities in income distribution were not addressed. Those at the lower end of the economic spectrum—for example, small merchants and businessmen, urban migrants, and artisans—felt disadvantaged in relation to workers in large businesses, industries, and enterprises with foreign associations. Western-educated Iranians rapidly became well-paid elite, as did factory workers. Bazaar merchants, students, and the ulama, however, did not benefit so directly from modernization.
The increased availability of health and educational resources in towns and cities that resulted from Mohammad Reza Shah's programs contributed to an explosion of the urban population. In the 1950s, urban areas accounted for 31 percent of the population; by the late 1970s, that number had increased to about 50 percent. The urban population became stratified into an upper class, a propertied middle class, a salaried (managerial) class that included the bazaar, and a wage-earning working class.

The disparity between the economic promises of the shah's regime and the results as perceived by the majority of Iran's citizens contributed to a revolutionary climate in the late 1970s. When the revolutionary regime came to power in 1979 (on the heels of the economic downturn of the late 1970s), it claimed that modernization and Westernization had nothing to offer Iran, as the recession had made evident.

In the first years of victory, not economic planning but Islamic Ideology was cited as the basis for correcting the perceived ills of Iranian society stemming from the alleged excesses of the Shah. The regime came to power criticizing Mohammad Reza Shah's failed agricultural policies and promising self-sufficiency and economic independence. The government adopted an emphasis on agriculture as the foundation of its program. To consolidate power quickly among the rural poor, the Islamic regime capitalized on popular resentment of the Shah for having largely ignored the agricultural sector.

All six of the development plans designed under the shah aimed at economic development; the Sixth Development Plan, intended for 1978-83, was never implemented because the Revolution occurred in early 1979. The First Development Plan of the Islamic Republic (1983-88) proclaimed that its
goals were to establish Iran's economic independence through self-sufficiency in foodstuffs and to reduce the country's dependence on oil exports.

The first "republican" plan focused on five points: expanding education, representing the interests of the mostazafin (the disinherited), achieving economic independence, diversifying the economy to lessen the dependence on oil and gas exports, and developing agriculture. The development plan did not include a factor for defense expenditures. Criticism of this plan resulted in its revision in 1984, although the changes were not approved by the Majlis until January 1986. The revision included an increase in the investment in agriculture (from 15.5 to 16.7 percent of the national budget) and a smaller investment in non-oil industry (the share fell to 52 percent). Projected oil revenues in this version of the plan were based on the lower oil price prevailing in 1985.

The budget for the first republican plan was US$166 billion, but the allocation of funds was delayed because of political and economic pressures. The political pressures came from newly empowered groups and individuals interested in using the social disruption caused by the Revolution to create their own financial empires, free of state control. The war with Iraq also affected funding for the first republican plan. Oil revenue shortfalls caused the first republican plan to be revised again in early 1987. The shortfalls, in combination with the expenses associated with the Iran-Iraq War, resulted in nearly half the budget being allocated to military goods. Imports of consumer products were cut in half, and projects under the development plan were given low priority. Austerity measures and increased unemployment resulted.
Gauging the relationship between government economic policy and actual operation of the economy subsequent to the Revolution of 1979 is difficult because official economic policy has been obscured by religious and ideological themes. Iran's financial system began adhering to Islamic principles after the Revolution, a process that accelerated in the 1980s. Although the Planning and Budget Organization prepared budgets, in coordination with several other ministries, the Majlis, the majority of whose members were Muslim religious leaders, was responsible for ratification.

The budget presented a financial outline within which outlays were planned for military purposes, education, and other government activities. There was an increasing discrepancy between budget estimates for the war and actual costs. Whereas the government claimed in 1982 that 13 percent of the total budget was spent on defense. However unreliable the Iranian claims about defense spending, one thing was increasingly clear: the Iranian government dedicated virtually all foreign exchange resources, including both advance drawings on revenues and uncollectible receivables (which were counted as assets) to prosecution of the war.

"Inflation was a serious issue in the mid-1980s. The increase in prices, which was beyond the control of the monetary authorities and the Central Bank--founded originally in 1960 as Bank Markazi Iran and renamed Central Bank (Bank-e Markazi) of the Islamic Republic of Iran in December 1983--began in the 1970s with the rapid rise in oil revenues and equally rapid increases in government expenditures. The latter had a multiplier effect on the money supply and added to the demand for goods and services, thereby inducing price rises. The monetary authorities attempted to minimize the multiplier effect by increasing the cost of borrowing and tightening credit."
Imports increased as a result of lower duties, relaxed quotas, and an increase in government purchases of foreign goods. Bottlenecks at the ports and elsewhere in the transportation system limited the capacity of imports to satisfy demand, however.\(^7\)

Efforts to reduce inflation date to 1973, when a serious price control program was initiated. The government took additional measures to curb inflation in May 1980 by linking the rial to the Special Drawing Rights of the International Monetary Fund (IMF) instead of the United States dollar and by encouraging investment in the private sector and growth in non-oil industries. In addition, subsidies on basic goods were increased to keep their prices down. Nevertheless, a 30\% inflation rate persisted, a black market rate on the United States dollar flourished, and foreign exchange controls continued.

Inflation was continually understated by the government. The government asserted that the inflation rate had fallen from 32.5 percent in FY 1980 to 17 percent in FY 1983 and to 5.5 percent in FY 1985; independent analysts, however, claimed that a more accurate inflation rate for 1985 was 50 percent. As essential goods grew scarcer in the wartime economy, import controls fed inflation. Prices of basic foodstuffs and consumer goods increased faster than the Central Bank admitted. The increasing cost of rental property in urban areas and continued subsidies for consumers on basic foods reflected a serious inflationary problem in the mid-1980s.

To the surprise of many, the Majlis increased the FY 1986 budget in March 1986, even though oil revenues were projected downward. The

increase went mainly to finance military spending and the steel and nuclear industries. The rising costs of the war, coupled with falling oil prices in 1986, led to the use of non-oil exports to generate revenue because oil income was no longer a guaranteed source of foreign currency. To finance short-term debts, Iran drained its small reserve of foreign currency by allowing advance drawing on revenues.8

The FY 1987 budget also reflected the priority of the war effort. The government again promised to curb inflation, to continue to subsidize basic foodstuffs, and to make available to the import sector a revolving fund of US$7 billion, presumably for consumer use.

As David Menashri explain in his book “the cumulative legacy of the Shah, the regime’s own policies, and structural changes in global markets led to a serious decline in the Iranian economy and this remains the new established Islamic Republic most pressing challenges. The revolution led to the flight of the professional class (and with it domestic capitals) and a sharp drop in foreign investment. The eight imposed war by Iraq required costly expenditure, destroyed vital infrastructures and created growing numbers of refugees. These pressures were exacerbated by rapid population, growth and urbanization, which hampered efforts to provide essential public services such as education, housing, and healthcare, basic utilities such as drinking water and electricity, and employment. Iran reliance on oil revenues to finance post-

war reconstruction made it vulnerable to the decline in world oil prices. As import increased, Tehran felt behind on its debt payments”.  

B) Evaluation of Three Five-Year Development Plans:

1-First Five-Year Plan:

The Islamic Republic of Iran's First Five Year Social, Cultural and Economic Development Plan (hereinafter the First Plan) was implemented from the periods of March \(^{10}\) 1989 to March 1994. The primary objective of the First Plan was to remove the legacy of the economic burdens brought about by the Iraqi invasion of Iran. It was within this context that the First Plan envisaged an annual growth rate of 8%, the creation of some two million new jobs, the rehabilitation and expansion of new industry and greater decentralization and private sector participation. The First Plan drew up targets for every economic sector as well as identifying key areas needing reform encompassing such areas as: \(^{11}\)

1. It is of note that even today, less than 1.6% of Iran's GNP is allocated to defense and has remained unchanged for the past four years.

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\(^{10}\) - The Iranian fiscal year begins on March 21 (1st of Farvardin in Iranian calendar) and runs through March 20 of the following calendar year.

\(^{11}\) - For a detailed analysis of the first five-year plan, see Anoushiravan Ehteshami, (1995), "After Khomeini: The Iranian Second Republic" (London: Rutledge, ch.5).
2. The move towards privatization of the economy through the gradual reduction of governmental activity in the economy and the transfer of state controlled industries and enterprises to the private sector.

3. Price liberalization of commodities and elimination of subsidies to the essential commodities.

4. Trade liberalization through the elimination of superfluous customs regulations and formalities.

5. Increase in the export of manufactured goods, growth in the agriculture sector, efficient utilization of existing industrial capacity and the attraction of new investment into this sector.

6. Re-construction of war-torn regions and major new investment in the nation's infrastructure, the means by which such objectives were to be carried out varied, however, some of the key channels included the transfer of ownership of portions of government ownership in industries and institutions to the private sector via the revival of the stock exchange, removal of subsidies on almost all but the most basic commodities and the like.

Despite a number of obstacles, including increases in population, multiple rates of foreign exchange and inflation brought on by liquidity expansions resulting from vast investment undertakings in industrial, agricultural and major infrastructural projects, the First Plan has been hailed as a success in many of its objectives.
Major achievements of the first five-year plan are as follows:  

1. The successful transfer of a significant number of public sector industries to the private sector.

2. An increase of 7.3% in Gross Domestic Product (GDP) annually.

3. An increase of per capita GDP from 197,000 Rials at the start of the Plan to 246,000 Rials in 1993 (the forth year of the plan).

