THE PLACE OF OIL IN THE DEVELOPMENT PLANNING OF THE
ISLAMIC REPUBLIC OF IRAN

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ABSTRACT
It is the adaptation of non-oil development strategies of those decades which is a controversial subject in Iran. But oil is still a decisive element in Iran’s economy. In such conditions growth is possible but development is impossible. The question is, is it possible to conceive a practical program that will in the short term empower the country’s economy by reducing dependency on oil? The hypothesis of this research is that even though various approaches have been proposed to reduce oil dependency, it must be noted that such a move will be very costly in short term or at least in the long term it might not be possible. This paper attempts to explain five periods of Iran’s development program and the effect of oil has on the entire economy. This paper is presented in an analytical-descriptive method.

Keywords: Development Strategy – Oil – Rentier economy – Economic Empowerment

INTRODUCTION
The issue concerning underdevelopment is not something new in Iran because, it was approximately from the beginning of the 19th century that Iranians gradually realized a series of fundamental insufficiencies in their society. As many other country’s that sought to develop a predominant discourse to move toward development, Iran also started to formulate a discourse with a purpose to empower its political-economic and social-cultural dimensions. (Imamjomezade, 2004) This concern has not only been repeatedly expressed at the leadership level but also at the senior and executive levels of management. Because along the years the share of oil revenue in Iran did not decrease it actually witnessed a significant increase. Economies that depend on natural resources have not shown a significant performance in the past decade, the main characteristics of these countries has become a low economic growth, negative trade balance, continuous deficits, high inflation and macro economic instability. Low and even negative growth rate of oil producing countries is considered the worst of these failures. Unfortunately, even Iran is no exception to this rule.

Many countries that depend on mineral resources and especially oil producing countries of Latin America, North Africa, central Africa and the Middle East have lost the three past decades and in comparison, have made no significant progress in the living standard of their people. Two features of oil are very challenging for the governments of oil producing counties, first is that the fluctuations in oil price are very turbulent and unpredictable. Second is that oil resources are finite and non-renewable. (91-2010:89 kordbache) What has been emphasized in Iran in the past decade is to establish a stable economic environment domestically and which its main function is conducted by human recourses and will have a significant effect on long term growth in which the main objectives of the macro-economic policies are to stabilize macro-economic variables such as reducing dependency on only one type of raw material, increase production levels, increase workforce performance, reduce the deviation of variables, etc. This paper not only attempts to explain the five development schemes of Iran but also to illustrate the effects oil has on the economy of Iran.

Oil and its impact on the country’s development policies
Since the emersion of oil, its development history reflects the fact that a short while after its discovery it became a political factor in international relations. It is approximately 80 years that the sole objective of politicians and leaders of oil producing countries is to cut the dependency on oil! In the past decade, many scientific efforts have been conducted to examine the reason behind the underdevelopment of Rentier
countries. Doctor Carl analyzes the government’s reliance on oil dollars and shows how the concentration of wealth by the government has strengthened rent-seeking activities (popularly known in Iran as special-seekers) around the government and causes extreme conflict among special interest groups. Politicians try to satisfy ordinary people by implementing mixed policies and distributing incomputable subsidies and oil revenues. What is sacrificed in between them is the appropriate and measured economic policies. (ghanbari, 2011)

Iran is open’s second largest oil producer. Approximately 11% of the world’s oil reserves and more than 15% of the world’s natural gas reserves are located in Iran. In addition, Iran’s special geographic location has given it a high strategic importance in terms of regional security. However, the Iranian economy is heavily dependent on oil, in such that 80% of its exports, 50% of the country’s budget and 10 to 20 percent of Iran’s GDP comes from oil (ghanbari, 2011). Concerning Iran it can be said that: the economic developments of the past decades have faced severe discontinuity and numerous cuts and failure phenomena’s. In other words, the society’s economic movement strategies have been through successive changes in the short term. This has caused a situation in which on one side, large activities are conducted in a “traditional” form and by use of technologies from the past centuries and on the other side, “modern” industrial activities are established on the sidelines of the economy. This is also true for Iran. Meaning that until oil revenue is spent on uncreative affairs and is not converted to creative capital, the country’s economic growth might slightly improve in the short term but it will decline in the long run. Iran could develop a non-oil development strategy to use and prepare society’s recourse’s and facilities, enabling and empowering people and motivating people to actively participate in order to raise the living standards and also enhance the technical capability and technological knowledge of the country in such a way that it might compete with developed European and American countries in different economical, political and socialfields. (yosofi, 2009) therefore, the distribution of oil revenues between social groups, economic sectors and political objectives is one of the main concerns of the governments of oil producing countries. This suggests that the lost of democracy or a weakened democracy in oil producing countries is very costly. (Nili et al., 2010) many believe that oil has blocked the democratization process in oil producing countries of the Middle East. They believe that oil increases and expands the possibility of government maneuver in these countries and prevents the formation of a strong and vibrant civil society and has eventually created a platform for oil tyranny. The problem is that all these solutions lead to the government and historical experience proves the fact that “governments are not good reformers”.

