CHAPTER 1
CHAPTER I

INTRODUCTION

1.1 The Problem

The Iranian economy has always been dependent on oil, but the importance of agriculture sector cannot be minimised. In 1978 more than 10.5 per cent of GDP originated from agricultural sector. This share increased to 18.6 per cent in 1981 and further to 20.67 per cent in 1989. In 1976 out of total population of 33.7 million people, 17.8 million (53 per cent) were living in rural area. Out of total employed population of 8.8 million in this year 34 per cent or 2.99 million were employed in agricultural sector. In 1986 total population of country increased to 49.85 million but the percentage of rural population declined to 45.4 per cent (22.63 million). Total employed labour-force increased to 11.8 million of which 3.26 million or 29.1 per cent were employed in agricultural sector. Thus, although the percentage of population engaged in agriculture has declined over the years, there is no doubt that in absolute terms the agriculture sector is an important source of employment in the country.

Further this sector contributes to the development process of the Iranian economy through the: (i) provision of foodstuffs (ii) export of primary products; (ii)
creation of market for the products of other sectors; (iv) help in stabilizing prices and; (v) keeping wages of industrial sector low.

However, the performance of agricultural sector over the years can not be regarded as satisfactory. Production has not been able to keep pace with the growing population of the country. Throughout 1970-77, increase in population (3.2 per cent per annum) followed by a rapid increase in personal expenditure, led to a higher growth in demand for agricultural products (nearly 11 per cent). Higher demand for food resulted in high price for foodgrains and rising import bills. During 1979-80, total production of wheat in the country was 5.9 million tonnes and as this amount was not sufficient, 1.2 million tonnes of additional wheat was imported. In 1980-81, despite the increase of wheat production to 6.6 million tonnes, the volume of import increased to 1.9 million tonnes. In 1981-82, the domestic production remained at the level of 6.6 million tonnes but import declined to 1.4 million tonnes. The highest level of

1. For details see Chapter 2 section 2.4.

wheat was imported during 1983-84, when Government had to import 3.6 million tonnes. In this year, the domestic production was 6.1 million tonnes. In 1984-85, total domestic production increased to 6.6 million tonnes but import was still as high as 2.6 million tonnes. In 1985-86 also, this import trend continued and reached to 2.4 million tonnes.

Besides, the crop yield in Iran continues to be one of the lowest in the World. The country's wheat productivity of 1091 Kgs per hectare is even lower than that of Asia (1631 kgs) and LDCs (1588 kgs). Iran's barley yield is 846 kgs per hectare while the corresponding yield for Asia and the World is 1266 kgs and 1952 kgs respectively. The position is not different in many other crops too.

Several problems confronting the agricultural sector have been identified by the researchers*. Broadly these include defective institutional set up and inadequate

* - For detailed discussion on Iran's Agriculture problems see specially,

supplies of inputs. Agriculture has also been neglected by the government for a greater period of time.

Land ownership was mostly concentrated in the hands of a few landlords who used to live in cities. The tenants used to cultivate land and pay rents in the form of share of the crop or a fixed amount per unit of land in kind or cash. Landlords used to divide the land into small farms. The plot size varied from 0.5 hectare to 100 hectares. The gross production of the land was distributed between landlords and the peasant based on factors of production by each i.e., water, land, seed, ploughing power and human labour. The production management and other life activities of peasants were controlled by the landlord through his agents or headsman of the village who was expected to act on behalf of three different bodies, viz. Landlord, government and the villagers. The holdings of the landlord was different. In many instances a landlord’s holding amounted to one hundred villages and in some cases one family held several hundred villages. In most parts of the country landlords periodically redistributed such holdings to reduce the peasant’s security of tenure. As a consequence, peasants had no incentives to improve the productivity and cultivation methods remained primitive. To remove this constraint on agricultural development, the government introduced Land reform programme in 1962. This was followed
in different stages later on too. This programme basically aimed at transfer of ownership from big landlords to peasant share-croppers. It did provide land to the peasant families but there was no provision for other essential services for raising agricultural production and productivity. The programme also deprived a large number of small farmers of land and led to a large scale migration of rural population to urban areas which still continues. According to an estimate, during 1978-81, nearly 364 thousand persons on an average migrated yearly to cities and big towns. This not only weakened the rural population by draining the younger and promising labour force, but also increased pressure in urban areas with harmful socio-economic consequences. This forced the government to concentrate on its social and welfare programme in urban areas. The rural area and its main sector were neglected.

