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FISCAL POLICY AND ECONOMIC  
DEVELOPMENT IN JORDAN

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ment of the degree of Master  
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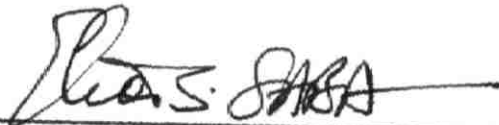
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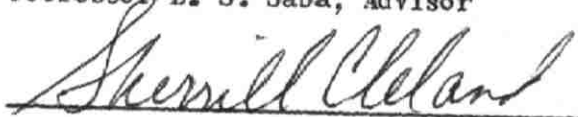
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## ABSTRACT

The importance of the role of fiscal policy in economic development stems from the fact that in underdeveloped economies, the government is expected to take strong positive action to foster development, especially by mobilizing the needed financial resources for development. This is equally true for Jordan, where a proper and well-designed fiscal policy for economic development is needed to cope with the basic problems of the economy.

The paucity of the natural resources, the high proportion of the refugee population and the relatively heavy defence requirements over the years, in view of the existing state of war with Israel, have all precipitated Jordan's continuous dependence on massive amounts of foreign assistance, mainly in the form of budget support to cover a large portion of the government's recurring expenditures, in addition to sizeable amounts of development grants and loans. Although these amounts of foreign assistance, together with various sources emanating from within the economy, have contributed to a high rate of growth of the Jordan economy over the last fifteen years, still, Jordan continues to suffer from basic economic problems such as a chronic trade deficit, a high level of unemployment and a relatively low per capita income. Moreover, the continued growth of the economy cannot be sustained with large amounts of budgetary support. Evidence points out that the rate of this support has already declined both absolutely and relatively over recent years. The planned policy of the government as well as the

desire of the aid-giving agencies is to decrease gradually the level of budget support to Jordan.

An analysis of fiscal policy and economic planning in Jordan, since its origin in 1950 reveals that up to 1962, centralized and coordinated long-term economic planning as well as integrated fiscal planning and policy were lacking. During this period, the basic economic problems of Jordan remained eminent but no conscious fiscal policy or long-term economic plan were produced to tackle them. A turning point was marked starting with the fiscal year 1962/63 when the government undertook deliberate fiscal and economic planning in an attempt to cope with the economic needs for development and growth. The workings of this new approach were embodied in the "Seven Year Program for Economic Development 1964-1970."

A study of the plan reveals that a reduction in the trade deficit is a crucial requirement contingent upon the projected decline in foreign budgetary support and the attainment of financial and economic independence. The plan emphasizes major production targets and outlines a detailed fiscal program. To achieve the production goals, the bulk of developmental expenditures must be concentrated in such sectors of the economy that will increase exports as well as import-substitution in order to alleviate the chronic trade deficit. The plan's fiscal program aims at mobilizing the required funds through increased domestic budgetary revenue which is expected to offset greatly the projected decline in foreign budget support without hampering investment incentives. This is expected to absorb a good portion of the expected increase in purchasing



power caused by developmental activities. Favorable stabilizing and balance-of-trade effects are expected to ensue. However, the over-all contribution of the Jordan budget towards development financing remains a very small share out of a projected budget surplus. Aside from domestic budgetary revenue, the plan emphasizes the importance of private savings as a major source of financing development expenditures. The foreign borrowing program forms an additional important source of development financing.

An evaluation of the fiscal program of the Seven Year Plan reveals several characteristics. Deficit financing is not envisaged as a source of development financing. This reflects a conservative policy aimed at maintaining the fiscal and monetary stability that Jordan has experienced till now. The striking features of the fiscal program are the ambitious projections for development funds from foreign aid and private savings. Over the plan period, funds from foreign aid are expected to account for 49 percent of total development funds mainly in the form of foreign loans (36 percent). Foreign borrowing forms an indispensable form of development financing. Its high share in the required development funds introduces an element of vulnerability to the fiscal program. In view of the already high present or likely commitments by international agencies and foreign governments, it will not be surprising if a shortfall in external borrowing occurs. This implies the need for greater pressure on domestic funds and foreign grants. Besides, excessive reliance on foreign borrowing will impose a heavy burden on the economy when these become due for repayment.

The success of the plan depends greatly on the achievement of the very ambitious growth rate of private savings. About 39 percent of development funds are expected from these savings. To achieve this high growth rate, the plan expects to restrain the growth rate of private consumption to a very low level. Direct and indirect taxation are the means for this. However, the proposed increases in taxation leave disposable incomes relatively high. Therefore, they are insufficient for curtailing the growth rate of private consumption. Other than this means, the plan is not clear as to how it proposes to restrain the growth of private consumption. Besides, it is not easy to understand why private savings are planned in excess of private expenditures on gross capital formation especially that the private sector is envisaged as a net borrower from the government. The realization of such an excess implies a tendency towards a price and monetary deflation and/or a large outflow of private savings into investments abroad. Judging from past trends in the economy, and the lack of policies of government controls over imports, consumption and investment, it is likely that a higher growth of private consumption and imports, and a slower growth of private savings than proposed in the plan will be achieved. In case the planned excess of private savings over private capital expenditures is realized, it is recommended that the government undertake a program of sale of government bonds. This is likely to help in mobilizing more development funds and in attracting private capital to stay in the country.

The plan's targets for domestic budget revenue are realistic.

Budget actuals for recent plan years were very much in line with the plan's projections. These projections are, however, conservative in view of the need for restraining private consumption and increasing the growth rate of private savings. The burden of taxation in Jordan is not heavy by standards of many developing countries. The tax system is also highly regressive. The implementation of various recommendations for tax reform are expected to increase the share of tax revenue to GNP. These aim at introducing a moderate degree of progression into some taxes. A more effective tax administration is also recommended. These reforms may increase tax revenues more than is projected in the plan. If this increase is realized, it will, to a certain extent, serve as a cushion against a shortfall in the other financial targets of the plan, especially foreign budget support and foreign borrowing. The reforms are recommended for certain aspects of the income tax, the company tax, the agricultural land tax, some excise taxes and the introduction of a capital gains tax.

The plan envisages the control of the growth of government recurring expenditures to the lowest limit compatible with efficiency and security demands. This is necessary for the achievement of a budget surplus that is expected to finance 10 percent of development expenditures. However, with Jordan's relatively heavy defence requirements, especially for 1967 and the 1968 budget estimates, the restraint on recurring expenditures was disrupted. This makes the attainment of a budget surplus more difficult in later years. Therefore, it is not unlikely that the budget surplus will not fulfil its share in development finance.

It is not likely that all the goals aimed at in the plan will be realized by the end of the planning period, especially in view of the June 1967 war which has greatly disrupted the workings of the plan. However, it is necessary to realize that the artificial situation which has existed in Jordan so far, with the heavy reliance on foreign assistance and the vulnerability of the economy to outside changes cannot possibly continue for long. The country should consciously attempt undertaking strict fiscal measures and be ready to offer sacrifices so as to maintain the high rate of growth that it has attained in its recent history. Soci-political conditions in Jordan and the neighbouring area are likely to shape, to a large extent, the effectiveness of development and fiscal programs. It is to be noted that fiscal policy is not the only solution for the structural economic problems of Jordan.

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## CHAPTER I

### THE ROLE OF FISCAL POLICY IN ECONOMIC DEVELOPMENT

#### A. Introduction

Before dealing with the subject matter of this chapter, a brief discussion of what makes an underdeveloped country underdeveloped and a definition of fiscal policy are necessary.

The term underdeveloped area has become a popularly used term indicating a region which, compared with western standards, has low levels of living. Ineffective use of natural resources, lack of sufficient investable funds and of industrialization are some of the characteristics often associated with the concept of underdevelopment, but an area can be underdeveloped in other respects. A detailed discussion of the characteristics of an underdeveloped area is deemed unnecessary for the purposes of this chapter. A satisfactory measure of what an underdeveloped economy is has been stated by E.M. Bernstein:

The test of an underdeveloped country is its level of real income and the rate at which per capita real income is increasing. In short, an underdeveloped country is one in which output per capita is relatively low and in which productive efficiency is very low, if at all.<sup>1</sup>

Some of the more important prerequisites that must be met if economic growth is to take place are the will to economize, the accumulation and application of knowledge and capital formation. It is by far

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<sup>1</sup>E.M. Bernstein, "Financing Economic Growth in Underdeveloped Economies," Savings in the Modern Economy, ed. Walter W. Heller (Minneapolis; University of Minnesota Press, 1953), p. 267.

capital accumulation which poses as the most important limiting factor. If the will to economize on the part of the important segments of the population is existing, the whole process of economic development revolves mainly around the possibility of achieving a much larger rate of capital accumulation than what currently exists.<sup>2</sup>

By fiscal policy is meant "... a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment."<sup>3</sup>

This understanding of fiscal policy is a relatively recent one. The relation of a government's financial operations to the working of the national economy was not as clearly understood and the role of government in the economy was on a much smaller scale before the popularization of the Keynesian concepts of public finance. Before Keynes's General Theory, the then existing theory of public finance considered the government as just another financial unit among several others each of which financed certain expenditures out of incomes received. Public finance was to be conducted on essentially the same principles of private finance implying that public expenditures meant collective consumption and public revenues the costs thereof. As long as the government was regarded on the same grounds as a private economic unit, the government

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<sup>2</sup>Raja Chelliah, Fiscal Policy in Underdeveloped Countries (London: George Allen and Unwin Ltd., 1960), pp. 38-39.

<sup>3</sup>Arthur Smithies, "Federal Budgeting and Fiscal Policy," A Survey of Contemporary Economics (Philadelphia: the Blakiston Company, 1949), I, 174.

was strongly expected to pay its own way like any other firm. Over and above, due to the classical assumption of full employment, financing government expenditures by a deficit could only mean inflation. Therefore, it is not surprising to find that a main principle of pre-Keynesian public finance was that of a balanced budget.<sup>4</sup>

With Keynes's General Theory, the whole concept and emphasis on public finance changed. Keynes's theory gave a different relation of government finances to the level of income and employment. It became clear that public finance should influence the general level of economic activity by affecting the level of effective demand. This new idea started the modern understanding of fiscal policy in the advanced Western world. The main underlying idea is that the revenues and expenditures of a government should be manipulated in such a way as to produce a stable and high level of economic activity.<sup>5</sup>

The two outstanding implications resulting from this approach to fiscal policy are, first, that fiscal policy is to be conducted on a functional basis so that revenues and expenditures are not considered as being caused merely by the requirement of making available collective consumption. This approach to public finance is known as functional finance. The second point is that the budget need not be balanced and that a deficit or a surplus on the budget can be incurred under certain conditions.<sup>6</sup>

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<sup>4</sup>Chelliah, op.cit., pp. 44-45.

<sup>5</sup>Ibid., p. 45.

<sup>6</sup>Ibid.

Therefore, Keynes's General Theory has shifted the objectives of public finance in the advanced countries from "... the older objectives of minimum interference and avoidance of deficits... to the objective of promoting stability"<sup>7</sup> which, broadly speaking, can be conceived of as the primary objective of fiscal policy in advanced countries.