We can mention the macro damages of oil on the two spheres of economy and politics in renter societies and their impact on underdevelopment:

**Economy:** Most of the oil exporting countries, especially those in the Middle East have a similar economic structure. Due to the fact that in these countries the oil revenue is in the monopoly of the state and almost all of the government’s foreign exchange comes from oil revenue, the governments don’t feel the need to tax their citizens for revenue. Hence, in these countries the government expands rapidly and becomes a major employer. In many of these countries the government even becomes a major competitor against the private sector. In such countries, the development of the private sector is indeed a natural extension of the public sector.

**Politics:** That the revenue allocated from oil resources is in the monopoly of the state and the urgent need of other countries for this resource, has eliminated political competition in these countries and the countries that are in need of this vital element, have made stability in these countries their top priority. Because any form of political unrest and antagonism between social-political groups may interrupt the secure export of energy and will threaten the interests of the industrialized world. Therefore, the oil-importing countries have an ironclad system without the presence of elites and consider this closer to their national interests.

**Rentier Economy**

Among the theories have a high capability to explain the rationality of the Iranian economy is, the theory of “rentier government”. According to this theory, a rentier government or a “collector” is a government that derives more than 42% of its financial resources from the sale of crude materials such as oil.
(Mirtorabi, 2005) in other words, the majority of the state’s resources come from a non-productive process. But it is a privilege for the people of that country; (Shekari, 2000) states that make this dependency a habit, after a while become a distributor of rent. And by the way the society takes in a rentier nature. When creative productivity declines due to dependency on a product, it should be an alarm. The subsequent consequences are a consumer-based country, the growth of bureaucracy and a growing public sector economy. When the states administration rises, the social groups will be undermined (Haman, 34); and the gap between the state and the people will increase. (Rahbari, 2000)

In order to satisfy the people and to obtain legitimacy the state provides welfare and supplies for the people and seeks to enhance the economic potency of the society. (Yusofi, 1999) All these measure are a way to provide a euphoric dream for the people but, actually it’s a flip. This means that in the present situation there is no strong and viable economy. But the country uses a rent that is limited from both sides. The first is a lack and the second is price volatility.

Some of the Characteristics of a Rentier State Are:

- Focusing on government policies as the main cause for development. Rentier states accept the private sector as an assisting sector and that is why from an economic and political perspective, it has a high concentration in the economy.
- Rentier states get involved in the economy in order to make a fair distribution of resources but this practically leads to a massive interference in the economy, interference in the distribution of banking resources, avoiding the establishment of large industries or the allocation of budget to different regions of the country, interference in the distribution of raw materials and etc.
- These governments tend to stabilize the exchange rate because they make policies by planning and allocating government resources and therefore require a stable condition. Such a stable condition may be provided by stabilizing the exchange rate.

Some of the consequences of a rentier economy can be summarized in two propositions:
- A decline in economic security and consequently a decline in investment, economic growth and employment in the society; because the government seeks to hand out different instruments such as loans, currency, tax exemptions and etc to a specific group which will cause discrepancy and will eventually result an unsecure environment.
- The governments increasing reliance on oil revenue, makes it needless for them to tax the rich and this desire to centralize has increased revenue and this shows that in comparison to international standards, the unequal distribution of revenue between the rural and urban societies in Iran not only exists but is rapidly increasing. If oil is the most important factor in Iran’s economy, but the country’s control over its production, export and price is very limited and is mostly effected by the global economy, the different views and economic-political interests of the oil exporting countries especially OPEC members makes it very hard to reach a decisive and consistent decision. In such conditions economic planning is a crucial task, actually the country’s long-term economic development policy is dependent on an economic sector in which itself has an uncertain future (Mahdavi, 1997).