4. Increase in private consumption by 7.7% and in public consumption by 5.5% per annum and successful transfer of a significant number of public sector industries to the private sector.

5. Changing in the ratio of fixed gross domestic investments to gross domestic product from 12.4% in 1988 to 16.3% in 1993.

6. Growth in agriculture at an annual rate of 5.9%; Industry at a rate of 9.1%; water, gas, electricity at 18.9% and transport at 11.9%.

7. Doubling of financial resources allocated for research in energy, education, and telecommunications from 0.18% to 0.34% of GDP.

Despite the above successes, the First Plan did reflect a few shortcomings. With the end of wartime spending, the early years of the First Plan were marked by rapid growths which were buoyed by the increase in oil production.

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13 - Rial is Iran's currency unit and one US Dollar is almost equal to 8800 Rials. This rate is not stable and it's changeable.
prices and the temporary lifting of OPEC quotas resulting from Iraq's invasion of Kuwait. As reconstruction of war-damaged areas and infrastructure took place, economic growth soared to 11.7% in the period of 1990-1991. This momentum continued until the following year, but the subsequent fall in international oil prices and a subsequent cut back on imports by the government brought about a slowdown in growth. This slowdown resulted in a real growth rate of 7.4% instead of the projected 8.1% originally envisaged by the First Plan. Additionally, macro-economic imbalances emerged including a deteriorating balance of payment and the emergence of external debt arrears which are covered in greater detail in the segment pertaining to 'Banking' of this Chapter. Additionally, despite concerted efforts, government investment still outpaced private investment 14.1% versus 8%.

2-The second five-year plan:

The Second Five-Year Social, Cultural and Economic Development Plan (hereinafter the 'Second Plan') was drawn up on the background of the achievements and failures of the First Plan.

As a result, following a one year delay so as to incorporate necessary revisions, the Second Plan has envisioned that for the period of March 1995 to March 2000, development and administrative expenditures will total $135.5 billion, greatly outpacing the expenditures accommodated by the First Five-Year Plan. The Second Plan was based on projected oil revenues of $86.5 billion.

Priorities of the Second Plan include the completion of infrastructure and development projects initiated under the First Plan including the
allocation of some $59 billion to development projects, 11.4 times higher than budgets allocated to the same sector under the First Plan. Additionally, the allocation of over $76.4 billion towards social, administrative and other expenditures represents an increase of over 580%.

The significance accorded to development projects in the Second Plan indicates a focus towards the need to attain a higher development of local technology and development of local industry.

The Second Plan also appears somewhat conservative on revenue estimates in light of the First Plan's inability to attain projected revenues as a result of the slump in oil prices that took place during the First Plan. This more conservative approach is expected to strike a better balance between revenues for the 1995 to 2000 period in which a reduction in budgetary deficits of some 82.6% lower than the First Plan is envisaged.

It is believed that during the period of the Second Plan, ongoing and newly commissioned projects that were initiated during the First Plan will have matured to the point so as to start contributing to the national income, further increasing the flow of revenue. This projection can be best exemplified by the fact that key investments under the First Plan have led to increased production in oil, refining, petrochemicals, communication systems, railroads, sea and air networks and heavy industry that have now begun to contribute to the national income. These achievements can be exemplified in such sectors such as steel and petrochemicals where importation is no longer necessary and in turn surplus output is now exported. Some major aims of second Five-Year Plan were as follows:
**Foreign Trade:** Based on the estimates made in the Second Plan, the foreign exchange earned from oil is estimated to be $72,658 million and the earnings from the export of non-oil products are expected to amount to $27,527 million. As such a sum of $91,979 million has been set aside specifically for imports during the Second Five-Year Plan reflecting a yearly increase of 4.3% per year.

**Oil-Exports:** During the Second Plan, the average annual export of oil is expected to grow by 3.4% and that of non-oil products by 8.4%.

**Employment Opportunities:** Taking into account the figures mentioned for capital investments combined with national production during the Second Plan, through the years 1995 to 2000 the creation of a total of 2,019,000 new jobs are expected to offer new employment opportunities.

**Money & Credit:** The net foreign assets and net assets of the Central Bank of the Islamic Republic of Iran (CBI) during the Second Plan are to remain fixed. Considering an expected net debt of 3.8% to the CBI and a net debt of 18.1% by government to the CBI and a growth of 33.6% in bank loans to the CBI, liquidity is expected to increase by 12.5%. Taking into account the growth in GNP and liquidity, the average annual rise in prices is expected to be 12.4%.

**Promotion of Export Facilities:** Under the Second Plan, the Export Guarantee Fund and the Export Development Bank are to be strengthened and backed by a comprehensive export insurance system.

**The Environment:** In light of global efforts at protecting the environment, the Second Plan attaches special importance to environmental protection, primarily in the areas of air and soil pollution.
**Maternal Education and Training:** The Second Plan is somewhat unique in that it pays special attention to the important role that mothers are to play in the shaping of society and its human resources. Thus a comprehensive educational program aimed at the complete eradication of illiteracy among young mothers is listed as a national priority.

**Infrastructure and Communication:** Allocation is to be provided to these sectors with the aim of laying the foundation for the long term needs of the Country (up to the year 2020) in infrastructure, communications, transportation etc. and other vital sectors.

**The Structure of Government:** One of the aims of the Second Plan is the paring down of government (through reductions in recruiting, elimination of unnecessary and wasteful programs etc.) and the transfer of many governmental functions and services to the private sector.

**Performance of the Second Plan:**

Despite a sluggish start at the beginning of the Second Plan, real GDP picked up by 7.5% in 1995/6 with the commissioning of hundreds of large and medium size projects that were initiated in the First Plan, particularly in the metals, petrochemicals and industrial sectors where value-added surged by 6% in 1995.

Highlights of the performance of the Second Plan in comparison to the First Plan reflect the continued utilization of economic growth targets set in the First Plan, however with a greater focus on fiscal policy aimed at the reduction of government borrowing, thus easing demand pressures and
reducing inflation. The latest results of the Second Plan in comparison to the gains of the First reflect the following achievements:

1) Meeting Projected Revenue Forecasts: During the period of the First Plan, approximately 94.2% of predicted revenues were realized. In 1994, this level had reached 98% of targeted income and in 1995; the figure was 99% especially following increases in tax revenues and increased oil income.

2) Elimination of Budget Deficits: Throughout the period of the Iraqi invasion of Iran, the high financial cost of the War forced the government to run up substantial budget deficits, reaching as high as 8% by 1988. Since the end of hostilities, the deficit was cut to 1% of GDP in 1992/93 and eliminated by 1994/95. The 1996 budget was successfully nominally balanced.

3-The third five-year plan:

As the Second Five Year Plan Draws to an end, the Khatami Administration, having taken the reigns of Iran's economy in 1997 is setting the stage for the implementation of its economic agenda. As highlighted earlier, the Khatami Administration has undertaken a socio-economic approach to economic development. In today's world of interdependence, creating or sustaining a nation's development is possible only when a nation's capability portfolio is driven in the right direction and in a manner by which it fits in with the general and competitive environment of the world economy.

As President Khatami rounds out his second year in office, his administration has been striving to develop policies based on a vision of capitalizing upon a comprehensive synthesis of Iran's capability portfolio which can be subsumed in the economic and cultural policies under plan. As
such, first presented in August 1998, the Economic Plan drawn up by the Khatami Administration draws heavily upon the direct correlation between a predictable and equitable institutional framework and increased possibilities for trade, investment and growth.

Key highlights of the Khatami Administrations Economic Plan include broad based administrative and legal reform as evidenced by the fact that the institutional framework foreseen in the Khatami plan comprises of the update and development of basic laws pertaining to (1) the operation of businesses, (2) industrial laws governing such matters as deregulation and privatization and (3) the protection of civil liberties and increased transparency in government.

The actual implementation of these policies can be witnessed by the mass privatization or dissolution of 4,000 State controlled enterprises or firms, of which the shares of 190 have already been prepared for flotation in the Tehran Stock Exchange, as well as the commencement of a comprehensive overhaul of Iran's taxation laws in a manner that will serve to promote and encourage investment.

Supplementing these measures have been initiatives towards broad based administrative reform as evidenced by major re-structuring of the Ministries of Oil and Mines and Metals, attraction of foreign investment, especially investment by the large numbers of Iranian expatriates living abroad, as well as achieving increases in employment and standards of living.

In light of the President's socio-economic approach to the economy, it is of little surprise that despite an emphasis on macro-economic indicators
(including total investment in the private and public sectors), inflation, employment and economic growth in Iran's Third Five Year.

"The Third Five year Development plan is formulated with a view top various aspect s of the existed realities of the country, the challenges that the economy faces and the emphasis on having a comprehensive and balanced plan. The 3rd Five Year Plan is a package of articles, policies, and guideline covering 26 sectors and intra-sectors areas and provides a comprehensive framework for resolving structural impediments and economic difficulties during the plan period. The core elements of the general policy framework of the plan are as follows:"

1. The “High Council of Administrative “will be established in order to enhance administrative and human management and structure.

2. The financial position of all state enterprises will be assessed with the aim of liquidating, privatizing, or restructuring them.

