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An Examination of the Performance of the Second Pahlavi Government in Confronting Inflation and Rising Prices from 1973 to 1979 (A Case Study of the Agricultural Products Sector)

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ABSTRACT

Inflation and rising prices are considered among the most significant socio-economic problems, exerting wide-ranging and destructive effects on societal life, to the extent that in some analyses they have been mentioned alongside disasters such as earthquakes and war. Inflation and price increases constitute major drivers of social inequality, erosion of public trust, escalation of public dissatisfaction, and ultimately the emergence of structural crises. Within this framework, the study of the period of the Second Pahlavi era, particularly following the sharp increase in oil revenues in 1973, is of considerable importance, because during this period the country, despite attaining unprecedented oil income, faced shortages and rising prices of essential goods, especially agricultural products. Accordingly, the present article, drawing on approximately 200 primary governmental documents from the Second Pahlavi period and using valid international books and articles, examines the performance and policy measures adopted by the government within the Economic Council to confront shortages, inflation, and rising prices of agricultural products, as well as the outcomes of these measures. The findings indicate that despite substantial expenditures and government support for the agricultural sector, due to the absence of effective and coherent management, this sector was unable to align its level of production with the rapidly increasing demand generated by population growth and rising incomes, particularly in large cities and Tehran. Consequently, insufficient production combined with increased demand led to higher prices of agricultural products. Nevertheless, the government was able, relying on oil revenues and through the payment of subsidies, price controls, and extensive imports, to contain inflation to a considerable extent.

Keywords: Mohammad Reza Shah, Economic Council, agricultural products, inflation, rising prices

Introduction

The fourfold increase in the country's oil revenues in 1973, which occurred as a result of the Arab oil embargo against Israel and the Shah's decision not to participate in this embargo, led to a massive injection of oil income into society. This process resulted in industrial expansion and construction booms in urban areas, growth of the



urban population, rising incomes, a rapid increase in demand, and shortages and rising prices of agricultural products. This situation compelled the government to examine policy options aimed at increasing domestic production and preventing price increases in agricultural goods.

The central question raised in this context is: what strategies did the government adopt to confront shortages of agricultural products and to prevent inflation and rising prices, and what were the outcomes of these strategies?

This article is based on the hypothesis that, despite government efforts and the allocation of substantial financial resources toward the development of large farms, the provision of extensive facilities to these units, the establishment of agricultural cooperatives, and attempts to support farmers, the absence of precise and long-term planning by relevant experts, inadequate management, and the government's haste in allocating massive expenditures to achieve short-term productivity—alongside population growth, rising incomes, and increased demand—resulted in agricultural growth failing to keep pace with demand. Consequently, this imbalance led to shortages, inflation, and rising prices in the agricultural products sector.

Accordingly, in order to closely examine this situation, the present article analyzes the performance of the collective body of policymakers integrated within the Economic Council in combating inflation and rising prices of agricultural products.

The aim of this research is to examine government strategies and performance in increasing production, reducing inflation, and controlling price increases of essential agricultural products, as well as to identify past strengths and weaknesses that may contribute to more effective management of this sector in the present.

The Economic Council

Historical Background of the Economic Council

Given the importance of the country's economic issues, the establishment of an economic planning system appeared necessary. Accordingly, for the first time in April **1937**, exactly four years before the end of Reza Shah's sixteen-year rule, the Economic Council was formed by decree with the aim of preparing the country's first economic plan. However, due to organizational opposition and resistance from Reza Shah himself, the initiative ultimately failed.

The Economic Council during the Reign of Mohammad Reza Shah

Eventually, the first commission established under this title to prepare an economic plan for the country was formed in April 1946, during the reign of Mohammad Reza Shah (SAKMA 0311- 006661-220).

Duties of the Economic Council (Briefly)

1. General affairs (SAKMA 0331- 006661-220)
2. National defense (SAKMA 0332-006661-220)
3. Social affairs (SAKMA 0333-006661-220)
4. All economic affairs of the country (SAKMA 0334-006661-220), including monetary and fiscal policies, prices, development plans, and the overall budget (SAKMA 0338-006661-220)

The First Session of the Council

In June 1956, during the premiership of Hossein Ala, the first session of the Economic Council was convened under the title “A Study of the Causes of the Rise in the Cost of Living and the Increase and Stabilization of Prices” (SAKMA 0033-009206-230).

In this session, it was determined that, despite the domestic production of all essential goods, the primary cause of rising prices was the insufficiency of domestic products to meet the required level of demand and consumption (SAKMA 0035-009206-230). Ultimately, the members of the Council concluded that, given the country’s shortage of goods, any increase in the purchasing power of the population would lead to price increases unless its negative effects were offset through increased production or imports (SAKMA 0037-009206-230). Despite this warning, following the increase in oil revenues, the government sharply expanded the purchasing power of the population. As a result, the volume of currency in circulation reached approximately 70 billion rials in 1977 and increased to 470 billion rials in 1978, of which 390 billion rials was held by the public (SAKMA 0117-005942-230).

Strategies of the Economic Council to Confront Inflation

It should be noted that the government did not have a systematic and long-term plan to prevent price increases in agricultural products. The categorizations presented below have therefore been developed by the author based on available documents.