The Role of oil in Iran's Economy

The economy of Iran is a rentier economy which obtains is revenue by the export of crude oil. 200000 goods that are imported officially and unofficially are dependent on the export of one reliable product, oil. On the other hand, our non-oil exports are in a way reliant on oil. (Adib, 2000) our foreign exchange also relies on some issues; first, the price of oil in global markets and second, the volume of oil exports. Iran cannot always be a decision maker in terms of oil price and the amount of exports, the price of oil depends on many factors and the amount of production also depends on the demands of other countries (Haman, 95) Of course artificial manipulation in the amount of oil production is a separate matter from the automated market. The role of oil in the country’s economy can be explained in three periods:
- First period, from 1973 to 1979: a period of excess in oil revenue in comparison to the country’s needs.
- Second period, from 1980 to 1985: a relative proportion in oil revenue in comparison to the country’s needs.
Third period: from 1986 onwards: the period of shortcomings in oil revenue in comparison to the country’s needs.

In the first period, territorial funds were rapidly increasing, economic conditions showed favorable conditions, but more than half of the foreign exchange was allocated to imports.

In the second period, the main feature of this period is the sharp decline in Iran’s oil revenues; and this is due to factors such as the decline in production levels because of the war and the sharp decline in oil prices. The index indicates that is this period the production of oil is 85% lower than the production levels of 1974. What sometimes helped Iran in this period was the increase in prices but this trend saw a strong volatility in this period.

In the third period, three issues caused a reduction in the share of income per capita of Iranians from oil revenue, they were: A) the decline of the dollar B) inflation in global markets C) rapid growth of the population. Iran’s economy is very dependent on oil and oil depends on the conditions of the global markets. This issue definitely impacts the real sale price of Iran’s oil. The country’s bureaucracy cycle was heavily dependent on oil revenue. In the beginning of the revolution, the new oil policies caused a second shock in the price of oil and the price of oil multiplied. In public, revolutionary and intellectual gatherings, the tremendous growth of oil during the time of Mohammadreza shah has always been considered a betrayal to national capital. Therefore, after the revolution the dominant idea was to sell the oil in foreign currencies in accordance with the countries needs so that the capital may be reserved as much as possible. But over time, other factors reduced the production of oil, the most important of which were:

- export sanctions
- different problems in the oil industry
- laying off or the resignation of many Iranian and foreign employees some of which were experts and specialists
- the imposed war and Iraq’s attack on Iran. (Hesmatzade, 2000)

In total, these factors caused a decrease in Iran’s oil production. The ministry of oil was established in Mehr (October) 1979 and all of the activities concerning oil, gas and petrochemicals where transferred to this ministry. The ministry was established by the interim government in order to meet the following goals and policies:

To meet the much needed foreign exchange of the country by producing crude oil and its products
To meet the needs of people in different energy sectors such as: natural gas, liquid gas, gasoline, kerosene and gas oil…
To develop the petrochemicals industry as a fundamental industry with high added value. (Government coordinating council promotions 1985)
To use natural gas instead of fossil fuels and increase the scope of gas transfer across the Islamic republic
Improving and expanding the scientific and research centers that is constantly active in the fields of oil, gas and petrochemicals in order to reach the latest applied technologies and to move steadily towards self-sufficiency and industrial independence. The principles mentioned above were passed by parliament and formalized in October (Mehr) 1987. (Heshmatzade, 2000) because oil has left a deep impact on the Iranian nation’s political and economic rationale, since 1372 Iran has sought to develop a comprehensive plan for the expansion of its economy (Norouzi, 2014).

In this paper we mention 5 of Iran’s development programs up to the year 2011.

Iran’s First Development Plan (1989-1993)

The first development law was passed by the Islamic council in February (Bahman) 1989 with a credit of 8189 billion rails. The objective of this program was to replace imports for exports development and to obtain economic self-sufficiency and to strengthen non-oil exports. (Kermani, 2001) in total, all the current and development credits was 289.655 billion rails which means that 28.2% was allocated to development programs. The public cost was about 6.3%, social affairs 30.1%, economic affairs 48.8% and other expenses of the program were 14.6%. The funding of this program was based on oil and taxes. Oil was the main resource for the first plan. The main chapter of the economy which was considered first
were transportation 29.9%, agriculture and natural resources 19.1%, water resources 19.4%, industries 16.8% and mines 7.2%. (Mosalanejad, 2005) but what was concerning was that a small portion was allocated to the industrial sector; the country’s evolution was directing it to a path that was covered by the previous regime, continuing in this path had only one result and that was to become a consumer and increase imports and to weaken the industrial sector. For years there were discussions to decrease the reliance on oil and to strengthen the industrial and agricultural sectors but this issue was never resolved. The costs of the state and foreign imports were so high that only oil revenue could answer to it. However, the first development program which was adopted after the war should account the post war conditions and the reconstruction of Iran. According to these statistics, 69% of the first program’s funding was provided by oil revenue. But according to the documentations of the second program, the first program could not carry out the legal basis in accordance to the strategic policy. The factors known to be behind the failure of the program were a severe shortage in foreign currency and a decline in the oil market. (Kermani, 2001) the decrease in government revenue imposed great pressure on the government. Rising government debt in 1994 led to foreign companies entering a negotiation with Iran on how to repay the principal and interest on its debts. The medium growth of the agriculture, oil, industry and mines group and the services group from the gross national product (percentage-current prices-between the years 1989-1993).