3. An effective social safety net will be put in place to replace the current generalized consumption subsidies, with the aim of supporting specific targeted groups.

4. “State Tax Organization “will be established as an independent public institution under the supervision of the Ministry of Economic affairs and Finance with the objective of raising the efficiency of the tax system and eliminating the existing organizational bottlenecks.

5. “Oil Stabilization Fund” will be created for reducing budget reliance and on oil revenue and ensuring the sustainability and preservation of notional wealth.

6. The net increase in bank’s scheduled facilities will be reduced by 10 percent on annual basis, taking 1378 approved figures as benchmark. Hence in the final year of the plan the net increase of scheduled facility will not exceed 50 percent of the approved figure of 1378. Government’s support for productive activities in the from of preferential lending rates and loan repayment guarantees will become transparent and taken care of within the government’s annual budget.

7. The amount and the term structure of official external debt will be regulated so that total external debt will not exceed 25 billion US$ and debt service ratio will not exceed 30 percent of government foreign exchange at the final year of plan period.

8. Government will issue 5,000 billion Rials, of specific participation papers for recapitalization of banks. The proceeds from the sale of these papers will be used for strengthening financial position and government capital investment of undercapitalized banks.

9. The Central Bank will prepare the condition for the operation of banks and private non-bank financial institutions.

"During the first four years of Iran’s third five-year development plan (2000-2004), its real GDP grew by 5.6% on average, the external current account was in surplus, external debt was reduced to a very low level, international reserves increased and the unemployment rate declined. This
performance, described in the International Monetary Fund’s latest Article IV Consultation, has taken place as Iran’s economy has become increasingly open to international trade and investment. It has also been achieved against a background of economic reforms, sustained high oil prices and expansionary fiscal and monetary policy."  

These positive developments have been associated with strengthened confidence in the economy, which has encouraged a rise in private sector activity and foreign direct investment, notably in the non-hydrocarbon sector. The IMF report considered Iran’s key challenges to be further strengthening the foundations for strong and sustained economic growth and diversifying to provide the basis for continued job creation in an environment of macroeconomic stability.

Endorsing the latest reform efforts, the IMF supported the Tehran government’s intention to tighten monetary policy and welcomed measures to contain domestic liquidity growth, such as stepping up its sterilization operations. It also suggested curtailing the use of direct credit controls, introducing more market-based flexibility in setting rates of return and limiting the recourse by banks to the central bank’s overdraft facilities. In further supportive measures, the IMF directors welcomed the licensing of private banks and leasing companies and backed Iran’s actions to restructure public banks and strengthen their capital base.

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Table 4-1 - Quantitative Targets in Third Five-Year Plan

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<th>1379-83 (2000-2004) (Percent)¹⁶</th>
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<tbody>
<tr>
<td></td>
<td>Annual Average</td>
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<tr>
<td>GDP</td>
<td>6.0</td>
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<tr>
<td>Non-oil GDP</td>
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<td>Total investment</td>
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<td>Private</td>
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<tr>
<td>Public</td>
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<td>Private consumption</td>
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</tr>
<tr>
<td>Public consumption</td>
<td>2.5</td>
</tr>
<tr>
<td>Liquidity</td>
<td>16.4</td>
</tr>
</tbody>
</table>

C) Oil and Gas are Vital for the Economy:

"According to the Oil and Gas Journal, Iran holds 125.8 billion barrels of proven oil reserves, roughly 10% of the world's total, up from 90 billion barrels in 2003.¹⁷ The vast majority of Iran's crude oil reserves are located in giant onshore fields in the southwestern Khuzestan region near the Iraqi border and the Persian Gulf. Iran has 32 producing oil fields, of which 25 are

¹⁶ - Ibid.

¹⁷ - Note: in July 2004, Iran's oil minister stated that the country's proven oil reserves had increased again, to 132 billion barrels, following new discoveries in the Kushk and Hosseineh fields in Khuzestan province.
onshore and 7 offshore. The onshore Ahvaz, Marun, Gachsaran, Agha Jari, and Bibi Hakimeh fields alone account for about two-thirds of Iran's oil production. Most of Iran's crude oil is low in sulfur, with gravities in the 30°-39° API range.\textsuperscript{18}

In October 1999, Iran announced that it had found its biggest oil discovery in 30 years, a giant onshore field called Azadegan located in the southwestern province of Khuzestan. According to Iran's Oil Minister Zanganeh, the Azadegan field could contain 26 billion barrels of oil, with potential production of 400,000 barrels per day. Also according to Zanganeh, development of Azadegan could begin by the end of March 2001. The field reportedly is to be developed using the "buy-back" model.

Since 1995, the National Iranian Oil Company (NIOC) has made several sizable oil discoveries. These include the 2.5-billion-barrel Darkhovin field, located offshore Abadan and containing low sulphur, 39° API crude oil. NIOC aims for initial production from Darkhovin of 30,000 barrels per day (bbl/d), with a second phase peak of 60,000 bbl/d. Production goals are still uncertain, though, and further appraisal is required.

Iran is OPEC's second-largest oil producer, with average 1999 crude oil production of 3.6 million bbl/d. Iran's current sustainable production capacity is estimated as high as 4 million bbl/d, but this figure is controversial since Iran may have maintained production levels at some older fields only by using methods which have permanently damaged the fields. Iran produced 6 million

\textsuperscript{18} - \textit{Oil and Gas Journal}, January 1, 2004.
bbl/d in 1974, but has not produced more than 3.7 million bbl/d since the 1978/79 Iranian revolution.

In June 1998, Iran agreed to reduce its production by 305,000 bbl/d, and in March 1999, Iran agreed to a further cut of 264,000 bbl/d as part of an OPEC quota agreement. As of April 1, 1999, Iran's new production quota was set at 3.359 million bbl/d. With production running around 3.5 million bbl/d as of early 2000, and with consumption of 1.2 million bbl/d, Iran currently is a net exporter of around 2.3 million bbl/d, around half of Iran's oil exports go to Asian markets, with the remainder going to Europe and Africa.

Iran contains an estimated 812 trillion cubic feet (Tcf) in proven natural gas reserves -- the world's second largest and surpassed only by those found in Russia. The bulk of Iranian gas a reserve is located in non-associated fields, and has not been developed, meaning that Iran has huge potential for gas development. Besides domestic consumption, which is growing rapidly, Iran also has the potential to be a large natural gas exporter. In 1998, Iran produced about 1.9 Tcf of natural gas. Currently, natural gas accounts for around 40% of Iran's total energy consumption.

Iran's largest non-associated natural gas field is South Pars, geologically an extension of Qatar's 241-Tcf North Field. South Pars was first identified in 1988 and originally appraised at 128 Tcf in the early 1990s. However, NIOC-sponsored studies conducted in mid-1996 indicate that South Pars contains an estimated 240 Tcf of gas, of which a large fraction will be recoverable, and at least 3 billion barrels of condensate. Iran's other sizable non-associated gas reserves include the offshore 47-Tcf North Pars gas field (a separate structure
from South Pars), the onshore Nar-Kangan fields, the 13-Tcf Aghar and Dalan fields in Fars province, and the Sarkhoun and Mand fields.

The dual Aghar-Dalan field development has been one of National Iranian Gas Company's (NIGC) recent successful gas utilization projects. Since coming on line in mid-1995, the Aghar and Dalan fields have produced approximately 600 million cubic feet per day (Mmcf/d) and 800 Mmcf/d, respectively. Gas from both fields is processed at a $300-million gas processing facility at the Dalan field, which is also the location of a 40-MW, gas-fired power plant. Most of the treated gas from the Dalan processing plant is carried through a 212-mile pipeline for re-injection in the Marun field and other oil fields in Khuzestan province.

Although domestic gas consumption is growing rapidly, including use as a motor fuel, Iran continues to promote export markets for its natural gas. Possibilities include pipelines to Turkey, Armenia, Europe, Pakistan, and India, plus the possibility of an LNG facility for producing exports to Asia.

In 1996, Iran and Turkey signed a $20-billion agreement that calls for Iran to supply Turkey with natural gas over a period of 22 years. Exports of Iranian gas to Turkey were slated to start in 1999 at an initial rate of 300 Mmcf/d and rise to a level of 1,000 Mmcf/d in 2005. In November 1998, Turkey began construction of a 623-mile pipeline that could transport gas westward from Iran. In January 2000, Iran said that it accepted Turkey's request to delay the purchase of Iranian natural gas until September 2001. Turkey said that it had been unable to complete its portion of the pipeline due to economic problems.
D) Post-Khatami Economic Situation:

Iran's economy, which relies heavily on oil export revenues, was hit hard by record-low oil prices during 1998 and early 1999, but with the rebound in oil prices over the past years, has begun to recover somewhat. For 1999, Iran's gross domestic product (GDP) grew by 2.5%. For 2000, Iran's real GDP is expected to grow at a more rapid, 4.2% rate.

Besides persistent unemployment and inflation, other problems faced by Iran's economy include: a rapidly growing, young population with limited job prospects; heavy dependence on oil revenues (about half the state's budget and 80% of the country's hard currency earnings); $16 billion in external debt (including a high proportion of short-term debt); expensive state subsidies on many basic goods; a large, inefficient public sector and state monopolies (Bonyads, which control at least a quarter of the economy and constitutionally are answerable only to supreme leader Ayatollah Ali Khamenei); and international isolation and sanctions.