Production Loans and Non-Repayable Grants

1. Setting an interest rate of 0.5 percent for agricultural loans (SAKMA 220-13770-0153).
2. Removing legal obstacles that prevented all farmers from benefiting from government loans and non-repayable grants, since previously farmers subject to land reform were not entitled to receive loans, resulting in agricultural credits being allocated exclusively to agro-industrial companies (SAKMA 0220-01807-0620).
3. Providing non-repayable grants to rural development projects approved by experts of the Ministry of Agriculture (SAKMA 0621-01807-220).
4. Establishing specialized agricultural banks to allocate credit to farmers, cooperatives, agricultural joint-stock companies, and agro-industrial enterprises.
5. Establishing regional banks in areas such as Tabriz, Rasht, Ahvaz, Kerman, Zahedan, Shiraz, and Bandar Abbas to allocate necessary credit to farmers (SAKMA 0097-06661-220). The establishment of these banks facilitated the mobilization of small-scale capital, stimulated agricultural development in these regions, and supported the government’s decentralization policy.
6. Setting very low interest rates for agricultural loans compared to industrial banks, with the government paying the interest rate differential to banks (SAKMA 220-006661-0134).
7. Increasing the credit of the Agricultural Cooperative Bank by reducing the required demand and time deposits of the Agricultural Bank at the Central Bank from 25 percent to 10 percent (SAKMA 0243-06661-220).
8. Mandating the Central Bank of Iran to oblige Bank Melli Iran to honor checks issued by the Ministry of Cooperation and Rural Affairs (SAKMA 0243-006661-220).

9. Increasing the credit of the Agricultural Bank and raising the volume of loans granted to applicants by 10 percent (SAKMA 0648-006661-220).
10. Increasing agricultural credit by 800 million rials to provide low-interest loans and non-repayable grants to the private sector for agricultural activities (SAKMA 0673-006661-220).
11. Allocating 44 billion rials by the government to the agricultural sector in **1977**, as follows:
 12. 23,000 million rials to rural cooperative companies.
 13. 5,500 million rials to cooperative-member farmers for long-term uses.
 14. 9,500 million rials for the implementation of supervised rural projects and agricultural production expansion schemes.
 15. 500 million rials to agricultural consumer cooperatives.
 16. 500 million rials to non-member farmers (SAKMA 0320-006661-220).
 17. Allocating one billion rials in low-interest loans and non-repayable grants to the private sector for research on the country's rivers and irrigation methods in different regions (SAKMA 0320-007987-230).
 18. Providing non-repayable grants to farmers owning up to 500 hectares of land, while refusing such assistance to large agricultural corporations, such as General Farms, that had requested government support (SAKMA 0163-016668-220).
19. Increasing banking credit by 20 percent, with priority given to agricultural and productive activities in the provinces (SAKMA 0046-158735-293).

Foreign Contracts and International Measures

1. Concluding contracts for dam construction to expand cultivated land, such as the agreement with the Soviet Technopromexport Institute, which enabled the expansion of cultivated land by 50,000 to 60,000 hectares annually (SAKMA 0412-018087-220).
2. Signing a contract with Romania for the purchase of 35,000 Universal-brand tractors at below cost price and creating favorable purchasing conditions for farmers, as well as contracts with Massey Ferguson and John Deere factories for domestic tractor production. In addition, the government paid the full price of tractors in cash to manufacturers and sold them to farmers on an installment basis with 6 percent interest. Approximately 34 billion rials were allocated over four years to the Agricultural Machinery Development Corporation (SAKMA 0389-006661-220).
3. Proposing the establishment of an international organization for the distribution of food and agricultural products by the Iranian government at the International Economic Cooperation Conference in Paris, organized by the Food and Agriculture Organization (FAO), to secure the country's essential product needs (SAKMA 0015-006661-220).
4. Iran's accession to the International Agricultural Research Group, engaged in research aimed at increasing agricultural output (SAKMA 0641 and 0640-006661-220).
5. Iran's accession to the International Fund for Agricultural Development (SAKMA 0041-000741-220).

Agricultural Machinery

1. Maintaining gasoline prices for agricultural machinery and uses without increase (SAKMA 0433-018087-220).

2. Providing loans to farmers for the purchase of agricultural machinery (SAKMA 0503-018087-220).
3. Supplying the necessary credit to the Agricultural Machinery Development Corporation for the purchase of agricultural machinery and equipment (SAKMA 0257-006661-220), which led to a 90 percent increase in imports in this area by the end of the Fifth Development Plan (1).
4. Establishing short-term training courses in rural areas to familiarize farmers with the use, repair, and maintenance of agricultural machinery (SAKMA 0126-158735-293).
5. Assisting the Agricultural Machinery Development Corporation in purchasing agricultural machinery, particularly tractors, and distributing approximately 12,000 units to farmers (SAKMA 0184-005942-230).
6. Importing Universal tractors manufactured in Romania, integrating them into the production line of the Tractor Manufacturing Company, and hosting 40 Romanian experts in the country to provide technical services in this field (SAKMA 0229-005942-230).

As a result, with the mechanization of agriculture and the adoption of new technologies, the growth rate of agricultural products increased across all product categories during the period **1973–1979** (2).

Purchase of Agricultural Products

1. Purchasing agricultural products required by industries—such as sugar beet—and increasing their procurement price by 100 rials per ton in order to support farmers (SAKMA 0598-018087-220).
2. Assisting farmers in using improved and modern seeds (3). In order to increase agricultural outputs such as rice, the government purchased and supplied these products to the market (SAKMA 0504-018087-220).
3. Providing the working capital required by the Ministry of Cooperation and Rural Affairs to purchase farmers' surplus products (SAKMA 0584-018087-220). In this way, an amount of 10 billion rials per year was made available to the said ministry for the purchase of agricultural products.
4. Bulk purchasing of agricultural products by the government from producers and wholesalers at prices higher than market prices in order to support them (SAKMA 0043-006661-220). According to government reports, in no instance did the state reduce the procurement price paid to farmers; rather, it controlled prices through subsidy payments (SAKMA 0045-006661-220).
5. Pricing agricultural products and determining and guaranteeing a minimum “fair” price in a manner that would encourage increased production (SAKMA 0045-000326-340) ;(SAKMA 0370-000741-220).
6. Allocating credit of 500 million rials for the purchase of agricultural products (SAKMA 320-016668-220).
7. In order to increase the production of goods whose domestic shortage was felt and to prevent their importation, the government concluded contracts with producers at a fixed price per kilogram (SAKMA 0165-007987-230).
8. Despite the decline in world cotton prices in **1977** and the reduction of its price to 80 rials, the government purchased cotton from farmers at 130 rials and paid all costs of loading, transportation, and storage. It was also assigned that, until global prices increased, the price differential would be compensated in favor of farmers, and that production would be encouraged through the provision of interest-free loans. This was because cotton was used in oil extraction, livestock and poultry uses, and spinning mills; thus, shortages would lead to industrial stagnation and harm the food industry (SAKMA 0241 and 0238 and 0236-002414-245).