A realistic and sound fiscal policy for any country has to derive its meaning from the economic conditions and the objectives aimed at by that country. The formulation of fiscal policy for a certain country must take into consideration the stage of economic development reached by that country and the degree of elasticity of response of the system to economic stimuli. Therefore it is clear that it is "... in the context of the problems of growth that the differences in the objectives of fiscal policy in developed and underdeveloped countries can most profitably be discussed."<sup>8</sup>

#### B. Objectives of fiscal policy for development

The importance of the role of fiscal policy in economic development stems from the fact that in underdeveloped countries, the state is expected to take strong positive action to foster development. Autonomous savings are so low in most underdeveloped countries that rapid development usually upheld as the main objective of development plans, can take place only if the state is willing to ensure collective savings and to promote private savings through fiscal policy. Therefore, fiscal

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<sup>7</sup>Ibid., p. 19.

<sup>8</sup>Ibid., p. 46.

policy for economic development implies the manipulation of the government receipts and expenditures in a positive and deliberate manner that would further the development objectives of the country.<sup>9</sup>

Since the main stress is on accumulation of resources for development, fiscal policy should use tools capable of raising as much of these resources as possible from internal means. These means are taxation and other revenues derived from licenses, etc., borrowing from the public and credit creation. If these domestic means are not sufficient, the government has to resort to either external loans or depend on gifts and grants. Although foreign borrowing is useful for the development of most countries, still, what can be raised of home savings is more important even if it is quantitatively less.<sup>10</sup>

The easiest way of extracting savings domestically for development is by the process of "deficit finance" whereby the government spends more than it gets and covers the difference by either borrowing from the Central Bank, if in existence, or by simply printing money. This method transfers economic resources to people who get the new money causing, because of increased spending, a pressure on goods and services and probably a price rise. The people whose incomes have not risen suffer and are thus caught in a position of forced saving.<sup>11</sup> This method has many

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<sup>9</sup>Reuben E. Slesinger, "Fiscal Policy Considerations for Underdeveloped Economies," Kyklos, XV (1962), 624.

<sup>10</sup>Ursula K. Hicks, Development Finance, Planning and Control (Oxford: Clarendon Press, 1965), p. 47.

<sup>11</sup>Ibid., p. 48.

disadvantages of inflationary tendencies and the like. This chapter will only discuss the means of financing development through taxation. While all the means of raising revenues for development should be used in a harmonious and coordinated manner, taxation remains the most important means both for the direct contributions which it can make to revenue and for its indirect control effects.

However, it should be emphasized at the start, that choosing the appropriate fiscal methods cannot turn a bad development plan into a good one but it can make it better. If fiscal measures required by the physical plan cannot be carried through because of political or economic unattainability, changes in the physical plan become necessary. This shows the great importance of proper fiscal policy in the development plans of underdeveloped countries.<sup>12</sup> It should always be remembered though, that fiscal policy is but one developmental tool and that it cannot be separated from other policies, especially monetary policy. Also, fiscal policy should be correlated with other general objectives such as the amount of employment desired, the extent of acceptable inflation, the amount of production aimed at and the condition of the balance of payments.<sup>13</sup>

The government of an underdeveloped country should act as an investor, a saver, a stabilizer and an income redistributor in its fiscal operations for promoting development.

As an investor, the government can design fiscal policy to

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<sup>12</sup>Chelliah, op.cit., p. 23.

<sup>13</sup>Slesinger, loc.cit., p. 625.

promote and accelerate the growth of productive and desirable investment both in the public and private sectors, and to discourage undesirable investment. In its role as a saver, the government can use fiscal policy to mobilize the maximum volume of real and financial resources for the plan of the public sector. This can be done by reducing unnecessary consumption and unessential investments competing with economic development. As a stabilizer, fiscal policy should try to maintain a reasonable measure of economic stability and reduce the inflationary pressures resulting from the process of economic development. Finally, fiscal policy can be designed to redistribute the growing national output.<sup>14</sup>

The objectives of reallocation of resources and redistribution of income are not as important as the objectives of accumulating savings and promoting needed investment in underdeveloped countries. The problem of development is more one of insufficient resources than of inefficient use of resources and the low per capita income in poor countries is not caused so much by the unequal distribution of national income, as by the low national income itself.<sup>15</sup>

These objectives of fiscal policy in underdeveloped countries sound more or less the same as the objectives of allocative efficiency, stability, economic growth and optimum income distribution which make up the guidelines of fiscal policy in advanced countries. However, the

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<sup>14</sup>U.N., Department of Economic Affairs, Methods of Financing Economic Development in Underdeveloped Countries (New York, 1949), pp. 14-15.

<sup>15</sup>G.M. Meier and R.E. Baldwin, Economic Development: Theory, History, Policy, (New York; John Wiley and Sons Ltd., 1957), p. 384.



apparent similarities in goals should not conceal the wide differences in the economic conditions, the degree of development reached, and the environment within which tools of fiscal policy have to be formulated. These differences mean that different policies should be undertaken even if the ultimate objectives are the same. Another important point is that the order of priorities among the objectives should be quite different. Broadly speaking, it can be said that while in a developed economy, the main emphasis of fiscal policy will be on the maintenance of stability, capital accumulation will be given first priority in an underdeveloped economy.<sup>16</sup> Amplifications and modifications of the objectives of fiscal policy in underdeveloped areas are discussed in the next section.

### C. What fiscal policy can accomplish for development

#### 1. Social overhead capital:

It is very unlikely that any nation can accelerate its rate of development without the means of social overhead capital which is essential not only to provide basic public facilities but also to make the existing activities of the private sector more useful and profitable. There are very few developing countries where the private sector has enough initiative and the necessary capital to finance overhead capital, whether social overheads such as educational systems or overheads of a reproductive nature, such as the production of goods and services like

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<sup>16</sup>Albert O. Hirschman, "Fiscal Policies for Underdeveloped Economies," Studies in Economic Development, ed. B. Okun and K. Richardson (New York: Holt, Rinehart & Winston, 1962), p. 449.

transport systems. Overhead capital also has returns which are too remote and too slow to materialize to attract the private sector. Fiscal policy, through its public expenditure programs, can set up a base of social overhead capital by investing in such fields as health, education, training, highways, power projects and the like thereby facilitating and hastening economic development by thus generating external economies. Such economies are essential first, for directly promoting economic development by providing the basic public utilities needed, and second, for raising the rate of returns on investment thereby attracting private capital to participate in economic development.<sup>17</sup>

## 2. Mobilization of savings:

In an advanced country the high average income almost automatically allows for a large flow of private savings. Therefore, fiscal policy for investment in advanced countries aims mainly at minimizing the possible interference of taxation with the incentives to invest the savings productively. Tax and expenditure policies try to soften or offset the fluctuations in the volume of capital formation and the destabilizing effects on the economy in general.<sup>18</sup> On the other hand, fiscal policy in low income countries has to exert a great deal of influence on the mobilization of savings, and the channelling of the existing savings into investments which are not only productive and profitable but which will also fit with the development objectives. Fiscal policy has to avoid the danger that the free market mechanism, driven by a profit incentive

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<sup>17</sup>Slesinger, loc.cit., pp. 625-26.

<sup>18</sup>Hirschman, op.cit., pp. 449-50.

might attract a flow of investment funds into very profitable investments which induce luxury production and other such unessential consumer goods instead of allowing these investable funds to go to projects that might be most essential for the development program but which might not be as profitable in the short-run.<sup>19</sup>

In low per capita income countries, the marginal propensity to consume is high and there will not be a high level of savings on the part of the public unless a positive fiscal policy tries to decrease the marginal propensity to consume thereby increasing the marginal propensity to save. The full use of suitable taxes and particular expenditure policies can influence the direction and the totality of savings.<sup>20</sup>

Commodity taxes, such as high import duties and excises on luxury goods are usually advocated for tapping resources that are otherwise squandered on conspicuous and non-functional consumption and imports. In many cases, progressive personal income taxes with steep rates in the upper income brackets are also favored as instruments for impounding on such income.<sup>21</sup>

Taxes can also direct the flow of savings into the desired flows. They can penalize savings diverted into land, buildings, inventories and other such unproductive investments undertaken for speculative gain, security or social prestige purposes. Such tax instruments as land value increment taxes, taxes on idle land, progressive taxes on either

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<sup>19</sup>Slesinger, loc.cit., pp. 626-27.

<sup>20</sup>Ibid.

<sup>21</sup>R.N. Tripathy, Public Finance in Underdeveloped Countries (Calcutta: the World Press Private Ltd., 1964), p. 94.

net worth or real estate holdings and tax on capital gains should be imposed.<sup>22</sup> Another set of techniques can be used which gives tax concessions as incentives for enhancing productive investment. New industrial ventures can be given a tax holiday for a number of years. Accelerated depreciation allowances are another device for helping new plants. Development rebates may also be given when profits are ploughed back into investment. These and other such concessions can be regarded as a disguised government expenditure. However they don't enter the budget at any point.<sup>23</sup>

There is the risk that mobilizing savings through taxation might reduce rather than increase private savings because of the effect of high marginal rates of income taxation on incentives and for other institutional reasons arising from the underdeveloped nature of the countries considered. Ideally, this dilemma can be resolved by designing a scheme of taxation which combines high rates of taxation in general with preferential treatment for desired developmental activity and penalty taxes on undesirable economic activity.<sup>24</sup> However, this ideal solution is often hindered from coming through because of various barriers discussed in the coming section of this chapter.

Fiscal policy can thus be expected to play a regulatory and promotional role in mobilizing and channelling savings.

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<sup>22</sup>Ibid.

<sup>23</sup>Ibid.

<sup>24</sup>Ibid.

3. Reallocation of resources:

Fiscal policy in an underdeveloped economy can affect the reallocation of resources as between one region and another in the economy. It is a usual phenomenon of a government budgetary system to use funds collected from regions and people where abilities to pay are high to help finance public investments and services in the more needy regions. Fiscal policy can as well reallocate resources between economic sectors, public vs. private, agriculture vs. industry or production vs. consumption goods. Government expenditure in a certain sector usually attracts resources to that sector and away from another sector where a particular tax is imposed. Therefore by affecting factor mobility among sectors, government revenues and expenditures can reallocate resources. For example, land and property taxes can affect the land tenure system and certain tax exemptions and tax discrimination, subsidies etc...., mentioned above, can influence the flow of investment from one sector into another.<sup>25</sup>

4. Income redistribution:

Extreme inequalities in income distribution can be harmful to the process of development as these depress the nutritional, health and standard of living of the people as well as enhance unnecessary demand for imported luxury goods, increase the transfer of funds abroad and thereby hinder any integration or growth of the domestic markets. Fiscal policy in its redistributive role, can attempt to reduce these inequalities, either through redistributive public expenditure or through

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<sup>25</sup>Meier and Baldwin, op.cit., pp. 383-84.

redistributive tax policy. Investing in human capital improves productivity and technology. Such improvements in health, education and the like can generate working capital thereby increasing the availability of manpower for development. These investments act as equalizers as they give more opportunities for the low income group and thus raise the standard of living.<sup>26</sup>

As for redistributive tax policy, it must be highly progressive. However, a highly progressive tax structure is difficult to implement in the initial stages of development because of low income levels and administrative difficulties. Another consideration limiting progressive taxation is that of damaging effects on initiative, risk-taking and managerial efforts. However, compared to advanced countries, the sources and the uses of high incomes in underdeveloped countries are such that adverse effects on incentives are not as damaging as in the advanced countries. When high marginal rates are imposed on incomes that are largely derived from entrepreneurial effort and which are largely ploughed back into investment, disincentive effects are then damaging. Yet where land rents and interest charges are a very important source of large incomes, and where luxury speculative and conspicuous spending are the outlets for such funds, taxation of income and wealth would not produce adverse effects on incentives. Such taxation can narrow the gap between rich and poor as well as yield resources for investment by the public sector.<sup>27</sup>

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<sup>26</sup>Tripathy, op.cit., p. 63.