In September 1999, President Khatami announced an ambitious program to privatize several major industries, including communications, post, rail, and tobacco, as part of the "total restructuring" of the Iranian economy called for in the country's latest five-year economic plan (which begins in March 2000).

Among other measures, a partial float of the Rial is being considered, as is the privatization of some 2,400 state-owned firms. Also, Iran is attempting to diversify by investing some of its oil revenues in other areas. Iran also is hoping to attract billions of dollars worth of foreign investment to the country
by creating a more favorable investment climate. This would involve a variety of measures, including possible constitutional amendments, reduced "red tape," reduced restrictions and duties on imports, creation of free-trade zones, and increased safety of foreign investments. In October 1999, Iran's government reportedly decided to open up its mining and metals sectors to foreign investors.

On February 18, 2000, Iran held its sixth parliamentary elections since the 1979 Islamic revolution. Results of the elections indicated an overwhelming (over 70% of the vote) victory for the reformist coalition called the Second of Khordad Movement, after the date on the Iranian calendar of President Khatami's election (in 1997). In the wake of the election, US President Clinton called for a "constructive partnership with Iran."

Shortly after the reformist coalition victory, a leading conservative, Mohammad Reza Bahonar, acknowledged that although "we will not change our principles and positions...it is natural that we should reconsider our policies and methods." The effect of Iran's recent elections on the country's energy sector at this point remains uncertain.

E) Performance and Prospect of Iran Economy in the New Millennium:

The Management and Planning Organization (MPO), in a report on the country's economic situation, predicted that the gross domestic product (GDP) with a growth rate of 5.5 percent will reach 19,501 billion rials in the current Iranian calendar year. It further went on to say that this figure is expected to increase to 20,769 billion rials by making an increase of 6.5 percent next year.
The MPO predictions are however indicative of a relative improvement in the distribution of income, a reduction in the inflation rate and an increase in the unemployment rate as a result of the rapid rise in the number of workforce during the current year and in the next year.

The report further added that according to the statistics released by the Central Bank of Iran, economic growth at fixed prices in 1379(2000-2001) was 5.9 percent, 4.5 percent higher than the target stipulated in the Third Development Plan. Such an increase was mainly due to the brisk economic activities resulted by the increase in various production sectors, especially in the industries and mining, oil and construction fields. Import of intermediate and capital goods also registered an increase, which in turn resulted in growth of investment.

Given the prospects for economic growth and increase in hard currency income, it is predicted that the demand for import of intermediate and capital goods take a constant upward trend. And thus the economic growth of the country is expected to register 5.5 and 6.5 percent for 1380(2001-2002) and 1381(2002-2003) respectively, as has been stipulated for the Third Development Plan.

Elsewhere in its predictions about the rate of inflation, unemployment and distribution of revenues, the MPO said that on the basis of the report by the Central Bank of Iran (CBI) in 1379(2000-2001), inflation rate stood at 12.6 percent. This figure was remarkably short of the 19.9 percent figure stipulated by the Third Development Plan.
On the other hand, factors affecting the rate of inflations have neutralized negative impacts of other variables such as increase in volume of liquidity and rise in the price index of imported goods and services. The growth rate for liquidity was reported at 29.3 percent in 1379(2000-2001). The liquidity growth rate took a momentum in the closing months of last year; however, it is expected that its inflationary impacts will be demonstrated in the current year. Meanwhile, the unemployment rate in 1379(2000-2001) registered a decrease, which was mainly due to the simultaneous drop in the inflation rate.

According to the statistics of the macro-economy department of the Management and Planning Organization, unemployment rate is expected to reach 16.2 percent in the period 1380-1381(2001-2002) due to the rapid growth in the supply of workforce to the market.

The Gini coefficient as an index for distribution of revenues was 0.424 in 1379(2000-2001) showing a drop (improvement) of about 8 percent as compared to the figure 0.432 for the preceding year. Such a relative improvement was due to the rise in the gross domestic product (GDP) at fixed prices as well as the shrinking inflation rate. Therefore, according to stipulations, with the rising growth in the real sector of economy and the fall in inflation rate, the Gini coefficient in 1380(2001-2002) will drop to as low as 0.422, showing a constant trend of improvement in distribution of revenues.

On the other hand, private investment at fixed prices in 1379 (2000-2001) registered an increase of 9.8 percent, much higher than the figure stipulated in the Third Development Plan (6.1 percent). The increase was mainly due to economic growth and increase in the import of capital goods.
Therefore, if import of capital goods takes the same trend it did last year, it is predicted that private investment at fixed prices in the period 1380(2001-2002) and 1381(2002-2003) will register 9.5 and 9.7 percent increase respectively.

Meanwhile, government investment at fixed prices showed a growth of 5.5 percent last year that was almost in agreement with the stipulations of the Third Development Plan. It is also anticipated that government investment at fixed prices will register 8.7 and 2.4 percent increase respectively in the period 1380 and 1381(2001-2002).

According to the CBI report, private consumption at fixed prices showed a growth of 4.2 percent in 1379(2000-2001). Private consumption is a subordinate to the real income and real volume of money in circulation as the index of wealth and real income will further grow in coming years due to increase in economic growth and drop in inflation rate. Therefore, it is expected that private consumption at fixed prices take an upward trend and register 3.4 and 3.5 percent increase in the years 1380(2001-2002) and 1381(2002-2003), respectively.

Government consumption expenses at fixed prices registered an increase of 1.1 percent in the year 1379(2000-2001), showing a drastic difference as compared to the stipulations of the Third Development Plan (6.1 per cent). The reason is that since the nominal growth in the current budget of the government is almost the same as the rate of inflation, real expenses of government showed no outstanding growth in the year 1379(2000-2001). Meanwhile, the nominal growth of current government expenses is expected at about 24.1 and 14 percent for the years 1380(2001-2002) and 1381(2002-
2003) respectively and inflation rate for the same period at about 17.4 and 15.3 percent. Therefore, the growth of government consumption expenses at fixed prices in 1380(2001) is predicted at 6.7 percent, which is above the stipulations of the Third Development Plan. To this end, there is an urgent need to observe monetary discipline in the public sector in order to control government consumption and prevent inflationary pressures in the years 1380(2001-2002) and 1381(2002-2003), especially taking into account, the unexpected increase in volume of liquidity in the year 1379(2000-2001). The following table shows gross domestic product and its categories in the period 1378-81(1998-2003).

**Table 4-2- Gross domestic product and its categories [Billion rials at fixed prices in 1369(2000)]**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>17455</td>
<td>18485(5.9)</td>
<td>19501(5.5)</td>
<td>20769(6.5)</td>
</tr>
<tr>
<td>Private consumption</td>
<td>10464.2</td>
<td>10788(4.2)</td>
<td>11155(3.4)</td>
<td>11546(3.5)</td>
</tr>
<tr>
<td>Government consumption</td>
<td>2337.8</td>
<td>2361(1.1)</td>
<td>2521.3(6.7)</td>
<td>2546.5(1)</td>
</tr>
<tr>
<td>Private investment</td>
<td>1495.4</td>
<td>1642(9.8)</td>
<td>1798(9.5)</td>
<td>1972(9.7)</td>
</tr>
<tr>
<td>Government investment</td>
<td>999.5</td>
<td>1054(5.5)</td>
<td>1145.7(8.7)</td>
<td>1173.2(2.4)</td>
</tr>
</tbody>
</table>
The Third Development Plan stipulated hard currency revenues obtained through export of oil in the years 1379(2000-2001), 1380(2001-2002) and 1381(2002-2003) at 11.08, 10.86 and 11.50 billion dollars respectively. But, due to the price hike in the said period the figures increased drastically to the extent that oil revenues in the year 1379(2000-2001) amounted to about 20.524 billion dollars. Meanwhile, it is expected that if no major change is made in the price of oil, hard currency revenues for the years 1380 and 1381 will amount to 19 billion dollars annually. With the hike in oil revenues it is predicted that import of goods and services will also register an increase in the years 1380(2001-2002) and 1381(2002-2003) at about 17 and 18 billion dollars respectively. The figure amounted to about 15.2 billion dollars in the year 1379(2000-2001).

Meanwhile, non-oil exports earned the country 4.1 billion dollars in hard currency in the year 1379(2000-2001) which showed an increase of 4.5 percent. Based on the predictions, non-oil exports will amount to about 4.32 and 4.54 billion dollars for the years 1380(2001-2002) and 1381(2002-2003) respectively.

A study of the government budget for the year 1379(2000-2001) shows that about 97 percent of government revenues, 86.7 percent of tax revenues, 122.7 percent of oil revenues, 123.7 percent of revenues obtained through selling foreign exchange and 78.4 percent of other revenues have been realized. Obviously, the increase in the figures stipulated in the Third Development Plan for oil revenues and revenues obtained through selling hard currency has been the result of the hike in oil prices at the world market.
The share of tax revenues out of the total general revenues of the government in the year 1379(2001-2002) amounted to about 30 percent which is predicted to further jump to 34 percent in the years 1380(2001-2002) and 1381(2002-2003). Furthermore, it is also expected that the share of oil revenues, which stood at about 19.2 percent in the year 1379(2000-2001) drop to about 16.7 percent in the year 1380(2001-2002).