9. Pre-purchasing certain essential products from farmers in order to encourage them, despite the fact that importing these products would have imposed significantly lower costs on the government (SAKMA 0413-002414-245).
10. Paying transportation costs for products purchased by the government (SAKMA 0287-002414-245).
11. To eliminate inconsistencies in procurement, the government published a list of products for which it guaranteed purchase. In addition, losses incurred by producers of these products were compensated through credits from the Producer Support Fund (SAKMA 0310-002414-245). In cases of a budget deficit for the Producer Support Organization, the Central Bank provided the required amount as a cash advance (SAKMA 0424-002414-245).
12. Due to fluctuations in agricultural product prices, the government guaranteed to purchase farmers' products at a minimum price (SAKMA 0436-002414-245). To determine the minimum price, the government established two committees, each responsible for setting prices for specific categories of items. This council was required to convene at least once every two months, meaning that depending on conditions, the government would raise procurement prices (SAKMA 0439-002414-245).
13. Allocating 70 billion rials for purchasing legumes from farmers and including legumes in the list of goods eligible for government support (SAKMA 0570-002414-245).
14. Paying 50 percent of non-repayable assistance by the government to production cooperatives through the Agricultural Bank (SAKMA 0165-016668-220).
15. Large-scale purchasing of products from agricultural producers by major cooperative companies (SAKMA 0171-016668-220).
16. Establishing marketing cooperatives to purchase products from farmers, eliminate intermediaries, and estimate consumption so that production could be aligned accordingly (SAKMA 0174-016668-220).
17. Due to a 12 percent decline in the wheat cultivated area in **1977**, the government substantially increased the guaranteed procurement price of wheat and predetermined the purchase volume for the following year (SAKMA 0209-016668-220).
18. Stabilizing agricultural product prices with due regard to producers' interests and encouraging them to produce (SAKMA 0048 and 0013-158735-293), and reducing the income gap between urban and rural areas.
19. Timely purchasing of wheat from farmers and storing it (SAKMA 0124-158735-293).
20. Guaranteeing the procurement price of rice at a minimum of 100 rials per kilogram due to its psychological importance (SAKMA 0024-005942-230).
21. Increasing the procurement price of sugar beet from farmers, even though this imposed an additional fiscal burden of 2.5 billion rials on the government (SAKMA 0027-005942-230).
22. Providing revolving cash advances through the Central Bank to the Central Rural Cooperative Organization for purchasing products from farmers (SAKMA 0053-031555-230).

Assistance to Increase Production

1. Providing free services for land leveling and irrigation, and placing a substantial share of rice-cultivated lands under this program (3).

2. Assisting farmers in pest control and preventing losses through the creation of appropriate packaging (SAKMA 0559-018087-220).
3. Establishing a joint-stock company for the distribution of chemical fertilizers and supplying fertilizer to farmers at a low price, such that the government incurred a loss of 15 rials per kilogram in favor of farmers (SAKMA 424 220-006661-0); (SAKMA 0013-230-033325).
4. Supplying high-quality seed to farmers for cultivating products such as sugar beet and rice to increase production (3).
5. Establishing vocational training courses for rural residents conducted by experts (SAKMA 0011-158735-293).
6. Removing prohibitions imposed by the Environmental Organization on farmers (SAKMA 0024-005942-230).
7. Increasing agricultural output by strengthening the efficiency and productivity of various agricultural systems—such as the peasant system, group-based systems, agricultural joint-stock companies, rural production cooperatives, agro-industrial enterprises, and the support and development organization for rural production cooperatives—so as to provide essential inputs such as machinery, well drilling, land leveling, fertilizer and seed supply, transportation, rural road construction, facilities for complete harvesting, and the prevention of losses at the village level, thereby increasing production (SAKMA 0048-031555-230).
8. During the Fifth Development Plan, despite the allocation of credits to the agricultural sector, the total cultivated area was 230,000 hectares. To produce the required domestic wheat, it was necessary to use 2 million hectares of irrigated cultivation so that output would reach 1.5 to 2 tons per hectare. Accordingly, the following measures were undertaken:
9. Revising agricultural sector credits.
10. Revising the implementation of agricultural programs and establishing a specific company for agricultural inputs and centralizing all activities within it.
11. Formulating a long-term program for agricultural affairs (SAKMA 0189-005942-230).
12. Establishing projects and providing special facilities to increase essential products (SAKMA 0190-005942-230).
13. Planning to achieve national self-sufficiency in all imported items in the shortest possible time.
14. Taking measures to increase yields per hectare (SAKMA 0191-005942-230).
15. Providing chemical fertilizer permanently with a 20 percent discount to farmers (3); (SAKMA 0195-005942-230) and (SAKMA 0013-230-033325).
16. Implementing a program to address deficiencies in rural cooperatives.
17. Providing a definitive purchase guarantee for eight agricultural products in addition to wheat (SAKMA 0197-005942-230).
18. Due to a 27 percent decline in the area cultivated with sugar beet in **1977** compared to the previous year, the government adopted measures to increase cultivated area, such as providing free fertilizer and seed (SAKMA 0222 and 0223-005942-230).
19. Developing plans to increase production in each province according to the facilities of that province (SAKMA 0188-005942-230).