<sup>27</sup>Hirschman, op.cit., p. 465.

5. Stabilization of the economy:

Stability is a joint objective with economic growth in developing countries. These countries are susceptible to inflationary pressures resulting from complex phenomena indicating economic systems characterized by structural rigidities, bottlenecks in the supply of essential commodities, an imbalance between the supply and demand for real resources and an inadequate rate of savings to finance the necessary investment required for development.

Accelerating the volume and rate of investment in a continuous and sustained manner needed for development is usually associated with rising wages and prices particularly in sectors where large investments are undertaken. Developing countries therefore, have an inherent tendency towards rising prices which, if allowed to go on can get to be inflationary. The nature of the development plan determines the susceptibility to inflation. If the plan is mainly oriented to the production of consumption goods, the inflationary tendencies are reduced because the investment expenditures which generate money incomes are offset by a relatively quick increase in the production of consumption goods. On the other hand, if the development plan is mainly oriented to the production of capital and basic goods, the inflationary potential becomes significant as the gestation period of such capital investments is quite long. These investments tend to create money incomes in the short-run before a corresponding expansion in output of consumption goods takes place.<sup>28</sup>

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<sup>28</sup>Tripathy, op.cit., pp. 76-77.

These inflationary tendencies resulting from growth can be reduced by a manipulation of the structure of relative prices while maintaining the stability of the general price level. Manipulation of relative prices through tax and expenditure measures can affect the rate of growth of the economy by affecting investment and savings rates, elasticities of supply of factors of production, as well as methods of production. Tax manipulation, subsidies, purchases and sales of product by the government directly and government direct investment in the private sector are some of the means which fiscal policy can use.<sup>29</sup>

Another general characteristic of underdeveloped countries is the exposed nature of their economies which makes them usually vulnerable to world market changes. This characteristic stems from the fact that underdeveloped countries are usually primary producing countries exporting one or two agricultural or mineral products and depending on the export receipts as a source of national income and foreign exchange. At the same time, such countries are usually in great demand of imports of manufactured products and often of foodstuffs. Increasingly, the underdeveloped countries seek to protect their exposed economies from the ebbs and flows of the world market by the use of fiscal, foreign exchange and other policies designed to alleviate the vulnerability at least in the short-run.

Specific fiscal measures like export and import taxes can be used to alleviate this exposure. However, it should be stated here that fiscal policy is not the only effective developmental tool that can be used

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<sup>29</sup> Ibid. pp. 81-83.



either to alleviate the domestic inflationary tendencies or to reduce the vulnerability of underdeveloped countries internationally. Monetary policy has to play an important role in helping fiscal policy in its role as a stabilizer.<sup>30</sup>

#### D. Fiscal policy in operation

Although the positive contributions that fiscal policy can make to the development process cannot be more emphasized, yet the actual efficacy of the role of fiscal policy depends on structural improvements in the tax and expenditure policies presently existing in underdeveloped countries which are a far cry from the ideal conditions required for an effective role of fiscal policy. The conditions under which a modern, equitable and flexible tax structure thrives in an advanced economy are non-existent in most underdeveloped areas thereby calling for substantial modifications of the fiscal tools when applied to these areas.

##### 1. Existing tax structure in underdeveloped countries:

One major characteristic of the existing tax systems in underdeveloped countries is not only that it provides government with inadequate revenues but also that as a percentage of GNP, the tax revenue of underdeveloped countries is generally much smaller than in the advanced countries.<sup>31</sup> Whereas 25 percent to 30 percent of GNP is

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<sup>30</sup> Hirschman, op.cit., pp. 458-60.

<sup>31</sup> U Tun Wai, "Taxation Problems and Policies of Underdeveloped Countries," International Monetary Fund Staff Papers, IX (November, 1962), 429. See also table 1, p. 429 showing central government revenue as a percentage of national income in 1959 for high, medium and low income countries.

collected in taxation in the advanced countries, underdeveloped countries usually collect from 8 percent to 15 percent.<sup>32</sup>

The second main characteristic of the revenue structure in underdeveloped countries is that direct taxation forms a small proportion of total revenue<sup>33</sup> and, consequently, the tax structure in most underdeveloped countries relies heavily on indirect taxes which usually have regressive effects. In many underdeveloped countries, taxes on foreign trade account for a quarter to a half of the total revenues. Comparing tax revenue from foreign trade with total tax revenue shows a rough relationship between low per capita incomes and a country's dependence on taxes on foreign trade.<sup>34</sup>

Various reasons explain these main characteristics of the tax structure in underdeveloped countries. First, certain conditions necessary for a successful tax policy are generally lacking in underdeveloped countries thereby explaining the poor achievement of the tax systems. Among these are: (a) A basic requirement for proper and prompt assessment and collection of revenue is the confidence of the people. The taxpayers

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<sup>32</sup>Nicholas Kaldor, "Will Underdeveloped Countries Learn to Tax?" Foreign Affairs, XLI (January, 1963), 411.

<sup>33</sup>U Tun Wai, loc.cit., p. 431. See also table 2 showing direct tax revenue as a percentage of total central government revenue in 1959 for high, medium and low income countries. It is seen that the median for direct tax revenue as a percentage of total revenue in the high per capita income countries is 43, while that in the low per capita income countries is 20.

<sup>34</sup>Ibid.

should agree with the policies and aims upheld by the governments and should believe that the government is stable enough to be able to carry out its objectives; (b) Tax officials must be intelligent, well-trained and well-paid so that they will not collect something on the side; (c) The best experts cannot collect adequate taxes under the poorly drafted tax laws which are "... riddled with loopholes and ambiguities";<sup>35</sup> (d) The economy must be predominantly a money economy as it is by far easier to impose taxes in a monetary economy with market transactions than it is in a barter economy where it is very difficult to assess real income;<sup>36</sup> (e) Reliable and honest accounting records are clearly of vital importance.

Other than these institutional barriers in the way of an efficient tax system, the tax base in underdeveloped countries is much smaller than in developed countries. This stems from the low per capita income levels usually approaching a mere subsistence level which makes most of the income receivers have their incomes below the exemption limit thereby decreasing the proportion of people subject to income taxation. Even if the exemption levels were to be lowered in order to raise larger revenues from personal income taxation, no substantial additional revenues can be obtained because of the disproportionate increase in the cost of collection and assessment.<sup>37</sup>

As underdeveloped countries require a larger and larger volume of resources for financing development, and because of the above mentioned

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<sup>35</sup> Hicks, op.cit., p. 47.

<sup>36</sup> U Tun Wai, loc.cit., p. 430.

<sup>37</sup> Tripathy, op.cit., p. 98.

economic and administrative limits to the mobilization of resources through direct taxation, despite the existence of progressive and inheritance taxes on paper and at high nominal rates with but a few cases where such taxes are effectively carried out, underdeveloped countries, out of logical necessity, have to exploit indirect taxes in their search for revenue.<sup>38</sup> Indirect taxes pass through a smaller number of hands thereby reducing the opportunities for confusing the amount of tax due to the government and the actual money collected, and the incidence and evasion of taxation. The sophisticated methods of record keeping and the high degree of public awareness needed for effective direct taxes are not so much required by indirect taxes. Therefore, it is not surprising to find developing countries attracted to the levy of export and import taxes which pass through a limited number of middlemen. Such taxes gain more importance in these countries because of their heavy dependence on exports of primary products.<sup>39</sup> Other indirect taxes such as commodity taxes on consumption are also resorted to by underdeveloped countries as they are a less obvious way of collecting revenue than direct taxes and therefore are less likely to result in resistance from the public upon collection.<sup>40</sup>

From this sketch of the main reasons for the poor achievement of the existing tax systems in underdeveloped countries, it becomes

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<sup>38</sup>Kaldor, loc.cit., p. 412.

<sup>39</sup>Slesinger, loc.cit., pp. 630-31.

<sup>40</sup>Ibid.

clear that a successful tax policy, other than overcoming the institutional problems of the economy, should be devised in such a manner that would increase total revenue as a percentage of national income from its present low level, as well as introduce more progressivity in the existing tax system, whether by improving the progressive income tax, or through other taxes having the same effect.

2. Taxes appropriate for underdeveloped countries:

An analysis of complex details of specific tax policies is beyond the scope of this chapter. However, some brief comments on various taxes that can contribute to the development process will be stated.

Personal income taxation cannot be expected to play a major role in the initial stages of development because of the reasons discussed above. However, the fact that there are barriers in the way of effective progressive personal income tax should not mean that it should be completely discarded by underdeveloped countries as it has no suitable alternative in mitigating the growing inequalities and in reducing the amount of resources going into unnecessary and non-productive luxury consumption.<sup>41</sup> Even though income taxation cannot be extensively used in the early stages of development, it may be possible and desirable to tax selected forms of income like the untapped taxable capacity of land and wealth. Although the agricultural sector forms usually a sizeable share in GNP in underdeveloped countries, still, it virtually escapes taxation because of the primitive traditional land taxes existing in

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<sup>41</sup>Kaldor, loc.cit., pp. 414-16.

in these countries which are predominantly regressive and which do not respond to changes in agricultural production.<sup>42</sup>

Generally, the agricultural sector in underdeveloped areas does not invest in investments that are deemed important for the economic development. Rather, large rents of the rural aristocracy tend to go into conspicuous consumption, hoardings or into real estate. Therefore, a progressive income tax on agriculture can act as a "potent engine" of resource mobilization without fear of impairing incentives in productive investment. Progressive "land tax yields not just revenue, but the right kind of revenue;"<sup>43</sup> it increases the supply of foodstuffs to urban areas thereby increasing employment opportunities outside agriculture with no inflationary tendencies; by transferring land ownership, such a tax makes for a more efficient utilization of land. Thus by reforming the land tax and making it more progressive, it can hit at the concentrated income of large landowners and reduce the burden on small tenants and farmers.

However, despite the obvious benefits of a progressive income tax on agriculture, it may be hindered from being put to use effectively because of the chaotic institutional and economic set-up of the rural economy in underdeveloped areas. Landholdings are divided into small pieces and subsistence farming is predominant. The yield from the income tax will be reduced because of the exemption principle and the same problems associated with personal income tax can become of relevance here.<sup>44</sup>

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<sup>42</sup>Tripathy, op.cit., p. 107

<sup>43</sup>Kaldor, loc.cit., pp. 413-14.

<sup>44</sup>Tripathy, op.cit., 109.