It is expected that on the basis of plans, which are aimed to reform the structure of government budget oil revenues are to be considered as national wealth and revenues obtained through export of oil no more assessed as government revenues. This would result in a considerable increase in the share of other categories in government revenues.

Government expenses in the year 1379(2000-2001) were about 108316 billion Rials and the figure is expected to make about 30 and 15 percent increase for the years 1380(2001-2002) and 1381(2002-2003) respectively. The high rate of government expenses in the year 1380(2001-2002) was mainly due to the outstanding rise in development expenses, which made a growth of about 63 percent. Furthermore, it is expected that current government expenses will make a rise of about 22 and 14 percent in the years 1380(2001-2002) and 1381(2002-2003) respectively. Therefore, it can be said that in the said period current government expenses at fixed prices will make no considerable growth.

F) The Impact of Political Development on Economy:

One of the most important features of the Iran's political economy is the primacy of politics over economy. In other words, Iran's economy in the Pre
and Post-Revolution always depended on the political atmosphere and political culture that overrule the society and not on the economic parameters and factors. This is an age-old characteristics of Iran's economy and it is still persists.

If someone analyzes the history of Iran's economic developments, the most important factor is depending of economic developments on the political evolutions. For example, if there were no any major upheaval changes in the political scene then, there was no change in the economy. But this is a weak point of Iran's economy and one of the main reasons of Iran's underdevelopment in the past and present. Furthermore, The Iranians paid high expenses for this traditional problem in their economy.

John Furan in his research about the core reason of this problem in the history of Iran from the Safavid dynasty till Pahlavi, come to this conclusion that" all the economy decision makings in this long period of time have political nature and a few exception. For example, Land Reform at the time of Mohammad Reza Shah in Iran was not only an inefficient decision for farmers and did not make any major change in agriculture section but also, caused a mass migration of farmers from their villages to the big cities. Moreover, this Reform did not bring any industrialization for Iran. But Land Reform in British in 17th century made the bourgeois class in that country and then caused the Industry Revolution a foremost economic change." 19

Now it is very important to analyze that does this process continue in Post-Revolution Iran? Let us have a brief look at the political experiments of

the six parliaments after Revolution and the economic rules and regulations they followed.

"The political atmosphere of the first parliament (1980-1984) considerably affected by the atmosphere of the first years of the victory of the Islamic Revolution so, the government oriented economy was an ideal in that time and most of the members of the parliament were pro governmental economy. A lot of economy rules and regulation of this parliament was against the private sector and pro government oriented economy."  

Some of the focal economic rules ratified by that parliament included prohibition of purchase and sell of dwelling, establishment Offices issuing license for buying housing in big cities and the foreign commerce came under the complete control of the government. Moreover, Nationalization of banks and insurance sector and rules regarding the "bank operations without profit" (Ammaliyat-e Bankdari-ye Beddoon-e Reba) ratified.

The above political atmosphere continued in the second Post-Revolution parliament (1984-1988). In addition it was badly affected by Iran-Iraq war. Therefore, the most important economic ratifications of that time were punishment and severe punishment of hoarders. In that time the distribution of all the essential goods were under the entire control of government. So, hoarding of essential goods and commodities were the most important economic problems of the country.

In the third parliament (1988-1992) the political atmosphere of the country was changed because the war stopped. At that time the reconstruction

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20 - Iran Newspaper, March 10, 2003, pp.11-12
of the country was the most top priority of the society. Consequently, the ratification of the First Five-Year Development Plan in that parliament was the most important one. Not surprisingly, the dominant economic point of view of that time was government oriented economic system.  

In the forth parliament (1992-1996) the trust was more on the Right and not Left economic point of view and that too, the Traditional Right not the modern one. The Second Five Year Development Plan ratified in that parliament. Moreover, the rules of Free Trade Zones were another important economic ratification of that parliament.

In the fifth parliament (1996-2000) there were two political blocs one Traditional Right and the other was Servants of Construction a technocrat party that was established in Post-War era. The most important ratifications of that parliament viz, rules of establishment of non-governmental banks, regulations on building rental flats for new marriage family and the rules of the Third Five Year Development Plan.

The sixth parliament was established after the Second Khordad Movement. In that parliament the Right as well as the Left economic perspectives continued to persist, but the overruling was pro non-government economic system and the ratification viz, reform of the tax rules, rules of how to attract foreign investments, rules on reform of the check rules and rules of aggregating of tariffs, proved this idea.

**G) Reactions and Responses of Different Sections of the Society:**

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21 - Ibid.
The new turn that the Iranian political economy took under Khatami regime, obviously evoked several reactions and responses from the different sections of the society, particularly from women, workers, students and peasants. In this regard, it is useful to analyze the reaction of women, industry workers, students and peasants.

"The Iranian economic system ever since 100 years ago when the conflict between its traditional mode and the modern industrial economy (product based economy) started has been plagued with, entangled in and effected by political decisions and behaviors. Some experts consider this deplorably sad state of affairs as the result of the state domination and the influence of crude oil exports over the Iranian economic system. In the recent decades, the issue of globalization of economies and investments have also exaggerated and exacerbated the previous problems." 22

As a matter of fact, Iranian economy has been infused with different structural inadequacies both before and after the revolution. These problems have proved to be quite persistent and have nothing to do with the present administration.

The heavy dependence of the economic structure on oil revenues has an extensive background and dates back to a long time ago and is not something that the Khatami administration has created. This structural dependence has brought about the effect that whenever the international crude oil markets have been hit with unexpected and severe shocks and fluctuations, the aftershocks have had an immense influence on Iranian economic system.

which reduced them to shambles, particularly as concerns the government budget.

The immensely centralized state controlled economy is another fundamental problem for the Iranian economy, which has been in effect for a long time and should moreover not be blamed on Khatami’s administration. The state has a substantial share in the economic activities and a fundamental distribution of obligations and responsibilities between the public and government sectors has never been pronouncedly effected. This latest difficulty has been exacerbated by the unique characteristics of the country's constitution in the post revolutionary era. There have been some efforts made in the past few years to transform the existing structure; all the same, nothing of substance has taken effect in this regard so far and inefficient and huge state establishments still exist." 23

Some analysts like Hooshang Amirahmadi, an Iranian intellectual believe that "Iran is decades behind in technological development and this is despite the fact that its people could have created a powerful competitive economy. Iran is particularly decades behind in the seven or eight key industries of our age: electronic, telecommunication, computer hardware and software, new materials, biotechnology, civil aviation, and genetic engineering. Iran spends less than 0.1 percent of its GNP on Research and Development (R & D). Compare this figure to the figure for South Korea, 4 percent of GNP.

Moreover, Iran’s foreign investment also remains miniscule only $400 million are invested in non-oil sector by foreign capital in Iran since the

23 - Ibid.
revolution. Iran’s manufacturing value added per capita in 2001 was only $285 (1990 US dollars) compared to $876 for the developing countries. Iran is undeveloped and largely isolated from the international markets. Iran continues to mismanage its economy, which has declined relative to the years immediately preceding the revolution. Managers are appointed on ideological and relational bases, not on the basis of expertise or merit. Corruption and rent-seeking is rampant and the government dominates and leads the economy at the expense of the private sector, except for a well-connected minority.

Socially, too, there are disturbing developments in the country when compared to developments globally. Some 30 percent live below the poverty line and the female share of the total earned income is about 10 percent. Women are also repressed politically more than the men. The youth unemployment stands at over 30 percent, and the annual rate of brain drain is 5 for every 1000 Iranians. The young Iranians, seventy percent of Iranians are below 30 years; also suffer from the lack of social recreations. Many are addicted to drugs. Ethnic groups remain restless and some are plotting with foreign forces for separatist movements.”

It is at this backdrop let us seeing how different segments of the society perceived the recent economic changes.

Iran’s technocrats recognize the country's deepening economic predicament. Muhammad Khazai, the deputy minister of economy and finance, has acknowledged that Iran will need $20 billion in investment every year for the next five years if it is to provide sufficient jobs for its citizens.

24 - Hooshang, Amirahmadi, "A Vision for the Place of Iran in the New World", Professor and Director, Center for Middle East Studies, Rutgers University, New Brunswick, NJ, USA, March 29, 2004.
The oil industry—the lifeblood of Iran's economy—faces an even more daunting challenge. The National Iranian Oil Company estimates that $70 billion is needed over the next ten years to modernize the country's dilapidated infrastructure and is counting on foreign oil companies and international capital markets to provide approximately three-quarters of those massive investments. Given the clerical elite's inability to reform the economy, foreign investments have become critical to Iran's economic revival. Khazai insists, "We should be thinking of drawing foreign investments and [of] preparing the ground for [an] inflow of foreign capital." 25

Some officials have gone so far as to suggest that Iran's economic difficulties cannot be redressed if Tehran continues to have such a tense relationship with the United States. The exasperated head of the Management and Planning Organization, Hamid Reza Baradaran Shoraka, has noted that "among the major obstacles to the country's economic development are the economic sanctions imposed by Washington. Continued antagonism toward the United States would hardly ensure that these sanctions are lifted." 26

26 - Ibid.
A-Women:

Women represent half of the population of the country. That their role in society and also in economic life is most important and it has always been universally agreed upon. In spite of this argument, women’s role is conditioned not only by the economic framework, but also by social and cultural factors of long standing. In many developed countries at least, very close to 50% of the economically active population are women, whereas women’s activity rate in developing societies is less. Women’s role in the labor market in Iran merits examination in terms of human resources development, social values, family conditions and employment policies and practice. 27

Although, women’s participation in society is the key not only to their own welfare, but to that of the whole society, only 6.4 per cent of Iranian women were economically active in 1994. This rate is very low relative to males in the country and to females elsewhere as well as to the rate in 1956 in Iran. The importance and necessity of women’s participation in economic activities have not received the required emphasis to encourage their economic activity in paid work due to public perceptions. The employment rate for women was only 8.0 per cent, which is less than those 40 years ago. In work more than 62 per cent of employed women were working in non-skilled jobs. The lower-literacy rate of women (55.0 per cent in 1995) and the existence of

discrimination amongst females seeking jobs by employers due to legal support for employed women may have contributed to this situation.