20. Establishing a rational linkage between agricultural faculties and farms to increase production (SAKMA 0193-005942-230).
21. After shortages emerged in essential goods, the government decided to determine consumption levels across different regions of the country through investigations so that production could be increased accordingly (SAKMA 0329-018087-220).
22. Implementing water supply and drainage projects in rural production cooperatives in different regions (SAKMA 230-007987-0424).

Support Programs and the Removal of Agricultural Problems

1. Observing the priority of agricultural projects in the allocation of cement and the provision of electricity.
2. (SAKMA 0370-000741-220 and 0045-000326-220)
3. Implementing incentive policies to facilitate new investments in the agricultural sector (SAKMA 0046-000326-220).
4. Accelerating administrative processes and matters related to agricultural producers within governmental agencies (SAKMA 0047-000326-220).
5. Insuring all mechanized units, agro-industrial (keshte va san'at) units, and their employees in the amount of 110 billion rials (SAKMA 0368-016668-220).
6. Approving the Rural Relief Fund Act and allocating a portion of the national budget annually to support farmers and compensate losses caused by natural disasters (SAKMA 0320-007987-230).
7. Constructing rural warehouses in rural hubs (SAKMA 0375-007987-230).
8. Paying 350 billion rials for pest control, product packaging, and the establishment of warehouses and cold-storage facilities in rural areas (SAKMA 230-007987-0400).
9. Implementing water supply and drainage projects in rural production cooperatives with a credit of 100 thousand rials (SAKMA 0424-007987-230).
10. Collecting a fee per kilogram of imported products from importers in order to support producers for activities such as pesticide spraying, and depositing it into the government support fund (SAKMA 0091 and 0088-00741-220).
11. Quarantining imported products to protect domestic crops from imported pests (SAKMA 0092-000741-220).
12. Constructing pesticide warehouses and plant protection clinics in Mazandaran, Gilan, and Fars with an area of 1,000 square meters, and in Fars with an area of 500 square meters (SAKMA 0717-005942-230).
13. Reducing agricultural losses through pest control, improving the distribution system, proper packaging, and the construction of warehouses and cold-storage facilities.
14. Increasing production productivity and harvest yields by applying new scientific methods (SAKMA 0370-00741-220).
15. Government support for domestic wheat production in order to promote national independence, despite the fact that its production cost was relatively higher than the price of imported wheat (SAKMA 0372-00741-220).
16. Paying compensation for agricultural product losses by the Producer Support Organization (SAKMA 0384 and 0164 and 0303-002414-245).

17. In cases where increased production of a product caused a sharp decline in its price and losses for farmers, the government, in order to support them and prevent adverse effects on production in the following year, purchased the entire output at the approved price (SAKMA 245-002414-0449).
18. Gradual expansion in 1977 of agricultural items eligible for government support, including wheat, barley, sugar beet, rice, legumes, corn, cotton, and oilseeds (SAKMA 0437-002414-245).
19. Developing and constructing agricultural warehouses and cold-storage facilities in provinces and production centers (SAKMA 0067-158735-220).
20. Allocating credits to rural and production cooperatives for purchasing, storing, packaging, and transporting products to distribution centers; enabling producers to share in the value added; and reducing intermediaries (SAKMA 0029 and 0016-031555-230).
21. Establishing large marketplaces for the offering agricultural products and implementing infrastructure projects, as well as developing and equipping rural agricultural production cooperatives (SAKMA 0029-031555-230).
22. Determining production costs and guaranteeing procurement prices accordingly in order to safeguard farmers' rights (SAKMA 0030-031555-230) ;(SAKMA 230-05942-0095).
23. Announcing the timing and volume of product procurement prior to the harvest season (SAKMA 0051-031555-230), because previously, the government's delayed announcement of procurement prices had led farmers to sell their products at prices lower than the official procurement price (4).
24. Providing necessary credits to farmers to procure fertilizer, seeds, pesticides, and agricultural machinery, as well as paying them an advance in order to prevent pre-selling of agricultural products (SAKMA 0051-031555-230).
25. The increase in the government's wheat procurement price increased farmers' willingness to expand the cultivated area; therefore, the government provided an additional 20,000 tons of seed free of charge to farmers (SAKMA 0147-005942-230).
26. Supplying 67,000 tons of improved wheat seed; 12.850 tons of forage seed; 10.943 tons of cotton seed; 3,500 tons of sugar beet seed; 3.039 tons of soybeans; 1.160 tons of potatoes; 615 tons of rice; and 270 tons of corn seed to farmers at prices below cost (SAKMA 230-005942-0182).
27. Although the cost of producing chemical fertilizer by the National Petrochemical Industries Company of Iran was higher than international prices, the government supplied it to farmers at an appropriate price and incurred substantial costs in paying the price differential (SAKMA 0183-005942-230).
28. Purchasing substandard products in order to support farmers (SAKMA 245-002414-00119).

Agricultural Labor Force

1. Increasing wages and salaries of agricultural labor in accordance with the inflation rate each year (SAKMA 0566-018087-220).
2. Implementing effective measures to resolve harvesting problems (SAKMA 0045-00326-340) through the use of banking services and government guarantees (SAKMA 0164-016668-220).
3. Raising agricultural workers' wages

Measures That Led to the Weakening of the Agricultural Sector

Insufficiency of Agricultural Credit

The growth of the oil sector led to a decline in government attention to agriculture and, consequently, a reduction in credit allocated to this sector (Table 1). Specifically, the share of agriculture, which was 30 percent in the Second Development Plan, declined to 20 percent in the Third Plan, 8 percent in the Fourth Plan, and 6.5 percent in the Fifth Plan (2, 5, 6). As a result, the growth of other sectors surpassed that of agriculture (7).

