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The Fifth Development Plan

by Dr Ahmad Naini, Hamburg *

The four development plans, under which Iran has gone forward on a continuous course of industrialization since 1949 were followed by a Fifth Development Plan, which came into force in March 1973. This fifth plan had however to be revised recently: the expenditure on investments is to be doubled compared with the original plan.

The Fifth Development Plan (from March 1973 to March 1978) originally envisaged state investments of Iranian Rial (IR) 1,548 bn (US\$ 23.3 bn)¹. In the summer of 1974 this was raised to IR 3,064 bn (US\$ 45.9 bn). In addition the state is to provide IR 230 bn (US\$ 3.5 bn) of loans in order to encourage private investment activity. In the period covered by the plan private interests are expected to invest a total of IR 1,570 bn (US\$ 23.6 bn).

This revision of the planned expenditure has been necessitated by the unexpectedly large rates of increase of the oil revenues which are the principal source of finance for Iranian development planning. As a result of the price increases in recent years Iran's oil revenues rose from US\$ 2.4 bn in 1972 and US\$ 3.9 bn in 1973 to some US\$ 20 bn in 1974. The effective limit of state expenditure on investments is therefore no longer lack of finance but the absorptive capacity of the economy and its individual sectors. This aspect determines the investment spending under the revised plan in all sectors of the economy (see Table). Extensive infrastructural projects, large investments in industry, mining, oil and natural gas and in agriculture are the focal points of the outlay on development.

Large Infrastructural Projects

The prerequisites to the economic and social development of Iran are to be created by extensive infrastructural investments under the Fifth Development Plan. IR 488 bn, i.e. 16 p.c. of the total planned expenditure, has been earmarked for transport and communications. The extension of the roads, railways and ports is to receive priority: the latter can no longer cope with the greatly increased imports. Equal importance is attached to the development of energy and water supplies: IR 300 bn is to be spent on the further development of electricity generation for industry as well as domestic use², and IR 163 bn, i.e. 5.5 p.c. of total expenditure, has been earmarked for the supply of water, especially for the projected reservoirs, with the aim — which was a feature of all Iranian development plans — of improving the wa-

ter supply for agriculture and thereby helping to raise farming productivity. The infrastructural outlays for other socio-economic purposes including education, research and health facilities and social welfare are relatively small: they are mainly covered by the ordinary budget.

Intensified Industrialization

Extensive investment programmes have been included in the Fifth Development Plan with the aim of speeding the industrial progress. In industry and mining, exclusive of the state-owned oil and natural gas industry, the state is to invest a total of IR 339.4 bn, chiefly in projects involving large financial outlays. The most important projects concern the iron and steel, heavy engineering and machine tool industries and copper mining and processing. The plan attaches major importance to private economic activities: the official policy of incentives for investment, especially the grant of loans to the amount of IR 100 bn, is to stimulate private investment activity over a wide field. It is estimated that investments of as much as IR 403 bn will be financed by private industry from its own resources.

Despite these extensive investments it will be impossible to avoid a relative decline of the contribution of the industrial and mining sector to GNP during the Fifth Development Plan. From 22.3 p.c. at the end of the fourth plan its share will by the end of the fifth plan have fallen to 16.1 p.c. The reason is that the contribution of the oil sector to GNP will rise out of all proportion at an annual rate of 51 p.c. a year. For the industrial and mining sector the average rate of increase during the plan period is estimated at 18 p.c. per annum.

If the projections of the revised Fifth Development Plan proved correct, the contribution of the oil sector to GNP which was 19.5 p.c. in the last year of the fourth plan will have risen to 48.7 p.c. by the end of the fifth plan. State investment outlays

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¹ The parity of the Iranian currency, the Rial, to the US\$ in March 1975 was IR 66.65 = US\$ 1.

² Most villages and smaller places in Iran are still without a link with the electricity grid.

of IR 655.9 bn are to facilitate the rapid expansion of the oil and natural gas industry. Large sums are to be invested in the production and processing of oil and natural gas and the development of the pipeline network.

Gratifying as the increase in oil revenues is for the Iranian economy, it creates great hazards for a balanced and steady development, for a country in which oil and natural gas account for half the GNP is highly susceptible to the development in the oil market. A decline of world market prices and/or a decline in export shipments as witnessed at present are bound to result in inordinate fluctuations of GNP. For this reason it must be one of the major objectives of Iranian economic policy to overcome this one-sided orientation towards exports of crude oil as quickly as possible.

Development of Agriculture

The revised Fifth Development Plan gives a high priority to the development of Iran's agriculture. The agricultural production is to be increased by 7 p.c. a year on average so as to cover a larger proportion of the food requirements in the country and to improve the economic situation of the rural population. With this aim in view the state investments in the agricultural sector have been raised in the revised plan to IR 180 bn and the private investments to IR 132 bn: the total outlay has been more than doubled compared with the original plan. The envisaged private investments in agriculture are very high compared with pre-

vious plans: they are to be assisted by state loans of IR 70 bn. Special encouragement is to be given to the medium-sized and large farms because these alone are in a position to increase agricultural productivity through use of modern technical resources.

These measures will also amend the situation of the small farmers who acquired their holdings in the course of the land reform since 1961. This reform abolished the feudal conditions of land ownership and made the peasants the owners of the land which they cultivate, but it did not raise their standard of living because the creation of smallholdings led to a fragmentation of the agricultural areas and made it impossible for the small farmers with their meagre financial resources and unprofitable unit sizes to employ machinery and modern methods of husbandry³. It is for this reason that the establishment of large operational units is now encouraged, chiefly through the information of agricultural joint-stock companies.