Women's employment rate in industrialized countries stands at 40%. There are various reasons for the low rate of employment among Iranian women, most important of which are

(1) - Illiteracy or lack sufficient education and skills,
(2) - Legislative support for women workers and
(3) - The fact that a large number of Iranian women are housewives and their husbands did not let him to work outside,
(4) - Some of the Iranian men opposed that their women work outside.

**Table 4-3-** Economically Active Population Aged 6+, 1956-1994 (Millions)

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<tbody>
<tr>
<td>Total Female Population (m)</td>
<td>9.3</td>
<td>12.1</td>
<td>16.3</td>
<td>24.2</td>
<td>27.1</td>
<td>29.1</td>
</tr>
<tr>
<td>Female Economically Active Population (m)</td>
<td>0.6</td>
<td>1.0</td>
<td>1.4</td>
<td>1.3</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Female Activity Rate (%)</td>
<td>(6.2)</td>
<td>(8.3)</td>
<td>(8.9)</td>
<td>(5.4)</td>
<td>(5.9)</td>
<td>(6.4)</td>
</tr>
<tr>
<td>Male Activity Rate (%)</td>
<td>(56.9)</td>
<td>(50.7)</td>
<td>(48.1)</td>
<td>(45.5)</td>
<td>(45.6)</td>
<td>(44.3)</td>
</tr>
</tbody>
</table>

Figures in parentheses in this table & other tables are percentages.
Source: Iran Statistical Centre

As table 1 above indicates, only 6.4 per cent of women were economically active in 1994. This means that from every 16 females only one woman was employed outside the home or was seeking a job. Much can be found out from this figure. Firstly, the activity rate is very low for females in Iran at 6.4 per cent relative to males at 44.1 per cent, though both rates are low compared to those of other countries.

Secondly, the activity rate is also low for Iranian women relative to females elsewhere. The figure for the geographical region where Iran is located was 47 and for the world 37 per cent in the year 1991. In 1994, the level of Iranian women’s participation in the labor market ranked lowest in the author’s study of more than 100 countries.

Thirdly, the female activity rate in 1994 is close to what it was in 1956 in Iran, while elsewhere there has been a general increase in female activity rates. Fourthly, as the proportion for women aged 10 years and upwards is presented in table 1, the activity rates shown will be lower than if the calculation was restricted to age groups which are likely to have left secondary education or who are not too old to work. To this end the activity rate for women aged 15-64 years is considered, but this rate at 10.9 per cent is also quite low. The case of activity rate for women aged 15-64 years old rests therefore on the same sort of arguments as in the analysis of activity rate for women aged 10 years and over.

Thus, it is clear that the participation rate in economic activity amongst Iranian women is quite low and this leads the total activity rate in the country to be low relative to elsewhere. Economically inactive women aged 15 years

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and over are often involved in housekeeping. Since the average marriage age for Iranian girls is 17.4 years the economically inactive females aged 15 years and over are considered to get a clearer idea about the proportion of housewives. Table 2 depicts that 84.3 per cent of women aged 15 years and over have no participation in economic activity in society due to being housewives and 13.4 per cent do not participate in paid economic activity because they are attending school.

**Table 4-4** - Economically Inactive Women Aged 15+, 1994 (Thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Economically Inactive Female Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>15261.3</td>
</tr>
<tr>
<td>Per cent</td>
<td>(100)</td>
</tr>
</tbody>
</table>

Percentages do not add to 100 per cent due to rounding error.

source: Iran Statistical Centre

**1-Employment rate:** Given the low-activity rate of women, it is obvious that the number of employed women is quite low both absolutely and relatively. Despite the legal prohibition, there are a number of girls below 15 years of age in the labor force and that the majority of them are in the 10-14 years age group. Thus, table 3 considers employed women aged 10 and over to get a more actual idea on women's employment rate. As this indicates the proportion of women of 10 years and over in paid employment was 7.6 per cent in 1994, a slight increase on 1991. The proportion had been higher at 11.0 per cent in 1966, but began to fall thereafter. Thus, three points are evident:
first, few women were working in 1994 (and previously); second, the proportion working had fallen since the 1970s but, third, the actual number of women working in 1994 was in fact a little higher than in 1976. However, the growth in the female population has not worked through to produce many additional employees.

**Table 4-5** Employed Women Aged 10+, 1956-1994 (Millions)

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<tbody>
<tr>
<td>Women Aged 6+ (m)</td>
<td>6.3</td>
<td>8.2</td>
<td>11.2</td>
<td>16.0</td>
<td>18.7</td>
<td>21.1</td>
</tr>
<tr>
<td>Employed Women Total (m)</td>
<td>0.6</td>
<td>0.9</td>
<td>1.8</td>
<td>1.0</td>
<td>1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Per cent (1956=100)</td>
<td>(9.5)</td>
<td>(11.0)</td>
<td>(16.1)</td>
<td>(6.2)</td>
<td>(6.4)</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Index (1956=100)</td>
<td>100</td>
<td>116</td>
<td>196</td>
<td>65</td>
<td>67</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Iran Statistical Centre

The situation of women’s employment in rural and urban areas was the same in terms of the low proportion working and the trend of changes. The proportion of women employed fell between 1956 and 1994 in both the rural and urban areas and to very much the same degree until 1991. In 1994, the proportion of women working in rural areas was slightly higher than in 1956, while the urban was still less than in 1956. Thus, it is amongst the educated, more sophisticated urban women that employment is lowest.

**2-Unemployment rate for women:** Despite the fact that women have little share in employment, unemployment has increased amongst women in the last 40 years.
Table 4-6: Unemployed Women Aged 6+, 1956-1994 (Thousands)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Economically Active Women</td>
<td>575.6</td>
<td>999.8</td>
<td>2050.4</td>
<td>1319.7</td>
<td>1629.6</td>
<td>1864.0</td>
</tr>
<tr>
<td>Employed Women</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (m)</td>
<td>2.3</td>
<td>89.8</td>
<td>202.1</td>
<td>332.6</td>
<td>398.4</td>
<td>244.8</td>
</tr>
<tr>
<td>Per cent</td>
<td>(0.4)</td>
<td>(9.0)</td>
<td>(9.9)</td>
<td>(25.2)</td>
<td>(24.4)</td>
<td>(13.2)</td>
</tr>
<tr>
<td>Index (1956=100)</td>
<td>100</td>
<td>2250</td>
<td>1725</td>
<td>6300</td>
<td>6225</td>
<td>3300</td>
</tr>
</tbody>
</table>

In 1994, some 13.2 per cent of economically active women were unemployed. The unemployment rate for women has been rising over the last four decades and reached a peak in 1986 at 25.2 per cent. In 1991, the trend started declining slightly and was halved in 1994, but was still high and it was 33 times that of 1956. In addition to the high unemployment rate, the duration of unemployment for women (and also men) is lengthy (table 5). Table 5 depicts that 43.2 per cent of unemployed women have been seeking a job for more than 3 years and 83.0 per cent for over one year.

**3-Working hours:** Another aspect of employment concerns the hours worked per day or week. In Iran, as commonly elsewhere, women work fewer hours than men. While the average national working hours were 51 hours weekly, the average working hours of women were only 40.1, over 10 hours less than the men at 51.6 hours per week (ISC, 1995). The part-time work that often suits married women in other countries is not common in Iran.
4-Women’s jobs: Women are often involved in low-paid jobs and jobs that need few skills or special training. Table 6 depicts that 1994, about 32.6 per cent of economically active women were working in relatively skilled jobs (the first three categories). This compares with a mere 4.4 per cent in 1956. The big expansion was in professional, technical and related work followed by clerical and related work, but the administrative, managerial and related work saw a slight decline. It should be noted that the relatively high rate of women’s employment in professional, technical and related work in 1994 includes jobs in the educational and medical fields, such as teaching, nursing and medical practice. Some ministries and organizations employ women because of their efficiency in doing certain jobs.