Moreover, only 66 percent of the agricultural budget was actually used for agricultural development, while the remainder was allocated to dam construction, electricity supply, the establishment of agro-industrial companies, modern irrigation, drainage, road construction, and other required infrastructure (4, 5).

In addition, in some cases the government diverted agricultural credits in favor of other sectors, such as reducing allocations for drainage and irrigation projects and transferring them to dam construction projects aimed at electricity generation and urban water supply. One example was the reduction of 100 million rials from the credit allocated to irrigation networks for the agricultural lands of Jiroft and its transfer to the construction of the Minab Dam (SAKMA 0415-018087-220) and (SAKMA 220-06661-0480).

Table 1. Share of Different Sectors in Gross Domestic Product, 1963–1977

Sector	1960	1965	1970	1972	1974	1976	1977
Agriculture	24.5	18.0	13.4	10.4	9.7	9.6	9.7
Mining	36.5	45.0	53.4	51.2	46.0	38.8	36.7
Manufacturing	7.3	7.6	8.2	8.6	10.0	11.8	13.4
Social services	9.2	9.8	10.1	10.4	12.3	13.0	14.9
Construction	5.1	5.5	4.0	3.4	3.1	4.9	5.1
Wholesale and retail trade	6.6	5.4	4.9	4.8	5.1	6.0	6.5
Gross Domestic Product	737	1140	1979	2604	3137	3571	3498

Source: (8)

Loans

Although long-term low-interest loans and non-repayable grants were allocated to the agricultural sector, most of these resources were directed toward agro-industrial units. For example, out of a total of 44 billion rials in credits in 1977, only 5 billion rials were allocated to traditional farmers, while 39 billion rials were granted to agro-industrial companies and agricultural cooperatives (SAKMA 0320-016668-220). Similarly, out of USD 1.2 billion in credits allocated in 1973, USD 967 million was assigned to these units (9, 10).

In the area of insurance, only mechanized farming units and agro-industrial enterprises were covered, and out of the 110 billion rials spent for this purpose, traditional farmers received no share (SAKMA 0368-016668-220).

The Rural Relief Fund law also focused primarily on compensating agro-industrial companies, with the largest share of expenditures allocated to them (SAKMA 0320-007987-230).

The only policy aimed at supporting small farmers was the establishment of rural cooperatives (11). However, these cooperatives were generally small and lacked sufficient capital (12, 13), a fact acknowledged by government officials themselves (14). Loans provided through these cooperatives were short-term, whereas 78 percent of loans to agro-industrial companies were long-term. During the period **1968–1976**, non-repayable grants and loans allocated to cooperatives amounted to 6,470 rials per hectare, while this figure reached 122,383 rials per hectare for companies (4, 15). Consequently, during these years, the share of agro-industrial companies was 18 times

greater than that of cooperatives (4). For this reason, Baldwin argued that the impact of these loans on agricultural production was virtually negligible.

Furthermore, the absence of mechanisms to control the use of allocated credits led to their diversion into land speculation, construction, and luxury housing due to the profitability of the housing sector (SAKMA 0175-016668-220) and (SAKMA 0170-016668-220). Although initially only one-third of these credits were used for production (2), over time and with rising profits in the housing sector, Central Bank of Iran statistics showed that 100 percent of loans allocated to productive units were eventually spent in the housing sector (SAKMA 0136-016668-220).

Agricultural Decline Due to Construction Activity

Accordingly, the Economic Council warned the Shah that diverting agricultural credits into construction would lead to the decline of agriculture. However, he believed that using banking credits for housing construction would meet national housing needs within two years (SAKMA 0148-016668-220). As a result, the boom in construction—driven by the relatively higher efficiency of investment in this sector and higher wages—led to a reduction in agricultural labor (SAKMA 0153-16668-220); (3).

At the same time, increased public and private investment in construction—at annual rates of 12.7 percent and 11 percent, respectively—(3) led to an annual increase of 11.8 percent in construction wages and attracted agricultural laborers to urban areas, particularly the capital. Consequently, Tehran’s population increased by approximately 50 percent between 1966 and 1976 (3). Given that income from five months of agricultural labor was about 3,000 tomans, while a construction worker earned 5,000 tomans for 12 hours of work, peasants also joined this profitable market by leasing their land.

Ultimately, since between 50 and 60 percent of wheat and barley harvesting was done manually (10), the shortage of agricultural labor left large areas of rain-fed land uncultivated and led to a production decline of up to 20 percent during 1973–1979. Consequently, wheat imports—which amounted to about 5.4 percent of domestic production in 1955—rose to 27.2 percent by 1977 (3, 16). Although this situation ultimately prompted the government to significantly increase agricultural wages, they still lagged behind urban incomes (Table 2) (3).

Table 2. Labor Force by Sector, Selected Years 1962–1978

Sector	1962–63	1967–68	1972–73	1977–78
Agriculture	55.1	49.0	40.9	32.2
Industry	20.6	24.7	29.0	33.2
Services	23.8	25.7	29.5	34.0
Oil	0.5	0.6	0.6	0.6
Total	100	100	100	100

Source: Central Bank of Iran, Annual Reports and Balance Sheets, various years (1960–1978).

Mechanized Agriculture

The Shah held an unfavorable view of rural agriculture and believed that meeting agricultural needs required the establishment of large-scale agricultural units. Owing to labor shortages in the agricultural sector, he argued that agriculture had to be mechanized (SAKMA 0163-016668-220) (SAKMA 0164-016668-220).