The second development plan was approved a year after the end of the first development plan. The objectives of the second program included: the development of the country’s economy-society and to make the necessary arrangements in order to increase industrial production, trade balance in terms of industrial production, improvement and development of domestic technologies and to take advantage of industrial potentials; and the most important measure the state took in order to improve the post-war economic conditions are as follows:

Reducing Subsidies
Tax reforms and diversifying the state’s revenue.
Economic liberalization and unifying the system of multiple exchange rates.
These measures along with the increase in oil prices led to a decrease in the budget’s deficit and inflation. In the second plan, the share of public affairs and social affairs decreased 2.7% and 16.8% respectively and this was a sharp decrease in comparison to the first plan, but in exchange the share of economic affairs reached 71.8% which indicates an increase in comparison to the first program. But the reason of this increase was because the costs of oil and gas were transferred from current costs to construction.
costs. The second program was developed in such a way that the total revenues of the state which amounted more than 3.273 billion rails, the resources would be provided as follows: 50% from oil revenue, 26% from taxes and 24% from other sources. The difference between revenues and costs in the second plan shows an 875 billion rail deficit; and this was at a time when the government, by decreasing the value of the Rail against the dollar, was able to increase public funds by 12.8%. According to the forecast of the second program, the states foreign exchange revenue except the foreign loan which is equal to us$10 billion, is in total 100.18 billion dollars. 72.5% of which is from oil exports and 27.4% is from non-oil exports. Also during this period the import costs of the states was forecasted approximately 97.91 billion dollars with the remaining (2.8 billion dollars) being used to repay foreign loans and reducing foreign exchange obligations. This program also heavily relied on oil and because the domestic industries were in poor condition, the more the country went forward the more these weaknesses became visible and the country’s need to import would increase.

Third Development Plan (2001-2005)
In the third development plan, one of the man initiatives of the annual budget was to “provide government revenue sources in order to achieve the objective of a non-oil economy”. However during this program,
the share of oil revenue increased significantly. The share of oil from all government revenues in 1999 was 71.46% and increased by 54.88%, 58.68%, 73.05% and 70.07% in the next four years respectively. However, according to the objectives of the third program, the share of total government revenue from oil revenue should have decreased to 44.89% in the year 1383. In the year 1383, despite a relative decrease in the share of oil in total revenue, but the share of oil increased by 9.2% and this was majorly because of the increase in oil exports (400 thousand barrels per day), the increase in oil price (10 dollars per barrel) and the increase of the exchange rate (7.4%). Thus, the annual budgets during the third program were not consistent with the programs objectives. On the other hand, during the third development plan the 80% share of oil in total exports did not decrease. However, the value of oil exports increased from 17.89 billion dollars in 2000 to 48.832 billion dollars in 2005.

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Fourth Development Program (2006-2010)
In the fourth program, more attention was given to reducing the country’s 1 budget reliance on oil and other natural resources revenue. Article 2 of the fourth program law obliged the state to increase the share of non-oil credit in such a way that until the end of the program, all of the state’s costs would be covered through tax payments and other non-oil revenues. But the state’s budget performance in the first years of the program indicated some obvious deviations from this policy. In this regard, the share of oil revenue in the budgets of 2005 and 2006 (including the first three amendments) reached 79.4 and 62.1 respectively. Although according to the parliament research center and taking into account the tax revenues generated by oil revenue, the state’s general reliance in oil revenue in the first two years of the program was even at
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an excess of 80%. However, in the fourth development program the state’s foreign exchange revenues in 2005 was approved at 15.235 billion dollars but in practice it became 44.619 billion dollars, a growth of 192% and an approximate increase of 30 billion dollars. In 1385, by spending the foreign reserves allocated from oil exports in addition to multiple withdraws from the foreign exchange reserves account practically increased the reliance of the state’s budget on oil. This reliance exceeded 45 billion dollars. However, in the fourth program, the forecast for the foreign exchange revenue was equivalent to 15.597 billion dollars. Thus, the difference in the performance and forecast indicates a 204% non-fulfillment of objectives. In 1385, the value of crude oil revenues which equaled 129 thousand and 426 billion rials and using the foreign exchange reserves account which equaled 142 thousand and 817 billions rials had the most impact on this unplanned growth.