Table 4-7- Distribution of Economically Active Women Aged 6+ by Occupation, 1956-1994 (Per cent)

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Index</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1956=100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional, technical and related work</td>
<td>(3.1)</td>
<td>(5.2)</td>
<td>(9.5)</td>
<td>(25.3)</td>
<td>(28.1)</td>
</tr>
<tr>
<td>Administrative, managerial and related work</td>
<td>(0.13)</td>
<td>(0.04)</td>
<td>(0.07)</td>
<td>(0.1)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Clerical and related workers</td>
<td>(1.2)</td>
<td>(1.4)</td>
<td>(3.2)</td>
<td>(3.3)</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Skilled jobs</td>
<td>(4.4)</td>
<td>(6.6)</td>
<td>(12.8)</td>
<td>(28.7)</td>
<td>(32.6)</td>
</tr>
<tr>
<td>Sales workers</td>
<td>(0.9)</td>
<td>(0.5)</td>
<td>(0.4)</td>
<td>(0.8)</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Service workers</td>
<td>(18.9)</td>
<td>(11.2)</td>
<td>(3.4)</td>
<td>(2.3)</td>
<td>(2.6)</td>
</tr>
<tr>
<td>Agricultural and related workers</td>
<td>(27.3)</td>
<td>(20.1)</td>
<td>(41.4)</td>
<td>(19.8)</td>
<td>(13.9)</td>
</tr>
<tr>
<td>Others</td>
<td>(48.0)</td>
<td>(51.0)</td>
<td>(33.2)</td>
<td>(17.2)</td>
<td>(36.7)</td>
</tr>
<tr>
<td>Workers not classifiable by occupation</td>
<td>(0.5)</td>
<td>(1.6)</td>
<td>(1.8)</td>
<td>(6.4)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>(0.4)</td>
<td>(9.0)</td>
<td>(6.9)</td>
<td>(25.2)</td>
<td>(13.2)</td>
</tr>
<tr>
<td>Total Economically Active</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

* Not applicable
Source: Iran Statistical Centre
Women also tend to work principally in service occupations. The jobs occupied by women in the service sector fall in the three categories of education, including teachers and employees of day care centers, and medical fields, including nurses, midwives and physicians, and civil servants, including secretaries and other office jobs. Those women who works in the industrial sectors are noticeably absent from the construction, mining and electricity and water industries.

Table 7 depicts that in 1994 about 37.4 per cent of economically active women were involved in manufacturing, 34.9 per cent in services and 13.9 per cent in agriculture, while less than 1 per cent worked in construction, mining, electricity, gas, water and sanitary services combined. 13.2 per cent of the female labor force was unemployed. This shows that women, in the expanding population, are gradually moving to be employed in services rather than agriculture.

5-Post-Khatami women situation:

As mentioned earlier, women in Iran want equality, respect and the right to participate in all social, political and economic activities. They want to live their lives productively and with dignity. Throughout the 20th Century Iranian women have organized and fought for human and political rights, from the Constitutional Revolution at the turn of the century to the democratic movement that overthrew the Pahlavi regime.

After Khatami's election there were high desires for acceleration of women activities in social, cultural and political spheres. No doubt, several significant changes in women position have been done in these eight years. As
a matter of fact, before Khatami there was no vice president or president advisor in women affairs in the cabinet. Only in Post-Khatami's Cabinet the people saw two women in the cabinet. One of them was Massoumeh Ebtekar, Vice-President for Environmental Protection and the other one, was Zahra Shojaei, Khatami’s Advisor on Women’s Affairs.

Moreover, the establishment of some governmental and semi-governmental organizations deal with women affairs was another major development in Post-Khatami. The most important organizations are as follows: Office of Women's Affairs (OWA) Presidency, Women's Social and Cultural Council (WSCC), Department of Women and International Social Affairs, Women Villager's Cooperatives, Women's Sports Organizations (WSO) and Women's Affairs Committee.

The presence of tens of women's institutes in charge of organizing their political participation and cooperation in cultural, scientific and social responsibilities, prepares the ground for the growth of women's talents to help develop the society and assist the needy. All this shows the significance Iran attaches to women's participation. Iranian women have clearly a long way to go to accomplish their Islamic, human goals. However, they have already taken huge steps in this regard.

On the other hand, there are some critic view points about the situation of women in Post-Khatami era. For example, some women analysts believe that although, there is a widely held view that Khatami supports the rights of women, but his statements and appointments don’t validate that view. Prior to his election Khatami said, "One of the West’s most serious mistakes was the emancipation of women, which led to the disintegration of families. Staying at
home does not mean marginalization. Being a housewife does not prevent a woman from having a role in the destiny of her people. We should not think that social activity means working outside the home. Housekeeping is among one of the most important jobs.”

In addition, Under Khatami’s leadership the Supreme Council of the Cultural Revolution decided not to sign the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the most important international agreement on the rights of women.

An international study comparing workforce conditions for women around the world ranked Iran 108th out of 110. In urban areas women make-up only 9.5 percent of the workforce and in rural areas the percent is 8.8 percent.

Even Khatami’s advisor on women’s affairs acknowledged that there is discrimination in employment and promotion against women in government offices: "Some officials are of the opinion that men have more of a role in running the family, so they favor the men.”

Khatami’s advisor on women’s affairs, Zahra Shojaei, says she is an advocate of women’s rights, but all within a fundamentalist defined Islamic context. She defends the restrictive and symbolically oppressive hejab, calling the chador "the superior national dress of the women of Iran.”

31 - Salam Daily, May 11, 1997
32 - Iran zamin News, February 7, 1998
33 - International Labor Organization, quoted in Bergens Tidende, July 12, 1997
34 - Abrar Daily, December 7, 1997
36 - IRNA, May 8, 1998
B-Industrial Workers:

Petroleum, petrochemicals, textiles, cement and other construction materials, food processing (particularly sugar refining and vegetable oil production), metal fabricating, armaments are the most important industries in Iran. Most of industry workers work in these industries. According to the 2001 statistics around 25% of labor force work in industry, 30% in agriculture and 45% in service sections.

As explained earlier, according to the FY plans the Iran's government must privatize some of the inefficient industries in order to reform these factories. For example, according to Third FY the government must privatize 2400 state owned firms. But on the other hand, the labor forces of these industries were opposed to this privatization policy. So, they showed their disagreement to this policy in different ways.

A strike and sit-ins lasting 3 days by 6000 workers from Sherkat Melli Haffari (oil exploration company) in Ahvaz (south west Iran), in protest at privatization policies for this company, ended on the 22nd of October 2000. During this protest the workers closed the main Ahvaz-Massjed Soleyman highway. They stopped cars on this road and explained the reasons behind their protest. 37

The oil exploration company, Sherkat Melli Haffari is one of the major companies associated with the ministry of Oil and its role in finding and exploration of oil in Iran is vital. The responsibilities of the Islamic Republic

of Iran, frightened by the strike and the 3 day warning given by workers, reversed their decision to sell shares and transfer the company to the Retirement fund of the Oil ministry.

This protest by exploration company oil workers is unprecedented at a time when protests against job losses (500 to 1000 large factories are threatened with closure) and non payment of wages is entering a new phase. Oil workers know clearly that the plan for privatization means job losses and hunger for thousands of their fellow workers. They are well aware that from the time when major privatizations started under the Hashemi Rafsanjani government around one million Iranian workers employed in large industries in the state sector have been made redundant and joined the unemployed. All this under circumstances when bankruptcy of the entire productive and economic structures has created unprecedented recession and the half of the current working population are young and unemployed.

It should be noted that according to statistics issued by the Planning Organization the average rate of economic growth over the last 20 years in Iran was only 1 percent, while in the previous 20 years the same rate was 10 per cent and the growth rate of gross national product has dropped by 2 to 3 per cent over the last 3 years.\textsuperscript{38}

The authorities of the government, now anxious of a repetition of events of 1979, are well aware that confronting the oil workers is not a simple matter. They haven’t forgotten that it was these same oil workers who weakened the foundations of the Royalist regime and paved the way for its overthrow. All

\textsuperscript{38} - ..."Iran: Oil and Textile Workers Win ", report by Iranian Workers News, November 14, 2000 at \url{http://www.ettehadchap.com}
this in a country where 90% of the foreign currency revenues are secured by oil exports and at a time when workers’ struggles against the government are increasing, despite large scale unemployment and complete recession in some sectors of the Iranian economy.

Workers are protesting about delays of a year or more in payment of their salaries. Clearly oil workers are very important for the workers movement in Iran. Of course the retreat of the government regarding privatization of the Ahvaz exploration company is temporary. They haven’t given up the plan to privatize and will wait for another opportunity to put their plan into practice.

Moreover, there have been many strikes and protests over the past period, in particular concerning the question of unpaid wages. One example is what happened on March 17, 2003 in Esfahan at the Tedjarat Company, Rahim Zadeh, Kohe Faht and Pars Fastony factories.

The workers in these factories are owed between 6 and 8 months wages. About one thousand of them organized a march on March 17, 2003 which ended up at the General Governor's office. The authorities replied by calling in the police who brutally attacked the workers arresting 12 of them. There is a long list of such cases, with workers being forced to protest either because of the long backlog of unpaid wages or because their jobs are at risk.

One of the most famous cases is that of the Behshahr (in Mazendaran province in north of Iran) textile workers. The workers there have organized a hunger strike because of the huge amount of unpaid wages owed to them. The number of workers facing a similar situation is constantly growing, so much
so that now there are over 100,000 workers who have gone without pay for anything from three to 36 months!

Just as the students' protest has spilled over beyond the campuses themselves, the same thing happened recently with the Behshahr textile workers. On June 15, 2003 after ending their hunger strike these workers marched into the city of Behshahr. This turned into a mass demonstration attracting thousands of people. Again the security forces went in heavily against the demonstrating workers.\(^{39}\)

Another example comes from Esfahan, where according to some eyewitnesses anything between twenty and forty thousand people marched through the town calling for the overthrow of the Islamic regime. Similar events were reported in other cities such as Mashad, Khorram Abad and Shiraz.