This perspective directed the government’s overall policies, first toward supporting agro-industrial (zara’i) units, second toward agricultural cooperatives, and finally toward ordinary farmers. Agro-industrial units, which were established in 1968 (17), had a minimum area of 5,000 hectares (18) and encompassed approximately 50 percent

of the cultivated lands of nearby villages. In total, they affected about 10,000 villages through industrial agriculture (6, 19), and were primarily engaged in the production of commercial crops (10).

Through the provision of long-term low-interest credits, non-repayable grants, facilities for purchasing agricultural machinery, pesticides, fertilizers, high-quality seeds, and other agricultural inputs, as well as cheap fuel, technical assistance, irrigation systems, electricity, schools, and other facilities, the government facilitated the expansion of these units (4, 20). Consequently, by the end of 1976, a total of 89 agro-industrial companies had been established in the country (4, 21).

However, this policy of industrialization was effectively directed against rural areas and led to the failure of traditional agriculture in competition with industrial agriculture (2, 6). Because the efficiency of traditional agriculture compared to these units was negligible, many peasants were forced to sell their land to the government and work in these enterprises (6, 15). For example, approximately 55,000 farmers in the Dez Dam region of Khuzestan experienced this situation (15).

Moreover, with the expansion of machinery, agricultural wages declined, leading to labor migration to urban areas (6, 22). Despite the allocation of fertile northern and northwestern regions of the country for the establishment of these companies (4, 19) and extensive government support, these units did not perform positively (SAKMA 0216-016668-220), and peasant agriculture outperformed them (15). This was because these units produced only 12 percent of domestic output, whereas medium-sized units produced nearly three-quarters of agricultural products (10, 18). Ultimately, due to the problems inherent in these companies, they were all dissolved (17).

According to the Economic Council, some of the main reasons for the inefficiency of these units were as follows:

1. Deficiencies in preliminary research, which led to the cultivation of crops incompatible with local climatic conditions.
2. Rising global inflation increased the prices of required machinery, and due to the absence of spare parts domestically, repairs were not possible; consequently, cultivation was either halted or carried out defectively (Table 3).
3. Heavy investments in land leveling, infrastructure, and machinery combined with low returns (SAKMA 0440-016668-220).
4. High personnel and staffing costs.
5. Disproportion between planned programs and the actual capacities of the companies.
6. Mismatch between agricultural product prices and production costs.
7. Purchase of unusable machinery.
8. Shortages of skilled and semi-skilled labor (SAKMA 0441-016668-220).

The cumulative effect of these factors resulted in bankruptcy and indebtedness (SAKMA 0442-016668-220).

Table 3. Agricultural Joint-Stock Companies in Iran, 1968–1976

Year	Number of Companies	Number of Affected Villages	Number of Shareholders	Total Population of Areas	Total Land Area (ha)
1968	14	84	4,820	43,552	58,857
1969	5	31	1,586	15,419	21,015
1971	8	58	2,874	24,345	24,518
1972	16	168	6,433	55,317	70,558
1973	22	205	7,902	63,820	64,874
1975	20	229	8,787	86,171	67,340
1976	4	38	1,261	11,046	11,572
Total	89	813	33,663	229,670	318,734

Source: Plan Organization, *Summary of the Fifth National Development Plan (1973–1978)*.

Government Pricing of Agricultural Products

Before the increase in oil revenues, and during the 1960s, the government adopted a policy of price stabilization and guaranteeing continuous food supply to urban areas (3, 11). Although the stated aim of agricultural price setting was to prevent price increases, in practice this policy sometimes led to higher prices and shortages:

1. Because each region had its own pricing committee that set prices without consulting production centers, traders—aware of regional price differences—purchased all products and transported them to higher-price regions. As a result, goods became scarce and expensive in other regions and even in production centers.
2. In some cases, the government, without accurate price information, set high prices to support farmers and purchased all products from a region, causing sudden price increases (SAKMA 0043-006661-220).
3. In other instances, prices were set to favor consumers, making production economically unviable relative to costs. Consequently, wheat farmers abandoned wheat cultivation and shifted to more profitable crops (SAKMA 0043-006661-220); (4, 19). This led to a decline in staple crop production and a 12 percent reduction in wheat-cultivated area over two years (SAKMA 209-016668-220).
4. Low prices set for industrial crops prevented industries from purchasing farmers' products, creating problems for producers of crops such as sugar beet (SAKMA 0013 and 0010-033325-230).
5. Due to government intervention in prices, the private sector reduced investment in production (SAKMA 0353-018087-220). As a result, production declined and imports increased, such that according to the Council's report, 89 percent of national income in **1977** was spent on importing consumer goods (SAKMA 220-013770-0048). Although the Council warned that price-stabilization policies had inflationary effects, the Shah insisted on strict price controls. Ultimately, without increased domestic production, prices rose (SAKMA 0353-018087-220), leading to the emergence of both free and black markets (SAKMA 0408-007987-230).
6. According to the Minister of Agriculture, government price intervention hindered production growth and inflation control because rising oil prices had increased agricultural production costs (23). Therefore, product prices needed to rise to create incentives for increased production (2).
7. Ultimately, price-setting policies led to imports of products previously sufficient for domestic needs, such as wheat, barley, and legumes. Because the government set prices at 16 rials, farmers reduced cultivation and prices rose to 50 rials, forcing the government to import these products at a cost of 70 billion rials (SAKMA 0133 and 0132-016668-220). According to the Minister of Agriculture, even a 5-rial increase would have boosted production; nevertheless, shortages were compensated through imports, and the Shah even ordered that aircraft be used for legume imports if necessary (SAKMA 0130-016668-220).
8. Price controls and government financial assistance stabilized prices below real market levels, but in the long term created problems such as:
 1. Excessive consumption and rising government expenditure to cover price differentials, to the extent that two-thirds of the budget deficit in **1976** resulted from this policy.
 2. Imbalances between production costs and prices, leading to reduced production and greater imports.