Underdeveloped countries should make effective use of the various forms of land tax not only in its progressive income form but also in a combined design of taxes such as property tax, which can either be on the value of land, or on the value of the annual production or rent from land. A case can be made for property taxes in underdeveloped countries as the distribution of property tends to be more uneven than the distribution of income. Hence a proportional property tax can have more progressive effects and easier administration than an income tax. Other taxes are betterment of levies, capital gains tax, which can act in a supplementary manner to divert resources from excessive speculation, and taxes on uneconomic use of the land.<sup>45</sup>

A greater degree of progressivity can be introduced to the tax system through the levying of inheritance taxes. Such a tax would, other than increasing tax revenue, mitigate the unequal distribution of income and wealth from passing from one generation to the other. However, strong social opposition can arise against such a tax which explains why many underdeveloped countries tend to discard such a tax.<sup>46</sup>

Such a tax might have better effects, from the standpoint of encouraging development, than a heavy tax on business profits. This latter tax may have adverse effects on the incentive to invest and the ability to finance investment projects from the undistributed earnings. It is therefore undesirable to tax business profits too heavily so as to

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<sup>45</sup>Ibid., p. 112

<sup>46</sup>Meier and Baldwin, op.cit., pp. 388-89.

have a high level of private savings and to maintain an incentive for private enterprise.<sup>47</sup>

The tax system can as well provide various tax and other incentive measures, discussed above under the mobilization of savings, in the nature of tax holdings, depreciation allowances etc... which would provide encouraging incentive for investment of private and foreign capital.

Despite the improvements that can be introduced to make the direct tax contribution greater, still, in the early stages of a developing country, the major reliance will have to be on indirect taxation. This, of course, reflects not only the difficulties involved but very often the lack of serious effort put into collecting direct taxes.<sup>48</sup>

The main types of indirect taxes are import levies, export levies, excise duties, sales and other related taxes as well as taxes on the services or use of certain capital goods.

Import duties are by far the most important type of indirect taxes, often amounting to about 30 percent of the tax revenue in under-developed countries while in advanced countries import duties rarely amount to much more than 10 percent.<sup>49</sup> Generally, taxes on outgoings (indirect taxes) have regressive effects against income. They tend to be antidistributional. However, the regressive features of import

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<sup>47</sup>Ibid.

<sup>48</sup>Hicks, op.cit., p. 70

<sup>49</sup>Ibid., pp. 70-71.



duties can be considerably reduced if high duties are imposed on luxury consumption while the necessities of life are allowed on the free list or else at very low rates. However, this entails a loss of revenue. If luxury consumption or consumption in general should be reduced, domestic sumptuary taxes could be used and these tend to be less subject to tax evasion through the use of substitutes.<sup>50</sup> One of the reasons usually presented to show the desirability of import duties, other than their ease of collection, is the protection of infant home industries.

Export levies are suited to the fiscal and economic needs of "export economies", usually primary producing ones, where the proceeds from these levies are bound to provide a very significant source of development finance.<sup>51</sup> Also when export duties are levied on an ad valorem basis, they can act as contracyclical fiscal measures in underdeveloped countries.<sup>52</sup> Both types of taxes on foreign trade can yield substantial revenues yet both have the disadvantage that revenue varies with the ebb and flow of the world market.

Indirect consumption taxes, such as excise and sales taxes, have the advantage of falling on consumption and not on saving. These taxes are not easily evaded and therefore are among the leading sources of revenue in underdeveloped countries. However, such taxes have the disadvantage of raising prices and the cost of living, as well as being generally

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<sup>50</sup>"Domestic Financing of Development: Government Sources and the Application of Funds," Approaches to Economic Development, eds. N. Buchanan and H. Ellis (New York, 1955), p. 329.

<sup>51</sup>Ibid., p. 328.

<sup>52</sup>Fun Wai, loc.cit., p. 441.

regressive in nature. Consumption taxes can become mildly progressive if levied in a discriminatory manner against luxury items and in favor of necessary commodities.

### 3. Expenditure policy:

In this chapter, tax policy in underdeveloped countries has been more emphasized than expenditure policy. This relative emphasis on tax policy, however, does not mean that expenditure policy is unimportant. Just as a low level of per capita income is so generally used as a definition of underdeveloped areas, the definition can also be as accurately made in terms of government expenditures per unit of population. The contrast between the high levels of government expenditures per unit of the population in advanced countries and the low levels of government expenditures per unit of population in underdeveloped countries is enormous.<sup>53</sup> Expenditure policy is dictated by such motives as the demand of the public for more services, the desire for a wider base of economic activity and the generation of social overhead capital. However, under such stimuli it is not strange to find the demand for public expenditures far in excess of the capacity of the nation to defray them. From here stems the more important role of tax, and other revenue, policy.

The question of priorities and strategies as well as political considerations enter the picture when the demand for various public expenditures is in excess of the revenues available. Some underdeveloped countries adopt the system of a divided budget of developmental and

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<sup>53</sup> Buchanan and Ellis, op.cit., p. 323.

non-developmental outlays. Such a classification can prove to be useful except that there is the danger that such an approach may accept many expenditures which are beyond the nation's ability to handle, but just justified on the grounds of being developmental.<sup>54</sup> That is why a developing country must have a priority scale in drawing up its expenditure policy.

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<sup>54</sup>Slesinger, loc.cit., p. 632.

## CHAPTER II

### DESCRIPTION OF THE JORDAN ECONOMY

#### A. Historical Background

Jordan, as an independent political state, was created as a result of events following the First World<sup>War</sup> and the Palestine War of 1948. Before the First World War, Transjordan<sup>1</sup> was under the rule of the Ottoman Empire and for administrative purposes was included in the province (vilayet) of Syria. After the defeat of the Turks, and the disintegration of the Ottoman Empire, Amir Faisal, son of Sherif Hussein ruler of the Hejaz, was proclaimed King of Syria on March 8, 1920.<sup>2</sup> However, this conflicted with the policy of the Allies as stated in the Sykes-Picot secret Agreement of 1916 which intended to divide that area into spheres of influence. Sherif Hussein saw in these intentions a complete contradiction to the promises given him by the Allies to assist him in establishing a united independent Arab State.<sup>3</sup>

As a result of the proclamation of Faisal as King of Syria, the allies convened at San Remo on April 25, 1920, and decided to divide up the Arab lands and establish mandates over them. Palestine and Iraq were to become British mandates while Lebanon and Syria were to be French

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<sup>1</sup>Transjordan when mentioned in this thesis will refer to that territory east of the Jordan River.

<sup>2</sup>Syria in this context included Palestine and Lebanon. The establishment of this Arab independent kingdom was the price the Arabs demanded from the Allies in return for revolting against the Turks in 1916.

<sup>3</sup>For a lucid account on this period of Arab history see George Antonius, The Arab Awakening (London, 1938), especially Chapters IX, X and XIII.

mandates. On July 24, 1920, French troops occupied Damascus, thereby ending the short-lived independent Syrian Arab kingdom of Faisal.<sup>4</sup>

After the French occupation of Syria proper (present-day Syria), the southern part of the country, comprising a large part of Transjordan, was left in a chaotic state with virtually no ruling authority. The British at this point, by agreement with the French, took over the responsibility of Transjordan. On March 2, 1921, Emir Abdullah, second son of Sherif Hussein, arrived in Amman from Hejaz intent on arousing the tribes to reconquer Syria from the French. However, before he had time to carry out his plan, he was invited on March 27, 1921 to a meeting in Jerusalem with Mr. Winston Churchill, then Secretary of State for Colonies, Herbert Samuel, first High Commissioner in Palestine and T.E. Lawrence. Churchill persuaded Abdullah to become ruler of Transjordan under British tutelage and to follow a policy of appeasement towards the French with the hope that they would restore Syria as an independent Arab State within a period of six months. This meeting marks the creation of the Emirate of Transjordan.<sup>5</sup>

The next important event in the history of Transjordan was the ratification of the Anglo-Jordanian treaty in 1928. Although this treaty gave Emir Abdullah a large measure of internal autonomy, yet it gave Britain direct control over the country's defence, finance and foreign

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<sup>4</sup>Ibid., pp. 304-309.

<sup>5</sup>A. Konikoff, Transjordan - An Economic Survey (2nd ed.; Jerusalem: Economic Research Institute of the Jewish Agency for Palestine, 1946), p. 11.

policy, and Britain had to subsidize any deficits in the Jordan budget.<sup>6</sup>

In the treaty of March 22, 1946, Britain recognized the nominal independence of Jordan. However, this treaty was replaced by the March 1948 treaty which was to run for twenty years and by the terms of which the Emirate of Transjordan became a kingdom. The treaty gave Britain the right to use air bases and to station troops in Transjordan, and in return, Britain agreed to supply Transjordan with army equipment.<sup>7</sup>

In May 1948, Transjordan intervened with other Arab states in the Palestine war and at the end of that war a part of east Palestine was still in the hands of Transjordan. In December 1948, the country became known as the Hashemite Kingdom of Jordan, and on April 24, 1950, the part of east Palestine that remained under Jordanian occupation was annexed by Jordan and became referred to as the West Bank of the Hashemite Kingdom of Jordan.<sup>8</sup>

## B. The land, its people and national income

### 1. The land:

The total area of the Hashemite Kingdom of Jordan is 97,740 sq. kilometers, including 7555 sq. kilometers of Dead Sea area. The area east of <sup>the</sup> Jordan River and the Dead Sea is 84,535 sq. kilometers whereas <sup>the</sup>

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<sup>6</sup> Ibid., p. 12. A discussion of the fiscal system of Transjordan appears in Chapter III of this thesis, pp. 72-77.

<sup>7</sup> Raphael Patai, The Kingdom of Jordan (Princeton: Princeton University Press, 1958), pp. 45-47.

<sup>8</sup> George L. Harris, Jordan, ed. Thomas Fitzsimmons ("Survey of World Cultures"; New Haven, 1958), p. 17.

area of the West Bank is 5650 sq. kilometers. Jordan can be divided into four geographical districts: (1) the desert, (2) the eastern uplands, (3) the Jordan valley, the Dead Sea and Wadi Araba and (4) the Western uplands.<sup>9</sup> Most of Jordan is desert land and more than 86 percent of the total area receives in rainfall less than an average of 200 millimeters (7.9 inches) per annum. The cultivable area is approximately 15 percent of the total land area and the climate varies from one district to another, thereby affecting the population distribution.<sup>10</sup>

2. The people:

Arab Sunni Moslems are by far the overwhelming majority with only a substantial religious minority of Arab Christians. There is one sizeable minority of Circassians who are Sunni Moslems, as well as a few other minorities.<sup>11</sup>

At the end of 1947, although no official census had ever been conducted in Transjordan, the Transjordanian population was estimated at about 375,000. Between 1948 and 1950, the population of Jordan increased at a tremendous speed. As a result of the Palestine War, not only did Transjordan acquire an area of 5650 sq. kilometers by annexing the West Bank area, but it also augmented its population by about 810,000 inhabitants, 460,000 of which were residents of the West Bank and about 350,000

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<sup>9</sup>The General Federation of Arab Chambers of Commerce, Industry and Agriculture, Economic Development in the Arab Countries 1950-1965 (Beirut, 1967), pp. 7-8. (in Arabic).

<sup>10</sup>I.B.R.D., The Economic Development of Jordan (Baltimore: Johns Hopkins Press, 1954), pp. 42-45.