Agriculture in Iran also seems to have been neglected by the planners. During the First Plan (1949-56), out of total outlays of Rls 26.3 milliard, 28 per cent, or Rls. 7.36 milliard was allocated to agriculture, while for other sectors like transportation and communication, 29 per cent or Rls. 7.63 milliard was allocated. However, the actual outlays on agriculture came to be 22 per cent of total outlays.3

During the Second Plan (1956-62), agriculture remained neglected. Total plan outlays amounted to Rls. 81.1 milliard. But the share of agriculture was slashed to 23.3 per cent. The actual expenditure was only Rls 17.4 milliard or 21.5 per cent of total plan outlays. The highest priority under this plan was given to transportation and communication as 37.5 per cent or Rls 30.4 milliard of total planned investment was allocated for the development of this sector.\footnote{Ibid.}

The Third Development Plan (1962-67) was a comprehensive one and marked a change in attitude towards agriculture. But the percentage allocation of plan outlays to this sector declined. The objectives of this plan regarding production were a) to increase the agricultural production by 4 per cent annually; b) to raise the standard of living in villages; c) to increase the supply of water in order to increase the area under irrigation by 140 thousand hectares; d) to ensure a more equitable distribution of agricultural income; e) to reduce the import of agricultural commodities.\footnote{Plan organisation, \textit{Third Development Plan, Final Report}, Tehran, 1970.}
During this plan period effective measures were also taken to preserve and safeguard natural resources and pastures. Forests were nationalised. The Plan also witnessed formation of 740 rural cooperatives, formation of 81 federations and establishment of Central Organisation and Rural Cooperatives (CORC).

During the Third Plan total plan outlays initially fixed at Rls 158 milliard. Of this 21.5 per cent or Rls 34 milliard was the share of agriculture. The plan revised in 1964 and total plan outlays was raised to Rls 200 milliard. In this revised plan 22.5 per cent or Rls 45 milliard was allocated to agriculture. In 1965, the plan was once more revised. Total outlays were raised to Rls 230 milliard and 21.3 per cent or Rls 49 milliard was allocated to agriculture. In this plan the highest priority was given to communication. It was given 24.3 per cent or Rls 204.6 milliard. Agriculture accounted for Rls 47.36 milliard or 24.1 per cent of total plan outlays.

The Fourth Plan's (1968-72) general objectives were formulated with due consideration for productive capacities as well as relationship between the agricultural sector and other economic sectors. But agriculture continued to be neglected while industry and mining sector received the highest priority. During this plan, the most
notable achievements were recorded in industrial and infrastructural sectors.

In the Fifth Plan which started in 1973, the main emphasis was given on advanced agricultural technology, intensive agriculture and agro-industries. The amalgamation of ministry of agriculture and Ministry of Cooperatives in 1976 to some extent reflected the recognition by the State that the rate of change in agriculture was not up to expectation. The total plan outlays were fixed at Rls 4697.5 milliard but only 6.6 per cent or Rls 309.2 milliard was allocated for agriculture while industries received Rls 845 milliard or 18 per cent of the total plan outlays.