3. Increased purchasing power due to price controls, raising demand and ultimately fueling inflation (SAKMA 220-018087-0392).

The Council's view was that government price intervention should be limited to essential goods, with other products subject to free pricing. Because price controls are only effective when overall supply and demand are balanced (SAKMA 0393-018087-220), the government should raise prices to stimulate domestic production and resort to imports only when expanding domestic capacity was not feasible (SAKMA 0545-002414-245). Subsidies, therefore, should have been redirected from consumer goods toward production, supporting producers rather than consumers. Such subsidies needed to be self-financing so as not to burden the public budget or generate inflationary effects through increased liquidity (SAKMA 0548-002414-245).

9. Finally, the failure of agricultural policies led to the Shah's disillusionment, and in 1977 he opposed increasing agricultural product prices and setting "fair prices," arguing that domestic production costs were 20–25 percent higher than international prices (Table 4) (SAKMA 0370-000741-220).

Table 4. Production of Major Agricultural Products (thousand tons)

Product	1963–1967	1968–1972	1973–1978
Wheat	7.1	5.0	4.7
Rice	6.5	4.6	7.0
Barley	6.2	7.0	7.6
Sugar beet	27.0	7.7	4.7
Cotton	4.5	7.8	5.5

Source: (11)

Inadequate Management

Although the government provided assistance to farmers, inadequate management led to a range of problems:

1. The government concluded contracts with farmers to purchase products at a fixed price before planting. However, because the quantity and type of product were not specified, farmers cultivated products that lacked adequate storability, and the government refused to purchase them. Moreover, this contributed to the sudden entry of large volumes of a single product into the market, triggering price declines and ultimately discouraging farmers and reducing future production (SAKMA 0165-007987-230).
2. The failure to specify the type and quantity of crops required led to a mismatch between cultivated products and national needs, resulting in shortages and rising prices for certain items and surplus production for others (SAKMA 0372-000741-220).
3. For example, in 1974, wheat cultivation declined and its price increased. In the following year, the government, on the one hand, encouraged farmers, and on the other hand, imported large quantities of wheat. Because imported wheat was cheaper than domestic wheat, domestic wheat remained unsold and farmers became dissatisfied. As a result, the wheat cultivated area declined by about 6 percent in 1976 and by a further 6 percent in 1977 (SAKMA 0209 and 0207-016668-220).
4. Accordingly, inadequate management caused a 12 percent reduction in wheat cultivated area over two years; similar patterns occurred for other crops as well (SAKMA 0211-016668-220).
5. The government's failure to determine the required volume of imports led to excessive imports, sharp declines in domestic prices, and serious losses for farmers. The Minister of Agriculture warned that this would demoralize farmers, drive them toward cities, and expose the country to a major catastrophe (SAKMA 0405-002414-245). After government policies reduced wheat cultivated area by 12 percent, the state, after

two years, guaranteed and increased the procurement price of wheat (SAKMA 0209-016668-220). However, the Minister of Agriculture argued that agricultural problems could not be solved merely by increasing wheat prices and that the government needed to adopt fundamental measures to eliminate discrimination between urban and rural areas. Thus, it was in 1979 that the government undertook belated actions in this direction (SAKMA 0210-016668-220).

Imbalance Between Rural and Urban Areas

Government policies—particularly the failure to inject capital into rural areas and the insufficient provision of long-term low-interest credit—(2, 19, 24) created a profound gap between the welfare level of cities and rural areas (10). For example, agro-industrial companies, whose number reached 89 by 1976 (21), accounted for 18 percent of agricultural credits, whereas rural areas received only 8 percent (10). After the rise in oil revenues, although growing demand and higher agricultural wages increased rural household budgets by up to 60 percent, Central Bank studies indicated a persistent income gap between rural and urban populations (1, 2).

Seventy-two percent of the rural population had incomes below the minimum subsistence level (1). The annual growth rate of consumption was 3.6 percent in rural areas and 15.3 percent in urban areas, indicating unequal access to oil revenues between cities and villages (6). Welfare measures such as education and free nutrition primarily benefited urban areas (SAKMA 0537-002414-245).

Urban areas also benefited more from subsidy payments (Table 5). This pattern, which continued until the end of the Second Pahlavi period, contributed to poverty and the depopulation of villages (6, 16). According to censuses, beginning in 1971, approximately 381,000 people migrated annually from rural areas to cities—about 19.1 percent of the population (2, 6).

Table 5. Annual Population Growth and Rural-to-Urban Migration Rate, 1956–1976

Period	Population Growth Rate	Urban Growth Rate	Rural Growth Rate	Annual Rural-to-Urban Migration Rate (%)
1956–1966	3.1	5.1	2.1	13.1
1966–1976	2.7	4.9	1.2	19.1

Source: (25)

According to one survey, 85 percent of rural migrants cited unsuitable employment and low income as their reasons for migration (Table 6). It was in light of these issues (16) that the Minister of Agriculture stated that, due to the imbalance between rural and urban purchasing power, the government should adopt measures to create balance between the two sectors, such as special subsidies for rural areas, the establishment of industries near villages, tax exemptions, and rural development initiatives (SAKMA 0543-002414-245).

Table 6. Annual Rural Agricultural Income, 1972

Income Group	Share of Population (%)	Mean Income (USD)
0–100 (0–3 ha)	46.7	70
100–199 (3–10 ha)	32.9	131
200–399 (10–50 ha)	19.2	302
400+ (50+ ha)	1.2	1,000

Source: (26)

Table 7 indicates that, after the rise in oil revenues, urban consumption nearly doubled, whereas rural consumption increased only slightly. Thus, most benefits of rising oil income and state subsidies accrued to cities, while rural populations remained largely excluded (SAKMA 0538-002414-245).