<sup>11</sup>Harris, op.cit., p. 5.

refugees from the rest of Palestine. Thus Jordan's population more than tripled between 1948 and 1950 while the total arable land was increased by about one-third. The first population estimate of Jordan, after the fusion of the two banks, was based on the 1952 housing census which gave an estimate of 1,329,000 people.<sup>12</sup>

According to the first population census of 1961, Jordan's population was 1,706,226 and at the end of 1966 the Department of Statistics estimated the population at 1,978,000,<sup>13</sup> derived from an estimated annual growth rate of about 3.1 percent, which is a relatively high rate. The density of population per square kilometer is 21 based on the census of 1961 and an area of 90,185 sq. kilometers, excluding the area of Dead Sea. This figure is relatively low, and at first sight it appears as if Jordan has no population problem. However, this is not a very representative figure as in fact the geographical distribution of the population is a result of the rainfall pattern. Only the northwestern part of the country, on both banks of the Jordan River, receives enough rainfall for regular cultivation and, therefore, the overwhelming majority of the people is concentrated in that area.<sup>14</sup> Accordingly, the 1961 census shows that 7/8 of the population live in less than 1/8 of the total land area, 4/5 of the rest of the population live in scattered inhabited areas and the remaining 1/5 live in the desert.<sup>15</sup>

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<sup>12</sup>I.B.R.D., op.cit., pp. 41-49.

<sup>13</sup>Jordan, Department of Statistics, Some Effects of Foreign Trade on the Jordan Economy, 1950-1966 ("The Jordan Economy"; Amman, 1967), p. 68. (In Arabic).

<sup>14</sup>Patai, op.cit., p. 10.

<sup>15</sup>The General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 8.



The 1961 census estimated the labor force at about 23 percent of the total population which is a rather low proportion. This reflects the fact that Jordan's population is a relatively young one in which about 45 percent were under 15 years of age according to the 1961 census. Moreover, although females are approximately 50 percent of the population, only 5 percent of the females in the age group 15-64 were classified as economically active.<sup>16</sup> The young characteristic of the population and the very low number of economically active females point out to the presence of a large number of dependents among the population.

Jordan faces a problem of unemployment, the level of which has sometimes been estimated at 25-33 percent of the male labor force. The 1961 census classified 7 percent of the "economically active" population as "seeking work". Another 9 percent were classified as "economically inactive". While this includes some retired or incapacitated people, it still probably portrays a measure of disguised unemployment in addition to the 7 percent mentioned above. Therefore, it appears that approximately 12-14 percent of the labor force were unemployed in 1961, in addition to underemployment whose extent cannot be easily estimated.<sup>17</sup>

### 3. National income:

There are three main studies on the national income of Jordan conducted for different time periods all of which point out clearly to a

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<sup>16</sup> Jordan, Department of Statistics, Some Economic Indicators ("The Jordan Economy"; Amman, 1966), p. 1.

<sup>17</sup> The Jordan Development Board, The Seven Year Program for Economic Development of Jordan 1964-1970 (Jerusalem: the Commercial Press, n.d.), p. 4. The Jordan Development Board is hereafter referred to as JDB.

sharp increase in Jordan's national income over the years. The first study, covering the period 1952-1954, was conducted by the Economic Research Institute of the American University of Beirut in cooperation with Jordan's Department of Statistics. Owing to the lack of basic data at the time, accuracy of the study is questionable and probably that is why the detailed study was never published. A summary of provisional figures reproduced in the table below indicates that agriculture remained the main sector during 1952-1954 despite the fluctuations in the value of its production caused by good and bad crop years.

TABLE 1  
NATIONAL INCOME AT MARKET PRICES 1952-1954  
(in JD million)

Sector	1952	1953	1954
Agriculture	17.6	11.6	19.7
Mining and quarrying	0.1	0.1	0.2
Industry	1.8	2.1	2.7
Construction	0.6	0.4	0.6
Buildings	4.8	4.8	4.9
Public utility	0.2	0.1	0.1
Transport and communications	2.7	2.9	3.2
Government	7.6	7.9	8.8
Services	1.4	1.5	1.6
Commerce	7.4	7.1	7.9
Finance	0.3	0.3	0.3
<b>Total</b>	<b>44.5</b>	<b>38.8</b>	<b>50.0</b>

Source: Privately secured from the Department of Statistics, Amman.

The main study of national income for 1954-1959 was carried out by the British expert R.S. Porter. Table 2 shows that gross domestic product fell between 1954 and 1955 due to a very large fall in agricultural income. Similarly, the sharp increase in gross domestic product between 1955 and 1956 is mainly attributed to the high increase in agricultural output. GDP did not change much between 1956 and 1957 but agricultural production fell sharply, the decline being balanced by increases in all the other sectors. Between 1958 and 1959 GDP increased rapidly despite the further drop in agricultural production. Thus, between 1954 and 1959 GDP increased by 56 percent at current

TABLE 2  
INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT AT CURRENT  
FACTOR COST 1954-1959  
(In JD million)

Sector	1954	1955	1956	1957	1958	1959
Agriculture & forestry	14.2	6.2	19.0	12.8	12.9	10.5
Mining, manufacturing and electricity	4.2	5.2	6.3	6.8	7.6	7.9
Construction	1.2	1.5	1.7	1.9	2.4	3.7
Transportation	4.4	5.5	6.8	8.3	9.0	9.7
Trade & banking	9.3	9.3	10.5	12.0	14.4	16.2
Ownership of dwellings	2.3	2.3	2.9	3.1	3.3	4.2
Public administration and defence	9.1	9.7	11.5	13.3	15.6	16.1
Services	3.0	3.3	2.7	3.7	3.9	6.0
Gross domestic product	47.7	43.0	61.4	61.9	69.1	74.3
Net factor income from abroad	1.1	2.5	1.9	2.7	1.9	1.0

Source: R.S. Porter, Economic Trends in Jordan 1954-1959 (Beirut: Middle East Development Division, July 1961), pp. 1, 6. (Typescript).

prices, that is at an annual growth rate of 9.3 percent, while income originating in agriculture dropped both relatively and absolutely. Thus the contribution of the agricultural sector dropped from 30 percent of GDP in 1954 to 14 percent in 1959 which was an exceptionally bad agricultural year. However, the contribution of trade and banking to GDP increased from 19 percent in 1954 to 22 percent in 1959, that of defence and public administration increased from 19 percent to 22 percent, transport from 9 percent to 13 percent, mining, manufacturing and electricity from 9 percent to 11 percent and services from 6 percent to 8 percent during the same period.<sup>18</sup>

The Department of Statistics of Jordan carried out a study on national accounts for the period 1959-1965 which is presently being brought up to 1966. This study is not based on Porter's results as appears from the divergence of figures for 1959. GNP at current market prices increased by about 87 percent between 1959 and 1966, from a level of JD 99.33 million to JD 185.78 million. This gives a cumulative rate of growth of about 9.4 percent per annum, which is similar to the rate achieved during the preceding period 1954-59. However, no suitable price indices were constructed which would enable the calculation of GDP at constant prices and hence the annual rate of growth of real GDP. One study estimated the average annual rate of growth of the country's real income at about 8 percent since 1954, which is a relatively high rate in developing countries.<sup>19</sup>

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<sup>18</sup>R.S. Porter, Economic Trends in Jordan 1954-1959 (Beirut: Middle East Development Division, July 1961), pp. 1-2. (Typescript).

<sup>19</sup>Abdul-Rahman Toukan, "The Implications of Achieving Fiscal Independence for Jordan" (unpublished Ph.D. thesis, Vanderbilt University, 1967), p. 2.

TABLE 3

INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST  
1959-1966  
(In JD million)

Sector	1959	1960	1961	1962	1963	1964	1965	1966
Agriculture	15.08	14.62	25.30	20.90	22.08	34.14	34.11	27.65
Manufacturing and mining	6.23	6.89	8.83	8.06	10.62	12.53	16.22	17.27
Construction	4.66	4.50	4.50	6.15	6.12	5.45	7.87	9.28
Electricity and water supply	0.66	0.69	0.67	0.74	0.93	1.03	1.68	2.26
Transport	10.70	11.12	12.64	12.53	12.77	12.03	12.60	14.42
Wholesale and retail trade	18.01	19.57	24.28	23.63	26.43	28.01	31.43	28.92
Banking	0.80	0.87	1.27	1.46	1.35	1.51	2.11	2.77
Ownership of dwellings	6.30	7.13	8.01	8.58	9.39	9.93	10.69	11.20
Public administration and defence	14.95	15.79	16.74	17.06	17.61	19.70	21.41	22.03
Services	7.78	8.26	8.63	9.51	10.37	11.19	12.83	13.94
<b>Total GNP at factor cost</b>	<b>85.17</b>	<b>89.44</b>	<b>110.87</b>	<b>108.62</b>	<b>117.67</b>	<b>135.52</b>	<b>150.95</b>	<b>149.74</b>
+Indirect Taxes	8.36	8.66	9.27	10.28	11.39	13.43	16.66	20.89
<b>Total GNP at market prices</b>	<b>93.53</b>	<b>98.30</b>	<b>120.14</b>	<b>118.90</b>	<b>129.06</b>	<b>148.95</b>	<b>167.61</b>	<b>170.63</b>
+Net factor income from abroad	5.60	7.39	7.00	11.93	8.56	11.67	12.93	15.15
<b>Total GNP at market prices</b>	<b>99.13</b>	<b>105.69</b>	<b>127.14</b>	<b>130.83</b>	<b>137.62</b>	<b>160.62</b>	<b>180.54</b>	<b>185.78</b>

Source: Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p. 3.  
Figures for 1966 were privately secured from the Department of Statistics.

The agricultural sector has again undergone fluctuations in its contribution to GDP due to the irregularity and scarcity of rainfall. Whereas the share of agriculture in GDP at factor cost was 16 percent in 1960, it increased to about 25 percent in 1964 and dropped to 18 percent in 1966. However, the sharp fluctuations in agricultural income did not affect the steady growth in GDP which reveals that most of the other sectors were growing remarkably in absolute values although most of their percentage contributions to GDP remained approximately the same. In some years, wholesale and retail trade contributed more to GDP than agriculture. For instance the trade sector accounted for 22 percent of GDP in 1960, and then dropped to 21 percent in 1964 and to 19 percent in 1966. Public administration and defence formed the third main sector contributing about 14 percent of GDP in 1966 compared to 18 percent in 1960. Manufacturing and mining increased from 8 percent to 11 percent of GDP, while also achieving a large absolute increase as did most of the other sectors.

On the expenditure side, private consumption expenditures increased by about 72 percent between 1959 and 1966, that is at an annual growth rate of 8.1 percent at current values. As a ratio of total GNP, private consumption expenditure was 88 percent in 1959, 84 percent in 1960 and 90 percent in 1966. General government consumption expenditure increased by 47 percent between 1959 and 1966, an increase which was made possible mainly by large amounts of external official transfer payments. Finally, gross fixed capital formation increased by 53 percent during the same period, that is at an annual growth rate of 6.3 percent at current values. (See table 4).