This is bound to increase as the economic situation further deteriorates. Iran is heavily dependent on oil exports. Oil revenue still represents about 80\% of export earnings and around 40-50\% of the government budget. Thus next year's current account is expected to move into deficit as the price of oil comes down, adding to the pressures that the regime is under, and providing further fuel to the mass movement that will inevitably develop.

**C-Students:**

Iran is a young society. More than one third of Iran populations are bellow 18 years. Additionally, Iranian students are so active in their education

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\(^{39}\) - Ibid., November 14, 2000.
and also in the economic and political spheres. In the past years students protested to some of the economic policy of the government. The most important one was the privatization of the higher education.

Some Western analysts believe that if we limited our analysis to simply looking at GDP growth of Iran, then one would wonder what all the trouble was about. Over the past two years GDP growth has averaged over 5% per annum. GDP per person in 2002 was 20% up on ten years ago. But a closer look reveals a completely different situation. In the 1970s GDP was actually 30% higher than now! That reveals the long-term decline which is really the explanation for the unrests in some universities in Tehran and other big cities.\(^\text{40}\)

An even closer look at the economic and social situation reveals an actual nightmare for large layers of the population. Inflation stands at 17%. Official unemployment stands at 18%, but many admit that the real figure could be around 22-23%. The total number of unemployed today stands at 3.2 million, and is expected to rise to 7 or 8 million over the next few years. As mentioned earlier, the population of Iran is a very young one and 1.8 million people turn 18 each year. Each year around one million young Iranians enter the labor market, but there is barely room for half of them.\(^\text{41}\)

According to the Western sources like "The Economist", 15% of the population subsists below the poverty line. But according to the "CIA" this

\(^{40}\) Fred Weston, "Student protests reveal weakness of the Iranian regime", see the complete news in this regard in this Website: \text{http://www.marxist.com}

\(^{41}\) Ibid.
figure could actually be much higher than, as high as 56%! Whichever is the case, it is obvious that a large part of the population is living on the breadline.\textsuperscript{42}

Some other horrifying facts may add to the picture. Even the "Islamic" authorities admit that over two million people in Iran are taking drugs. Every month around a dozen policemen are killed in drugs related crime fighting. More than 60% of crimes are in fact related to drugs.

The plight of Iran's children is also terrible. There are 200,000 "street children", i.e. children that have been forced by one circumstance or another onto the streets to survive, and this is according to the official figures of the regime.

All this has been compounded by the rapid urbanization of Iran over the last thirty years. Tens of thousands of villages have been abandoned as the population has been driven into the cities to seek some form of employment. Of its 70 million inhabitants, 67% now live in the cities. Tehran is now a city of over 15 million people. Thirty years ago it only had two million. This rapid urbanization has not been catered for with improvements in housing and infrastructure.

The situation facing the young people of Iran is indeed a desperate one. The population of Iran is extremely young, with two-thirds of the total being under the age of 30, and half under the age of 20. Young women are also playing more of a role, in spite of the attempts to confine them to the home. Last year 63% of fresh students were women. Although still low compared to

\textsuperscript{42} - Ibid.
more advanced industrial countries 12% of the active workforce is now made up of women, and in some sectors they represent the majority.

D-Peasants:

Agriculture is a major economic sector in Iran, with great potential for economic development and, as such, is seen as a key strategic policy area. So, in Post-Revolution Iran all the government saw this section as a main part of the economic development and capitalized more than the other sectors. Moreover, it contributes more than 25 percent of GDP and around one-third of total employment. Unemployment rate in this section is lower than the others-9.5 percent only. Literacy rate was about 69.1 percent. In addition, it also contributes substantial export earnings - $900 million in 1996, i.e. one-third of total non-oil exports and in 2003 one-fifth of total non-oil exports.

Total agricultural products in 1979 were about 21.5 million tons, after 10 years in 1989 it reached to 28.6 million tons and in 2002-2003 this figure reached to 58.1 million tons. The per annum growth rate in this section was about 4.5 percent. Twenty five years after Revolution, in 2004 Iran celebrated the self-sufficiency in wheat production and this is the most important development in agriculture section in Post-Revolution era. In 2004 Iran produced around 12.4 million tons wheat and it was a great achievement in agriculture section.43

According to Food and Agriculture Organization of the United Nations statistics, "Iran's population is largely free from food insecurity, with daily

43 - ...“Agriculture in the mirror of 25 years efforts”, Iran Newspaper, September 8, 2004p.11
energy supplies in the range of 2,900 kcal per caput and about 80 percent of food requirements covered by national production, and 90 percent of agro-industry needs are covered by domestic supplies.”

Agricultural policies over the last two decades have sought to strengthen agricultural activity in order to achieve higher levels of food self-sufficiency and more diversified sources of foreign exchange - thus reducing vulnerability to oil price fluctuations. These general objectives contained in past development Plans, are also those of the Third Plan and the 25-year strategy under preparation. A central stated goal is to feed 100 million inhabitants with domestically produced food by 2023 (Iranian Islamic Year 1400).

The agriculture section is one the most active sections of the economy. In the past 25 years, there were no major protests or demonstrations by peasants against the economic policy of the government. Because, all Post-Revolution governments want to have the support of this class so, they do their best to satisfy them by giving them all their needs like fertilizer and agriculture machines in subsidize price. Moreover, Ministry of Agriculture must buy their products in a reasonable price every year. In addition, in Post-Revolution most of the urban areas and villages considerably developed because, economic development of urban areas were one the top priority of all the above three Five Year Development Plans.

The mechanisms for decision-making regarding subsidies are complex, involving a number of bodies and institutions. The Supreme Council for

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Economic Affairs, under the President's Office, is the highest authority with regard to economic affairs. Its decisions on guaranteed producer prices and overall subsidies are taken on the basis of proposals prepared by the Planning and Budget Organization and its Bureau for Agricultural Affairs and Rural Development, in coordination with the Office for Protection of Consumers' and Producers' Rights and the Ministry of Agriculture. They are then submitted to Parliament, which rejects, approves or modifies them prior to their incorporation in the annual budget.

**Conclusion:**

Economically, Iran is one of the richest countries in the Middle East and South Asian region. It holds totally 10% of the World's proven oil reserves and its supplies of natural gas are second only to Russia's.

The Pre and Post-Revolution economic systems in Iran continued to remain essentially government-oriented and based on single resource, viz. oil export. However, the main difference was, while the Pre-Revolution Iranian economy was totally modeled on the Western nation of modernization and nearly relied on Western support, the Post-Revolutionary economy emphasized more on the doctrine of self-sufficiency and self-reliance.

At the time of 8 years war with Iraq most the economic infrastructures of the country and especially in Khuzestan, Kermanshah, Hamedan, Kurdistan and etc., were completely destroyed or damaged so, after the cease fire, Iran began the reconstruction of the war damaged areas.

The first Five Year Plan of Post-Revolution Iran was implemented from the periods of 1989 to 1994. The primary objective of the First Plan was
reconstruction of the country after war. Despite a number of obstacles, including increases in population, multiple rates of foreign exchange and inflation brought on by liquidity expansions resulting from vast investment undertakings in industrial, agricultural and major infrastructural projects, the First Plan has been hailed as a success in many of its objectives.

The Second Five-Year Plan with one year delay started from March 1995 up to March 2000. This Plan was drawn up on the background of the achievements and failures of the First Plan. Despite a sluggish start at the beginning of the Second Plan, real GDP picked up by 7.5% in 1995-1996 with the commissioning of hundreds of large and medium size projects that were initiated in the First Plan, particularly in the metals, petrochemicals and industrial sectors where value-added surged by 6% in 1995.

After implementing of these three plans, the economy has grown by more than 7% for each of the past two years, and is forecast to expand by a further 6.5% in 2004 and 2005. Low levels of public debt, a healthy trade surplus and rising government expenditure complete the benign picture. Moreover, in 2004 Iran reach to the wheat self-sufficiency with production of 12.4 million tons in a year. Inflation rate stood at 12.6 percent. This figure was remarkably short of the 19.9 percent figure stipulated by the Third Development Plan. Unemployment rate is expected to reach 16.2 percent in the period 1380-1381(2001-2002) due to the rapid growth in the supply of workforce to the market.

On the contrary of the above positive outcomes of the economic developments, still some of the main structural and traditional problems of the economy continue to persist. The heavy dependence of the economic structure
on oil revenues has an extensive background and was an old-age issue. The state has a substantial share in the economic activities and a fundamental distribution of obligations and responsibilities between the public and government sectors has never been pronouncedly effected. This latest difficulty has been exacerbated by the unique characteristics of the country's constitution in the post revolutionary era. There have been some efforts made in the past few years to transform the existing structure; all the same, nothing of substance has taken effect in this regard so far and inefficient and huge state establishments still exist.

The new turn that the Iranian political economy took under Khatami regime, obviously evoked several reactions and responses from the different sections of the society, particularly from women, workers, students and peasants. Different parts of the society showed their protest to some the economic problems and plans like unemployment, unpaid wages, high inflation rate, and privatization of about 2400 public firms and so on in diverse ways such as demonstration.