Besides, it is intended to attach industries for the processing of agricultural products to the large farm enterprises. Many promotional measures (tax and customs duty relief, guaranteed minimum prices, etc.) are employed in an attempt to interest foreign investors in the setting-up of such large agro-industrial complexes.

³ Cf. A. Naini, Entwicklungsplanung im Iran unter besonderer Berücksichtigung der landwirtschaftlichen und industriellen Entwicklung (Development Planning in Iran under consideration of agricultural and industrial development), soon to be published.

Revised Fifth Plan Fixed Investment

Sector	Public Sector		Private Sector				Public and Private Sector Total bn IR
	revised in bn IR	increased p.c.	Government Loans		Private Resources		
			in bn IR	increased p.c.	in bn IR	increased p.c.	
Agriculture	179.6	+ 75	70.0	+ 150	62.4	+ 184	312.0
Water	163.0	+ 50	2.0	—	2.0	—	167.0
Industry	277.1	+ 58	100.0	+ 400	403.0	+ 31	780.1
Mining	62.3	+ 39	—	— 100	4.0	+ 25	66.3
Oil	535.9	+ 181	—	—	87.8	— 37	623.7
Gas	120.0	+ 42	—	—	47.5	+ 1	167.5
Power	300.5	+ 153	—	—	—	—	300.5
Communications	371.2	+ 98	40.0	+ 7,900	30.0	+ 757	441.2
Telecommunication	116.4	+ 118	—	—	—	—	116.4
Rural Development	60.0	+ 67	—	—	—	— 100	60.0
Urban Development	73.5	+ 20	—	—	—	—	73.5
Regional Development	10.0	—	—	—	—	—	10.0
Government Construction	320.0	+ 252	—	—	—	—	320.0
Housing	230.3	+ 150	9.7	+ 155	685.0	+ 125	925.0
Education	127.9	+ 2	2.1	+ 91	2.7	+ 80	132.7
Arts and Culture	9.5	+ 90	0.5	+ 150	0.5	+ 150	10.5
Tourism	8.5	+ 118	4.2	+ 31	12.3	+ 37	25.0
Health, Medical Services	42.5	+ 71	0.5	— 90	2.0	— 52	45.0
Public Welfare	9.0	+ 64	—	—	—	—	9.0
Physical Training	14.5	+ 67	0.5	—	1.2	—	16.2
Others	32.0	—	—	—	—	—	32.0
Total	3,063.7	+ 98	229.5	+ 41	1,340.4	+ 58	4,633.6

Source: Plan and Budget Organization.

All these measures which have been initiated have however failed to secure the growth targets set in the plans even though they are very low in comparison with those for the other sectors, and it is doubtful whether the 7 p.c. growth target of the Fifth Development Plan will be attained. The transfer of land titles has, so far at any rate, not been followed by significant changes in the cultivation methods and techniques. To bring about such changes many more experts would be needed as well as implements and machines, fertilizers and pesticides. A certain unit size and a higher educational level among the rural population are essential for efficient deployment of the production factors, and as an improvement in this respect will be necessarily slow, the Iranian agriculture will continue to be in a weak position. Even according to the optimistic forecasts of the planning organisation the share of the agricultural sector is set to decline from 18 p.c. of GNP in 1972/73 to 8 p.c. in 1977/78.

Rapid Economic Growth . . .

The revised Fifth Development Plan provides for a remarkable acceleration of the overall growth of the economy: GNP which amounted to IR 1,165 bn (US\$ 17.4 bn) at the end of the fourth plan (1972/73) is by the end of the fifth plan (1977/78) to be raised to IR 3,686 bn (US\$ 55.3 bn) at 1972/73 prices, i.e. by an average 26 p.c. a year. GNP per head of population is to rise over the same period from IR 37,523 (US\$ 563) to IR 102,665 (US\$ 1,540), i.e. by an average of 22 p.c. per annum.

In the first two years of the current plan GNP increased by 33.8 p.c. (effectively) in 1973/74 and 50 p.c. (presumably) in 1974/75. The latest estimate puts the per-capita GNP for 1974/75 at US\$ 1,274. It may therefore be assumed that in the absence of exceptional changes in the world oil market the envisaged growth rates will not only be attained but exceeded in the remaining three years of the Fifth Plan. The economic expansion

is however creating problems in regard to the stability of the prices in Iran. In 1972/73 the cost of living rose by 6 p.c., in 1973/74 it increased by 15 p.c.: in 1974/75 it probably went up by 20 p.c., and further large price increases must be anticipated because the state investments will make no great difference to the available production capacity in the short term.

. . . but Uneven Progress

The high overall growth rate of the Iranian economy will be attended by a marked disequilibrium of sectoral and regional development. The high rate of industrial growth and the relatively low one in agriculture are leading to an increasingly acute discrepancy in living standards between the people depending on these two sectors. The agricultural regions remain relatively underdeveloped while the conditions in the industrial congested areas tend to resemble those encountered in the industrialized countries. The improved standard of living in the congested areas results in an increasing demand for services from which the urban service industries profit most.

It should be one of the major tasks of Iranian development planning to overcome this dualist pattern of the economy. Under the previous development plans it was unfortunately not possible to bring about an improvement in this respect, and the projections of the Fifth Development Plan indicate that incomes in agriculture are still lagging behind the general trend. As a countervailing force the planning authorities must advance the socio-economic infrastructure in the rural areas to its practical limits and in this way compensate for the slower growth of incomes by improving the quality of life (schools, hospitals, housing, roads, social welfare, etc.): this would at the same time create long-term prerequisites to stepping up productivity. The inevitable relative worsening of agricultural incomes will be overcome the sooner the more vigorously these tasks are tackled.

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