Increases in GNP have led to increases in the per capita income level although the latter is still a relatively low figure. In 1966, GNP averaged JD 94 per person compared to JD 62 in 1959, an increase of about 52 percent in current prices.<sup>20</sup>

Income distribution figures were calculated for the first time in Jordan in 1965. Out of a gross domestic income at factor cost of JD 151 million, incomes from farms, professions and from own account work had the main share (JD 66 million). The second share was that of incomes of employees (JD 52 million), and the last share went to incomes from property (JD 33 million).<sup>21</sup>

### C. Agriculture

Undoubtedly, agriculture is an important sector of the Jordan economy which has contributed an average of about 20 percent of GDP during the period 1959-66 although its annual shares in GDP have varied markedly from year to year. On the other hand, while agriculture provides employment for around 35 percent of the labor force,<sup>22</sup> Jordan is still unable to produce all the food necessary to feed its people. Imports of food have therefore averaged more than 25 percent of the total value of imports in recent years. Also, agricultural products are the main exports

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<sup>20</sup> Department of Statistics, Some Effects of Foreign Trade on the Jordan Economy, 1950-1966, op.cit., p. 68.

<sup>21</sup> Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p. 4, For figures on the distribution of income for 1965, see p. 40.

<sup>22</sup> Department of Statistics, Some Economic Indicators, op.cit., p. 6.

TABLE 4

## EXPENDITURE ON GROSS NATIONAL PRODUCT AT MARKET PRICES

1959-1966

(In JII million, at current prices)

	1959	1960	1961	1962	1963	1964	1965	1966
1. Private consumption expenditure	87.09	88.45	102.75	102.36	116.82	123.47	138.04	149.61
2. General government consumption expenditure	25.45	27.02	28.12	29.04	33.04	32.27	36.79	37.47
3. Gross private fixed capital formation	13.02	13.05	11.49	13.95	12.86	12.80	13.55	15.20
4. Gross fixed capital formation of general government	5.04	4.46	5.47	8.06	7.16	5.97	10.35	12.45
5. Change in stocks	-5.49	-0.42	+1.97	-1.79	-0.02	+6.52	+3.89	+0.44
Expenditure on consumption and gross capital formation	125.11	132.56	149.80	151.62	169.86	181.03	202.62	215.17
6. Exports of goods and services	11.79	12.79	16.95	19.08	20.26	24.57	28.54	32.06
Expenditure on gross domestic product and imports	136.90	145.35	166.75	170.70	190.12	205.60	231.16	247.23
7. Less imports of goods and services	43.37	47.05	46.61	51.80	61.06	56.65	63.55	76.60
Expenditure on gross domestic product	93.53	98.30	120.14	118.90	129.06	148.95	167.61	170.63
8. Net factor income from abroad	5.60	7.39	7.00	11.93	8.56	11.67	12.93	15.15
Expenditure on gross national product	99.13	105.69	127.14	130.83	137.62	160.62	180.54	185.78

Source: Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p. 2. Figures for 1966 were privately secured from the Department of Statistics.



of Jordan and have averaged over 45 percent of total exports over the last few years.

According to the agriculture census of 1965, there were 93,492 agricultural holdings. Some 36 percent of these holdings are less than ten dunums each, 50 percent range between 10 and 99 dunums, 12 percent between 100 and 499 dunums, and only 2 percent of all holdings have an area of 500 dunums or more each.<sup>23</sup> Although the agricultural sector is still rather lacking in agricultural machinery, however, mechanization has increased over the years as appears from the increase in the number of tractors from 175<sup>24</sup> in 1952 to 2068 in 1966.<sup>25</sup>

The main agricultural products are wheat, barley, pulses, tomatoes, fruits, vegetables, olives, tobacco and others. The field crops--mainly barley, wheat, beans and lentils--are subject to wide fluctuations in output as they are mainly grown on non-irrigated fields and therefore depend on the irregular rainfall. Barley exhibits the widest fluctuations followed by wheat. The latter is the main staple product which, although produced in large quantities, still remains far below the needs of the country in most of the years.<sup>26</sup>

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<sup>23</sup>Jordan, Department of Statistics, Report on Agriculture Census 1965 (Amman, 1967), p. 86.

<sup>24</sup>Patai, op.cit., p. 125.

<sup>25</sup>Jordan, Department of Statistics, Statistical Yearbook 1966 (No. 17; Amman, n.d.), p. 134.

<sup>26</sup>See table 12 in Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy, 1950-1966, op.cit., p. 31, which shows the annual wheat production and the annual needs of wheat 1953-1966.

TABLE 5  
ESTIMATES OF PRINCIPAL AGRICULTURAL PRODUCTS  
(In thousand tons)

Product	1960	1961	1962	1963	1964	1965	1966
Wheat	44	138	112	76	295	278	101
Barley	13	62	36	23	97	95	23
Other field crops	12	29	34	18	57	65	26
Tomatoes	156	214	169	215	228	189	145
Fruits	87	148	158	144	163	182	--
Vegetables	243	319	325	323	384	394	238
Olives	17	114	7	39	97	37	--
Tobacco	0.4	1.6	1.2	0.3	1.7	1.7	--

Source: Jordan, Department of Statistics, Statistical Yearbook, 1966, (No. 17; Amman, n.d.), p. 125.

The production of olives also displays wide fluctuations and in general a good olive year, as that of 1961, is usually followed by a year of low yields. Fruits, vegetables and tomatoes are not erratic in their production trend as other products because in recent years their production has depended mainly on irrigation.

Income from livestock has been contributing steadily increasing amounts to agricultural income reaching a level of about JD 12 million in 1966 compared to JD 5 million in 1959. This includes incomes from sales of animals and their products, honey and poultry as well as an estimate of the value of the increase in livestock numbers which in 1966 were 1.1 million sheep, 766,000 goats, 78,000 cattle and 17,000 camels.<sup>27</sup>

<sup>27</sup> Department of Statistics, Statistical Yearbook, 1966, op.cit., p. 130.

Although the agricultural sector has progressed over the years, it still faces many problems some of which arise from natural physical limitations. One such limitation is that only 15 percent of the total land area is cultivable and about 900,000 hectares (1 hectare = 10,000 sq. meters) are cultivated which form less than 10 percent of the land area.<sup>28</sup> However, the more important physical limitation is the scarcity and irregularity of rainfall. As mentioned earlier, most of the country receives in rainfall an annual average of less than 200 millimeters per annum. Dry-land farming, depending on rainfall alone, is predominant in Jordan with only about 30 percent of agricultural production derived from irrigated land.<sup>29</sup> The predominance of dry farming and the recurrence of droughts introduce a measure of vulnerability to Jordan's economy which is clearly portrayed by the violently fluctuating proceeds of agriculture to the GDP as well as by the changeable values of agricultural exports and imports.

Another problem handicapping agricultural development is the low productivity of land and labor resulting from "soil erosion, lack of planned land-use pattern, marketing problems, lack of adequate long-term capital"<sup>30</sup> and a general unawareness by most farmers of modern production techniques.

In its attempt to overcome the problems arising from the scarcity and irregularity of rainfall, the government has undertaken various irrigation schemes, some of which were completed while others are still

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<sup>28</sup>Syria, Lebanon, Jordan (Economist Intelligence Unit; Annual Supplement, 1966), p. 24.

<sup>29</sup>JDB, op.cit., p. 12.

<sup>30</sup>Ibid., p. 74.

underway. Work on the East Ghor canal project, the first stage in the Yarmuk River project which was prepared by Baker and Herza Company in 1955 to irrigate a large part of the Jordan Valley, had started in 1957 and was recently completed. This first stage has trained the technical personnel and farmers in how to distribute and use the waters of the Yarmuk river.<sup>31</sup> Upon completion of all the stages of this project, it is expected that 70 percent of the Yarmuk waters will be utilized to irrigate an estimated area of 15,000 hectares in the Jordan Valley.<sup>32</sup>

The government, in its endeavors to assist the farmers in their efforts to increase efficiency and to expand agricultural production, has established several authorities with detailed responsibilities. Among these are the Department of Cooperatives, the Central Cooperative Union, the Central Water Authority, the East Ghor Canal Authority and the Agricultural Credit Corporation which was established by law No. 50 of 1959 and which was amended by law No. 12 of 1963. This Corporation extends medium and long-term agricultural loans to farmers as well as to cooperatives who also receive short-term loans. Its Board is made up of four government and five non-government representatives. The declared capital of the Corporation is JD 7 million but its paid up capital was about JD 4.2 million in 1965. At the end of 1966, the total value of the loans extended by the Corporation was JD 1.5 million.<sup>33</sup>

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<sup>31</sup>Ibid., p. 12.

<sup>32</sup>General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 20

<sup>33</sup>Central Bank of Jordan, Department of Research and Statistics, Quarterly Bulletin (No. 3; Amman, 1967), p. 45. (In Arabic).

In conclusion, it is clear from the above that improvements in agriculture must be undertaken as it is a main sector which can share significantly in solving some of the basic problems facing the economy. Principally, it can alleviate the pressure on the balance of payments by an expansion in the production of crops that are foreign exchange earning or foreign exchange saving. It can also offer more employment opportunities as agriculture is in general more of a labor than a capital intensive sector.

#### D. Industry

Before 1948 there was practically no industrial sector in Transjordan, and even handicrafts were very limited. After the formation of Jordan, a few modern industries were established and today industry is steadily gaining in importance. The main factor which led to the development of industry was the influx of the Palestinian refugees in 1948 which brought with it a fall in the wage level, the availability of skilled workers, an increase in domestic demand consequent to the increase in population and liquid capital with the richer refugees as well as considerable assistance from government and international sources.<sup>34</sup>

Mineral resources are fairly important but not yet fully exploited. The Dead Sea minerals are quite valuable and their resources were estimated at 2,000 million tons of potassium chloride, 980 million tons of magnesium bromide, 11,000 million tons of sodium chloride, 22,000 million tons of magnesium chloride and 6,000 million tons of calcium chloride.<sup>35</sup> Other

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<sup>34</sup>Patai, op.cit., pp. 113-114.

<sup>35</sup>Ibid., p. 115.

than these, Jordan possesses abundant high-grade phosphate deposits mainly at Ruseifa where the mines contain 72 percent phosphates, one of the highest known percentages in the world. Phosphate deposits are also available in Al-Hasa, Ma'an and Ras Al-Nakb and all the deposits are estimated at about 400 million tons.<sup>36</sup> Jordan also has large deposits of high quality marble, building stones, clay and limestone. Oil has not been found yet and the only concession given to an American company in 1964 has been cancelled. Some iron and copper deposits were discovered, the latter in Wadi Araba but these were not exploited.

Industry in Jordan can be divided basically into three groups. First, the handicrafts which are mainly located in the West Bank and are engaged in jewellery, embroidery, ceramics, pottery and mother of pearl work, all of which appeal to tourists.

Another group of industries are directly dependent on agricultural products for their raw materials. Among the main industries in this group are flour mills, bakeries, olive oil, soap, food canning, alcoholic beverages, vegetable oils, and the cigarette and tobacco industries, with the latter two industries being the most significant ones.

A third group of industries is engaged in metallic and mining activities. Jordan, aiming at improving its balance of payments position, places heavy reliance on the production and exportation of its minerals, especially phosphates.<sup>37</sup> This group includes Jordan's three main

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<sup>36</sup>General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 29.