Table 7. Consumption Expenditures of Different Sectors (billion rials), Selected Years

Category	1962	1967	1971	1972	1977
Urban consumption expenditures	122.9	187.2	293.0	590.3	1052.5
Rural consumption expenditures	110.5	134.4	158.4	290.0	370.0
Government consumption expenditures	31.5	73.6	159.3	354.2	786.0

Source: Based on Central Bank of Iran annual statistics and the Statistical Center of Iran.

A Historical Pause

Although researchers—most prominently Homa Katouzian—argue that despite higher oil revenues the Shah felt no compulsion to increase agricultural productivity and that this explains the neglect of agriculture, the special support provided to industrial agriculture and the non-repayable assistance extended to it suggests that the government's initial inattention primarily encompassed traditional agriculture. From **1975** onward, however, the government increased its attention to this sector, and especially in the last two years of the regime, it extended substantial support to ordinary farmers, albeit in an unplanned and circumstance-driven manner.

Accordingly, contrary to interpretations that view imports as evidence that the regime felt no need for domestic production and therefore neglected it, it should be noted that the Shah regarded imports as only a temporary solution to meet domestic demand until domestic self-sufficiency was achieved. For example, in the early period of increased oil revenues in 1973, he declared that rising oil income should not lead to waste and, emphasizing thrift on the part of both the state apparatus and the public, issued a statement calling on people to conserve consumer goods until the country achieved self-sufficiency in domestic production (SAKMA 0009-058949-230). He intended to raise domestic production; however, a series of errors—including imbalance in the distribution of agricultural credits between industrial and traditional sectors, haste and insufficient patience in proper planning for domestic production expansion, a shift from thrift to consumerism and rising urban welfare (SAKMA 220-013770-0040), prioritizing the provisioning of cities and preventing shortages through imports of essential goods even, if necessary, via air transport and aircraft (SAKMA 0189-005942-230), and controlling agricultural product prices in favor of consumers—contributed to weakening the agricultural sector. By contrast, maintaining thrift, avoiding consumerism, and redirecting import-related expenditures toward supporting domestic producers could have facilitated self-sufficiency, albeit through a time-consuming process. These factors, together with inadequate management, produced a mismatch between production growth and consumption growth in agriculture (SAKMA 0356-018087-220), as agricultural growth rates were only 2–3 percent per year while consumption growth reached 12 percent (2). In addition, agriculture's share in gross national product, which had been about 24.5 percent before 1973, fell to 9.7 percent in 1977 (1, 10).

Consequently, the imbalance between production growth and consumption growth led to price increases in agriculture. Ultimately, to prevent shortages and rising prices, the government increased imports and, through expanded imports and commodity subsidies, was able to contain inflation to some extent, because imports functioned as a stabilizer.

In this manner, the economic opportunity created by increased oil revenues was lost through the expansion of imports (Table 8).

Table 8. Imports of Major Agricultural Products (thousand tons), 1973–1978

Product	1973	1974	1975	1976	1977	1978	Average Annual Growth Rate
Wheat and flour	785	1456	1472	844	1159	1354	11.5
Rice	12	191	286	250	590	500	111.0
Barley	107	178	203	230	334	464	34.1
Corn	131	223	78	215	344	450	27.9
Raw sugar	299	228	633	313	488	876	23.9
Refined sugar	161	98	424	220	449	732	35.4
Tea	9	12	12	13	19	20	17.3

Source: (27)

Conclusion

Although the agricultural sector's credits were lower than those of other sectors, the oil-revenue boom still enabled the allocation of considerable resources to agriculture, together with extensive facilities for irrigation, purchasing machinery, and related needs. The core problem, however, was that these credits were not allocated appropriately between industrial and traditional agriculture. Contrary to views that attribute the situation to state neglect of agriculture, substantial support was directed toward industrial agriculture. Initially, government inattention was largely confined to traditional agriculture, while nearly all facilities were channeled to the industrial segment. At the same time, the government's haste in establishing industrial agricultural units—without proper and in-depth studies regarding how to create them and ensure their productivity—along with heavy start-up expenditures and strict control of agricultural product prices, ultimately led to the bankruptcy of these units. For this reason, during the final two years of the Pahlavi regime, the government increased its attention to traditional agriculture. Yet, because these supports were provided without systematic planning and sound management and were largely contingent on circumstances, they sometimes harmed farmers rather than assisting them.

Another measure that undermined agriculture was the policy of price controls in favor of consumers, such that in some cases production costs exceeded the state procurement price. This, combined with the concentration of oil income in urban areas, the boom in construction and industrial factories, and rising urban wages, drew agricultural labor away from the countryside. Taken together, these factors meant that the government could not align agricultural growth with the growth of consumption. Therefore, although in the early phase of rising oil revenues the government emphasized thrift in both the public sector and among the population and regarded imports as a temporary solution to compensate for domestic supply shortages amid population growth, it ultimately had to adopt imports as its principal instrument for preventing inflation and rising prices in agricultural products. Accordingly, by using oil revenues to expand imports and pay subsidies, the government was able to control inflation and high prices to a considerable extent, albeit at the cost of spending 89 percent of the country's oil revenues for this purpose.

Ultimately, it can be argued that the government sought both to increase domestic production and to safeguard consumer interests; as a result, contradictory measures emerged in agricultural policy. On the one hand, it attempted to encourage farmers and increase production through various measures, and on the other hand, it aimed to provide products to the public at prices lower than production costs. This led to stringent price controls, even though experts maintained that price controls reduced production and that increasing production required higher prices. In the end, the failure to adopt a decisive and coherent approach to expanding domestic production produced inconsistent agricultural policies, weakened the sector, and reduced output.

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All authors equally contributed to this study.

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Transparency of Data

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