Calculations indicate that the annual budgets reliance on oil the four years of the fourth development plan increased in comparison to the third development plan from 58.8% to 62.2% and in the year 2009 the reliance on oil revenue reached 66%.

Farahani, vice president of strategic planning and monitoring at the ministry of economy and finance, evaluates the country’s reliance on oil revenue as follows: “calculations indicate that, the reliance on oil revenue in the fourth development plan has increased in comparison the third development plan from 58.8% to 62.2% and in the year 1387 the reliance on oil revenue was 66%.

The main point is that even with massive oil revenues, the central bank statistics show that the pace of added value growth has slowed in the industry, mine and agriculture sectors and this means that the state in not managed properly. Other figures show that current budget relies on oil revenue; however the main assumptions of the fourth development plan show that the reliance on oil revenue must become zero. But statistics show that the 47% of the current costs of the country depend on oil. In addition, the total revenue from oil and gas exports exceeded 269 billion dollars (end of December 2008) in the first four year of the fourth development plan which shows a 180% increase in comparison to the third development plan”. (EBTEKAR newspaper, 2009) the costs of oil revenue during the fourth development plan (2005-2008) increased by 157% in comparison to the third development plan (2001-2004). An increase from 44.602 trillion rials to 1551 trillion rials.

Fifth Development Plan (1390-1394)

The fourth development plan was designed by the eighth government but because of some structural deficiencies the ninth government did not move within the objectives if its framework. Currently the fifth development plan is being carried out by the tenth government within the objectives and frameworks of their policy.

The fourth development plan obliged the state to decrease its reliance on oil revenue by replacing it with tax revenue and other non-oil revenue. The fifth program also had an obligation to completely cut off the reliance on oil revenue and had three quantitative objectives: A) increasing the tax to GDP ratio by at least 10% until the end of the program B) increasing the non-oil revenue to credit costs ratio by an annual 10% C) increasing the state’s credit costs by at most 2% below the inflation rate. The fifth program also allows the state to transfer its capital state acquisition (including new, complete and operative). In general, according to the planning it seems that reducing the reliance on oil is more attainable in the fifth development plan.

Article 22 of the General Policies of the Fifth Plan Are:

To change the general view that oil and gas are a source of revenue but they are a source for generating capital and a productive economy, and to establish a national development fund in the first year of the fifth program and its constitution accepted by the parliament, to use the relative merits of oil and gas is the service and industrial chain and its downstream related sectors with respect to: depositing at least 20% of the revenue allocated from the export of oil and gas and its products to the national development fund, providing loans from the resources of the development fund for the private sector, public and private co operations with the objective to produce and develop foreign and domestic investments by taking into consideration the competitive conditions and the economic return, cutting the dependency of current government costs of oil and gas revenue by the end of the program.
To reach the point that we no longer depend on oil and gas revenue is a very ambitious goal which requires a tremendous amount of effort and we can’t expect to suddenly achieve this goal by increasing taxes or introducing reforms to the tax system. Because actual tax increase can only be accomplished if economic growth increases and this requires consistent and accurate policies in all economic sectors.

In other words, in Iran due the government’s high current and construction costs it is not possible to suddenly cut the reliance on oil revenue but this process must be done gradually. In the future, the government must revise its commitments and stop the increase current costs as much as possible.

RESULTS AND DISCUSSION

Result
After a decade since the Islamic revolution in Iran and the end of the war, some said that we should decrease the reliance on oil in order to empower the economy but oil is still a prerequisite for economic growth in Iran. Because of the structure and political affairs the government of Iran is considered the largest broker in the country. Since oil revenues are not obtained by the activities of our economic sectors, so the increase in oil production does not indicate actual economic growth. If the channels of oil revenue are closed, the decrease in oil revenue will have extremely bad consequences and because the state will be unable to respond to the community’s needs the gap between the state and the people will increase. So instability in the economic sector will spread to the social and political sectors. In this paper we studied 5 development plans of Iran and we have attempted to illustrate the effects of oil renting and its role on the development policies of the country. It was also explained that Iran’s attempt to develop a non-oil economic strategy has been unsuccessful. It can be concluded that if Iran decreases its oil revenues, only then can it compete with developed European and American countries in the global economy.

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