<sup>37</sup>JDB, op.cit., p. 13.

industries, namely, phosphates, cement and petroleum refining which are all run by semi-private enterprises with government participation. The rich phosphate deposits are being largely exploited and production has increased sharply in recent years except for 1963 and 1964 when production was 564,000 tons in the latter year against 681,000 tons in 1962. However, this was an intentional drop as exports were met from accumulated stocks of previous years; in 1965 phosphates production increased again to a level of 828,000 tons.<sup>38</sup> As for cement, since the establishment of the company in 1954, its production has been increasing steadily in an attempt to meet the rising demand of the construction sector. In 1965 some 305,000 tons were produced compared to 165,000 tons in 1960<sup>39</sup> and 86,000 in 1953.<sup>40</sup> The petroleum refinery was established in 1960 with the main intention of providing cheaper fuel resources. Before 1960 fuel was imported with hard currency through Lebanon and transit dues were paid to Syria. Production of kerosene, benzine and solar has increased from 38,000, 43,000 and 72,000 tons respectively in 1961 to 61,000, 58,000 and 132,000 tons respectively in 1965.<sup>41</sup>

The marble industry produces large supplies of marbles with unique colors, partly used locally and largely exported to the Arab countries. Furthermore, an Arab Potash Company was formed in 1965 to

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<sup>38</sup> Department of Statistics, Some Economic Indicators, op.cit. p. 27.

<sup>39</sup> Ibid.

<sup>40</sup> General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 32.

<sup>41</sup> Department of Statistics, Some Economic Indicators, loc.cit.

exploit the Dead Sea salts with the Arab governments and Jordan participating in the capital of the industry. Studies were completed and a project was recommended after considering the suggestions of the World Bank. However, the project is not yet executed although it received due emphasis in the Seven Year Program. Jordan also has other light industries including among others clothing, tanning, plastics and chocolate industries.

In 1965, an industrial survey was carried out which surveyed completely all industries that employed ten or more laborers while sampling methods were used in covering other industrial establishments employing less than ten people. The survey results give a rather clear idea of the main features of the industrial sector. According to this survey, there were 6838 industrial establishments employing 37,094 people including family workers, wage earners, salaried employees and domestic servants. The total wages and salaries paid in 1965 amounted to JD 5.2 million, the value of gross industrial output was JD 38.3 million while the value added by the sector as a whole was about JD 16.2 million.<sup>42</sup> Compared to the 1959 industrial census in which all the industrial establishments were completely surveyed, the total number of the establishments in 1959 was 6887 which gave employment to 23,068 people. The total wage bill was JD 1.3 million while the value of gross output was JD 11.5 million and the value added was JD 6.3 million.<sup>43</sup> Although the two studies are not strictly comparable, still the above figures indicate

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<sup>42</sup>Jordan, Department of Statistics, The Industrial Survey of 1965 ("The Jordan Economy"; Amman, 1967), pp. 16-17. (In Arabic).

<sup>43</sup>Ibid., pp. 6-9.



the fast progress that has taken place in industry over time whether as to the number of people employed, the wage bill or the value of gross output and the value added.

An important feature of Jordan's industrial sector revealed by the recent industrial survey is that in 1965, out of a total of 6838 industrial establishments, only 596, or 9 percent of these establishments, employed ten or more people. This group of relatively large establishments (according to the number of people employed), gave employment to about 45 percent of the total industrial work force and paid 61 percent of the total wages and salaries.<sup>44</sup> Moreover, this group of large establishments accounted for 84 percent of the total value of fixed assets of all industries which amounted to JD 19.7 million in 1965. Also, this group produced 70 percent of the value of gross output and 65 percent of the total value added by industry as a whole. Furthermore, three of this group, namely, cement, phosphates and petroleum refining, accounted for 40 percent of the value of fixed assets of the whole group, produced 31 percent of its total value of gross output and 42 percent of the total value added.<sup>45</sup>

The geographical distribution of the large establishments shows their heavy concentration in the districts of Amman and Jerusalem. The District of Amman includes 42 percent of the establishments of the group accounting for 85 percent of the value of fixed assets, produces 80

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<sup>44</sup>Ibid., pp. 30, 93.

<sup>45</sup>Ibid., pp. 18-19, 34.

percent of the value of gross output and 82 percent of the value added by the large industrial concerns as a whole. The Jerusalem district contains 26 percent of the big establishments, accounts for only 8 percent of the value of fixed assets of the large group and produces 9 percent of the gross value of output and 9 percent of the value added by this group. The Nablus district includes 23 percent of these establishments while 5 percent are in the Irbid district and 4 percent in the Hebron district.<sup>46</sup>

The above shows that although industrial establishments are relatively numerous, yet they are also relatively small in size and each accounts for a relatively small share of the value added by the sector. A noticeable feature is the concentration of industrial employment, output and capital in an extremely small number of establishments mainly located in the Amman district.

Notwithstanding the market improvement that has taken place in this sector over the last decade, industry is still in its infancy if measured by its contribution to GNP or by the number of people employed. In 1966, industrial production accounted for only 11 percent of GDP compared to 8 percent in 1961 and 7 percent in 1959. According to the population census of 1961, around 10 percent of the economically active population were engaged in industry.<sup>47</sup> Various impediments limit industrialization such as the paucity of domestic capital, the limited number of technicians and skilled laborers, the scarcity of power

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<sup>46</sup> Ibid., pp. 31-32.

<sup>47</sup> Department of Statistics, Some Economic Indicators, op.cit., p. 8.

resources and of raw materials in general, and foreign competition.

The government is taking the responsibility of tackling these problems by encouraging industries not only through favorable legislation but also by participating with private capital in financing industrial activities. Law No. 27 of 1955 known as the "Law for the Encouragement and Guidance of Industry" was amended by the temporary law No. 33 of 1963 which provides various facilities for industrial activities. Subject to a recommendation by a development committee, certain projects, considered essential for economic development, could be exempted either completely or partly from customs duties, import and additional fees on materials, and machinery and equipment necessary for the establishment of the project. However, primary and raw materials, needed for the output of the project, are not exempted from the above duties and fees except if they are already so exempted by terms of the customs tariff. Also upon recommendation by the economic development committee, the importation of foreign products which compete in a harmful manner with local products could be prohibited.<sup>48</sup>

Law No. 28 of 1955 as amended by law No. 34 of 1963 for the "Encouragement of Foreign Capital Investment in Jordan", grants foreign capital all the facilities offered by law No. 33 of 1963 for the encouragement of local industry. Moreover, owners of foreign capital are authorized to transfer their annual earnings in foreign currency out of/<sup>the</sup>country and to repatriate foreign capital in the same foreign exchange in which it was brought into the country without any interference.<sup>49</sup>

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<sup>48</sup>"Law No. 33 of 1963 for the Encouragement and Guidance of Law and Industry," Official Hazette (No. 1717; Amman, October 27, 1963), pp. 1461-1463. (In Arabic).

<sup>49</sup>"Law No. 34 of 1963 for the Encouragement of Foreign Capital Investment in Jordan," Ibid., pp. 1463-464.

Other than favorable legislation, the government has provided various technical training schools which are helping in improving skills and technical know-how. Another main encouragement to industry was the establishment, by the government, in 1965 of the Industrial Development Bank by law No. 27 of 1965 which was amended by Law No. 7 of 1968.<sup>50</sup> This Bank took over the responsibilities of the Industrial Development Fund that used to be run by the Jordan Development Board and the purpose of the Bank is to encourage industrial projects by providing guidance and credit facilities to industrial projects. The declared capital of the Bank is three million JD divided into three million shares each of a value of one JD.<sup>51</sup> By the end of 1966, the value of the paid loans of the Bank amounted to JD 484,000<sup>52</sup>. However, although the Bank has been functioning well, it still needs more funds in order to meet the increasing demands for credit facilities.

E. Foreign trade and the balance of payments.

1. General features of foreign trade:

Foreign trade is characterized by a chronic and rising deficit in the balance of trade which causes a serious problem to Jordan's economy as it has resulted in a heavy dependence upon external sources

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<sup>50</sup>"Law No. 7 of 1968 of the Industrial Development Bank," Official Gazette (No. 2076, Amman, February 15, 1968), pp. 191-194. (In Arabic).

<sup>51</sup>Ministry of Information, The Jordan Economy (Amman, 1966), p. 81. (In Arabic).

<sup>52</sup>Central Bank of Jordan, Quarterly Bulletin (No. 3, Amman, 1967). p. 45.

to finance the deficit. The following main features of foreign trade are revealed from table 6 below.

a) Imports have increased sharply over the years from a level of JD 18.4 million in 1953 to a level of JD 68.2 million in 1966 with a slight drop in 1961 caused by a good agricultural year which reduced the need for imported cereals. The highest annual percentage increase in imports, namely 37 percent, was between 1954 and 1955.

TABLE 6  
VALUE OF EXPORTS AND IMPORTS OF GOODS  
1953-1966  
(In JD million)

Year	Imports	Exports	Deficit in the balance of trade	% of exports to imports
1953	18.4	1.9	16.5	10.3
1954	19.8	2.4	17.4	12.1
1955	27.1	2.6	24.5	9.6
1956	27.8	4.4	23.4	15.9
1957	30.5	4.3	26.2	14.1
1958	30.0	3.1	30.9	9.1
1959	40.3	3.1	37.2	7.6
1960	42.9	3.5	39.4	8.1
1961	41.9	4.3	37.6	10.2
1962	45.6	4.9	40.7	10.7
1963	50.9	5.5	45.4	10.8
1964	53.6	7.0	46.6	13.0
1965	56.1	7.8	48.3	13.9
1966	68.2	8.8	59.4	12.9

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy, 1950-1966 (Amman, 1967), pp. 4, 60.

b) Exports have also increased markedly from a level of JD 1.9 million in 1953 to a level of JD 8.8 million in 1966 with the highest percentage increase of 69 percent registered between 1955 and 1956. After 1958 there has been no drop in the value of exports although in 1958 the value of exports has dropped sharply below the level of 1956 and 1957 due to the irregularity of rainfall and therefore the drop in the level of agricultural production.

c) It is noticeable that usually a big rise in the value of exports, as has happened in 1956 and 1961, is accompanied by either a drop in the value of imports as has happened in 1961 or else a relatively very small increase in the value of imports as has occurred in 1956. This is explained by the good and bad agricultural seasons which reduce importation of cereals and increase the value of exports in good crop years.

d) The deficit in the balance of trade has been increasing over the years except for very minor drops in 1956 and 1961. Between 1953 and 1966 the deficit increased from JD 16.5 million to JD 59.4 million respectively. The highest annual rates of increase in the trade deficit were in 1955, 1959 and 1966.

## 2. Analysis of imports:

The sharp increase in the imports of goods over the years could not be attributed to any fall in customs tariffs since these have in fact increased over the years, nor does it seem to have been caused by a drop in transportation costs. The main factors leading to this steady increase in the imports of goods were the increase in the level of national

expenditures that was largely caused by the sizeable inflow of foreign aid and loans combined with the annual increase in population. Also, banks advances have increased over the years registering a 712 percent increase between 1953 and 1966.<sup>53</sup> The increase in the level of expenditures and incomes has resulted in an increase in aggregate demand including demand for domestic goods and goods imported from the rest of the world. However, as most of the local production requires the importation of raw materials and intermediary products, an increase in the demand for local products is partly translated into an increase in demand for imports of raw materials and intermediate goods. This is a basic feature of Jordan's pattern of imports whereby any increase in domestic incomes has primary repercussions on increasing the demand for imported and domestic goods, and secondary repercussions on increasing the demand for imported input contents of domestic output.<sup>54</sup>

An analysis of the composition of imports according to their final use indicates that whereas imports of consumer goods accounted for a relatively high proportion of total imports in the 1950's, this ratio has been declining during the last decade and reached 62 percent in 1965 compared to 76 percent in 1955 and 75 percent in 1952. However in absolute terms, the value of consumption goods has been increasing during the same period amounting to JD 35.6 million in 1965 compared to

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<sup>53</sup>Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966, op.cit., pp. 9-14.