On August 31, 1982, the country's new Five Year Plan was formulated by Islamic government for the period 1983-88. This plan is a part of 20 years plan period. It aimed to achieve the highest possible rate of growth and increase the degree of integration of different sectors of economy. The target of the plan for 1983-88 forecasted a 50 per cent rise in G.D.P. over the Plan period to reach Rls 14184 milliard (Rls 10032 milliard in 1983-84). The plan projected an average annual growth rate of 8.3 per cent to 9.2 per cent in G.D.P. and annual growth rate of 8.7 per cent in GNP. However, the plan must be seen as an encouraging declaration of intent about future rather than as a specific catalogue of what will or is likely to be
achieved. The first plan of the Islamic Republic of Iran has not been yet practiced as it is not ratified by the Parliament (Majlis) so far and not been implemented due to various problems such as war and sudden decline in oil prices in international market. Thus, the continuous fall in percentage allocation to agriculture indicates the neglect of this sector by the Government.

Similarly much is to be done in the areas of irrigation, introduction of fertilizers, application of modern techniques, agricultural research and extension services etc. But the two other problems confronting the agricultural sector in Iran that seem to have been neglected by researchers are marketing and pricing of agricultural products.

Proper marketing of agricultural produce is essential to ensure fair price of the produce to the farmers. This will encourage them to produce more for the market. Industrial labour and urban population will get enough food supply and of adequate quantities of raw materials to industries will be ensured. The process of industrialisation will get a boost. On the other hand, in the absence of a sound marketing system, it is not easy to

get enough marketable surplus. Farmers generally lack incentive to produce more for the market. The process of economic development of the country concerned may suffer a setback. It is, therefore, essential that the marketing system should be such that on the one hand it encourages farmers to produce more and on the other induces them to part with a larger proportion of their produce for sale in the market.

Unfortunately, the present system of marketing of agricultural produce in Iran is extremely defective. Marketing processes are imperfect, physically deteriorated and waste are usually present to an unacceptable degree. Prices fluctuate widely and serve poorly to guide the quantity of production and the distribution of product in form, time and space. Marketing costs are high, generally not because consumers are being provided additional marketing services along with the product they purchase, but due to the various gaps that exist in the system. In short, marketing environment is one which neither encourage farmers to produce more nor to market what they produce.

Agriculture produces foodstuffs and raw materials, the demand for which in the aggregate is relatively stable in short run, while the supply fluctuates widely from year to year and from one part of the year to another one on account of variation in yield. Fluctuations in the price of
agricultural products are the greatest hurdle in the way of agricultural development, because they bring ruin to many. According to Sir Roger Thomas "next to rain, price changes have been the greatest enemy of farmers".\(^7\) A favourable calculation of prices of agricultural product by planners is very important and effective in decision making of producers and farmers. A just and timely calculation and announcement of prices will create a favourable atmosphere for increasing production and reaching to desired goals. However, it depends on direction and response of farmers to these calculations. A special characteristic of developing economy like Iran is that, it has a traditional agriculture and production in these types of agriculture is dependent on nature and natural factors in which farmers have no or little control over them and if even the prices are not favourable, the farmers still continue to produce because of complete absence of an alternative. Responsiveness to changes in prices in countries which are characterised by traditional agriculture is considered to be (i) low for aggregate production due to lower use of purchased input and low opportunity of transfer of land away from agriculture; (ii) low for foodgrain crops, because only a part of

---

Production is sold in the market and low for those crops which occupies substantial areas in cropping pattern. Farming is a biological process and there is greater time lag between the changes in prices and adjustment in production.

Production is the product of yield and area. The area planted under a crop is determined with the socio-climate environment, by its profitability related to other crops suited to the given environment. The realized yield is determined by the socio-climatical conditions during crop-season and the level of use of yield increasing inputs. The maximum being defined by the potentiality of varieties planted. The role of prices on production has to be seen through relative profitability and use of yield increasing input with technologically defined potential yield at a point of time. The pricing policies in Iran are defective and they do not benefit a large segment of farmers with small holdings (70 per cent of wheat producers) and only 30 per cent of farmers who have relatively larger area and cultivate their land with semi-mechanised or mechanised techniques and have large surplus are benefitted by these policies. In addition, system of pricing for the whole

country is one only while geo-conditions of Iran is different from one region to another. Therefore, cost of production of crops also varies from area to area and from crop to crop. This cost is higher in lands treated by traditional agriculture and lower by those cultivated by modern technology. Therefore, uni-price does not benefit all the agriculturists. Prize distribution schemes introduced by government are aimed at increasing the product of strategic crops while practically they have been creating more inflation and no significant change in production has taken place. In short run, these schemes may increase the volume of procurement. It even encourages marginal farmers to sell their foodgrains to government in order to obtain a prize, while they have to buy their foodgrains requirements again in higher prices from local markets.

9. Prize distribution schemes are aimed in increasing production and delivering a higher quantity of foodgrains to procurement agencies set up by Government. The principle of this scheme is "higher delivery higher prize". At the present economic situation of Iran where goods are scarce each given prize costs many times more than what the government has charged from prize winner. Therefore, as soon as they obtain the prize, they sell and get a high profit. These prizes are tractors, pick ups and other valuable articles, such as T.V. set, radio, motor-bike and many other consumer goods etc. The value of prize depends on quantity of delivered products.

10. Ibid. P. 20.
It is obvious that an effective use of pricing policies in relation to expansion of area under cultivation and increase of output of strategic crop is solely in the framework of government policies and economic planners and the extent to which they can enforce the plan depends on their policies towards farmers.

The problem of unsatisfactory growth of production of agricultural crops requires a comprehensive analysis of production, marketing and pricing policies. The marketing structure, practices, channels, degree of concentration of market power, price of various goods in the market and the way of market integration are important factors for understanding the problems of Agriculture in Iran.

Farmers decisions and actions in respect of cultivation of crops are depended on profitability associated risks, availability of incentives, marketing facilities and their personal performance. Improvement in the performance of foodgrains and other crops, therefore, necessitate bringing out the nature and type of interdependencies and interrelationships of economical factors involved in agricultural sector in Iran.

1.2 Objectives of the Study

The main objective of the present study is to analyse the pattern of agricultural production, marketing
and pricing policy in Iran since 1978, focussing on changes in the pattern of development. The specific objectives set out for study are as follows:

a) to examine the growth of agricultural production in Iran since 1978.

b) to review the agricultural marketing system of Iran.

c) to analyse the pricing policies adopted in Iran.

d) to review the effect of pricing policies and marketing on agricultural production.

1.3 Data Base

For successful planning and analysis of various problems and formulation of policies data are essential. Agricultural development is a complex problem. Reliable data are necessary for decision making and for planning. For the present problem data has been collected from various sources. Main sources of data include publications of various Iranian ministries. In addition, few FAO production year books published by the UNO have been used. Other sources of data include Publications of Statistical centre of Iran, Central bank of Iran, and other sundry publications. The data has been collected exclusively from secondary sources. The period of study selected is since 1978 which marks the beginning of a new era in Iran's history. Another reason is availability of comparable data. For analysing the trend in
production etc, we have gone back to time period prior to 1978 also.

1.4 Methodology

The methodology used is simple and mostly does not go beyond calculation of ratios and percentages. For example, to measure the trends in area, production and yield in Chapter III, simple growth rates have been computed. In this chapter total period has been divided into two groups of four years each. This has been done to smoothen annual fluctuations in the level of production. Similarly for measuring growth in level of productivity, annual growth rates have been calculated. This technique has been used across all provinces and all crops.

1.5 Plan of Study

The plan of the study is as follows:

Chapter II examines the role of agriculture in the Iranian economy. This is followed in chapter III by an assessment of the trends in agricultural production in Iran during 1978-89. The assessment is made both at the aggregate level and at the level of individual crops. Problems confronting the agricultural sector in Iran are analysed in chapter IV. The next two chapters - V & VI- discuss in detail the agricultural marketing and pricing policy in Iran
during the period under review. Finally chapter VII presents the main conclusions of our study