<sup>54</sup>Ibid., p. 15.

JD 13 million in 1952. This relative decline in the share of consumer goods in the total imports reveals a structural change in the composition and pattern of imports during the period 1955-65. The share of capital goods in total imports was about 7 percent in 1952, ranged between 10 and 12 percent during 1955-62, and then dropped again to its pre-1955 level since 1962. The higher share of imports of capital goods during 1955-62 is mainly attributed to the establishment of the main industries during this period which required additional imports of machinery and equipment. The imports of raw materials and intermediate products have also increased over the period from 10 percent of total imports in 1952

TABLE 7  
IMPORT ITEMS AS A PERCENTAGE OF TOTAL IMPORTS  
FOR SELECTED YEARS

Year	Total	Consumption goods	Capital goods	Intermediary and primary goods
1952	100	75.1	6.9	18.0
1955	100	76.0	9.6	14.4
1956	100	76.3	10.4	13.3
1959	100	63.0	11.3	25.7
1961	100	65.9	10.5	23.6
1962	100	61.2	11.0	27.8
1963	100	64.6	6.1	29.3
1964	100	64.9	7.8	27.3
1965	100	61.7	7.0	31.4

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966 (Amman, 1967), p. 23.



to 31.4 percent in 1965 but have fluctuated over some years. Again, the increasing imports of these goods have been necessary for the establishment of many industries.<sup>55</sup>

Jordan's main import items can be grouped in seven categories, as appears in table 8, the main group being that of foodstuffs, beverages and cigarettes which has more than doubled between 1955 and 1966. This group includes cereals, live animals, vegetables, fruits, coffee, tea and other foodstuffs excluding vegetables and animal oils.

The relatively high increases in the value of food imports in 1959, 1963 and 1966 are attributable to a relatively higher increase in cereals' imports in those years. The second group of imports is that of inedible raw materials including tobacco, wood, metal ores, rubber, paper, animal feed and skins whose values have tripled between 1955 and 1966. The group of mineral fuels which consists mainly of crude petroleum and its by-products has undergone some changes in the items imported over time. Before 1960, the date of the establishment of the oil refinery, crude oil was imported in small amounts while great amounts of its by-products were imported. After 1960, imports of crude petroleum increased sharply but those of its by-products decreased. As for imports of vegetables and animal oils, these have fluctuated over the years due to fluctuations in domestic production of the olive fruit. During bad harvest years, for instance, imports of this group increased greatly, especially that these products are greatly demanded by some industries like the soap industry. The increase in imports of chemicals, including

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<sup>55</sup>Ibid., pp. 21-42.

TABLE 8

VALUE OF MAIN IMPORTS FOR SELECTED YEARS  
(In JD thousand)

Main imports	1955	1957	1959	1960	1961	1962	1963	1964	1965	1966
Foodstuffs, beverages & tobacco	8653	9501	12123	12962	13468	13244	17811	14496	15505	18507
Inedible raw materials	992	1108	2176	1989	1568	2049	2172	2335	2456	3012
Mineral fuels	1988	2700	2937	3306	2492	2596	2664	2758	3247	3428
Vegetables and animal oils	423	609	840	1234	846	650	1062	875	1138	1311
Chemicals	918	1137	1526	1822	2250	2395	2667	2733	3625	4389
Machinery and transport vehicles	4199	4212	7173	6818	6741	8375	7460	10932	10356	12348
Others	9885	11219	13553	14804	14545	16320	17091	19431	19725	25216
Total	27058	30486	40328	42935	41910	45629	50927	53560	56052	68211

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy, 1950-1966 (Amman, 1967), p. 46.

pharmaceuticals, chemical fertilizers and others, has been relatively the most sharp among all the groups of imports and has registered an increase of 478 percent between 1955 and 1966. Imports of machinery and transport vehicles also marked a steady rise accompanying the economic development of the various sectors; and the group of "others" which includes mainly consumer goods such as clothing, glassware, etc.... has greatly increased thereby affecting the general increase in imports.<sup>56</sup>

As for the distribution of Jordan's imports by countries of origin, Western Europe has provided a varying ratio of 38-53 percent of the total annual value of imports between 1955 and 1966, followed by the Arab countries which supplied between 17-23 percent of the value of total imports during the same period. North America ranked either second or third in different years, with a ratio of imports rising from a level of 10 percent in 1955 to a range of 15 to 21 percent during the period 1964-66. Imports from Eastern Europe have also increased over the years and particularly in 1964 and 1965.<sup>57</sup>

### 3. Analysis of exports:

Table 6 shows that up to 1961 the ratio of exports to imports was fluctuating sharply and reached its highest level in 1956. This fluctuation is explained by the occurrence of good and bad agricultural seasons which greatly affected the level of exports. However, after 1961, the fluctuations in this ratio were greatly reduced, a phenomenon which could be mainly explained by the increased irrigation of vegetables which made their production less dependent on rainfall. Since vegetables

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<sup>56</sup>Ibid., pp. 45-51.

<sup>57</sup>Ibid., pp. 52-56.

TABLE 9

GEOGRAPHICAL DISTRIBUTION OF JORDAN'S IMPORTS FOR SELECTED YEARS  
(In percentages)

Countries	1955	1957	1959	1960	1961	1962	1963	1964	1965	1966
Arab	19.7	23.3	17.2	20.0	17.1	17.0	22.4	17.8	18.7	19.8
Asian	6.4	9.0	10.9	8.2	11.8	12.5	10.4	10.5	12.3	12.2
African	0.4	0.5	0.2	0.4	1.0	1.0	0.8	0.6	1.1	1.1
Western European	53.0	48.6	51.5	50.7	43.6	45.8	41.3	38.0	39.9	38.4
Eastern European	4.4	7.3	7.3	5.9	6.6	6.8	6.8	10.3	10.1	8.5
North American	10.4	7.5	9.9	12.6	17.4	13.3	13.9	21.0	15.2	17.8
South American	0.8	1.2	0.8	0.7	1.0	0.8	0.4	0.7	0.6	0.8
Other	4.9	2.6	2.2	1.5	1.5	2.8	4.0	1.1	2.1	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966 (Amman, 1967), p. 53.

account for a sizeable part of Jordan's total exports, the value of the latter has become less dependent on the rainfall and consequently, the ratio of exports to imports has become more stable. Nevertheless, droughts still affect the value of the production and exports of cereals, and in such years where cereals' production drops greatly thereby increasing the value of imports relatively more than in other years, the ratio of exports to imports would either not change or it will be reduced a little as happened in 1966, although the absolute value of exports was still increasing.<sup>58</sup> Another reason explaining the steady increase in the ratio of exports to imports since 1961 is the structural change in the composition of Jordan's exports which has occurred over the last six years. Exports of phosphates, cigarettes and batteries started to have a relatively high importance in total exports which greatly offset any changeability in the value of other exports.

The main exports of Jordan can be divided into four groups consisting of agricultural products, manufactured foodstuffs, mineral products and other manufactured goods. Exports of tomatoes and melons make up 40-50 percent of agricultural exports whose value has more than doubled between 1958 and 1966 mainly because of increased dependence on irrigation in vegetable growing. Exports of tomatoes alone have accounted for 17 percent of the total value of exports in 1960 and 22 percent in 1966. As for exports of manufactured foodstuffs, which include products of flour mills, vegetable oils, sweets, canned food and other products, their value has varied according to external demand, but its ratio to

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<sup>58</sup> Ibid., pp. 57-58.

TABLE 10  
 VALUE OF MAIN EXPORTS  
 1958-1966  
 (In JD thousand)

Main exports	1958	1959	1960	1961	1962	1963	1964	1965	1966
Agricultural products	1752	1613	1736	2109	2769	2778	3125	3771	3992
Manufactured food-stuffs	223	228	193	237	320	589	395	452	483
Minerals	1028	1051	1346	1660	1568	1537	2470	2547	3258
Other manufactured products	136	206	206	246	272	618	1022	982	1026
Total	3139	3098	3481	4252	4929	5522	7012	7752	8759

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966 (Amman, 1967), p. 61.

the value of total exports remains relatively low. Exports of minerals consist almost entirely of phosphates except for some exports of cement in certain years. Whereas the ratio of phosphates' exports to total exports was only 2.5 percent in 1952 and 1953, this has increased to 36 percent in 1966. Other manufactured products include a variety of goods of which cigarettes have become a predominant item. Exports of this group have increased at an increasing rate over the years.<sup>59</sup>

As for the geographical distribution of Jordan's exports, the Arab countries are by the far the main market which took 68 percent, 73 percent and 64 percent of total exports in 1958, 1963 and 1966 respectively.

<sup>59</sup>Ibid., pp. 61-65.

Other export markets include Eastern European countries, mainly Yugoslavia and Czechoslovakia, with whom trade has started in 1957 and accounted for 12.6 percent of total exports by 1965. India received 7.9 percent of total exports in 1965 consisting mainly of phosphates.<sup>60</sup>

TABLE 11  
PERCENTAGE DISTRIBUTION OF EXPORTS TO ARAB AND OTHER COUNTRIES

Countries	1958	1959	1960	1961	1962	1963	1964	1965	1966
Arab countries	68	66	61	62	70	73	67	69	64
Other countries	32	34	39	38	30	27	33	31	36

Source: Jordan, Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966 (Amman, 1967), p. 65.

#### 4. Balance of payments:

As appears from Table A in the Statistical Appendix, the main feature of the balance of payments is<sup>a</sup> chronic merchandise trade deficit which has been increasing sharply over the years. Although the balance on the invisible items has shown an increasing surplus over the years, mainly because of increased earnings from tourism, yet it has managed to offset only a small part of the trade deficit, and, therefore, an overall deficit on goods and services has been registered over the years reaching a level of JD 35.62 million in 1966 compared to JD 16 million in 1955.

<sup>60</sup>General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 48.

The second characteristic of Jordan's balance of payments is the large amount of transfer payments that has been necessary to cope with the deficit on goods and services. These transfers are of two kinds, private and official, the former being made up mainly of remittances from emigrants to their relatives and which form only a very small but increasing amount of total transfers. Official transfers on the other hand, are much more significant and consist of payments by U.K., UNRWA, USA and, in later years, payments by Arab countries (see table 12). Before 1957, the date of the termination of the Anglo-Jordanian treaty, the U.K. accounted for the largest amount of transfer payments, followed by UNRWA, while the USA payments were relatively unimportant. After 1957, the U.S. payments became by far the main source of transfer payments to Jordan, amounting to an average of 54 percent of total transfers between 1961 and 1966. However, since 1962, the U.S. transfers started declining both in absolute and relative terms although they continued to be the main source of transfer payments. Despite this drop in U.S. transfers, the total amount of transfer payments has increased over the years except for a slight drop in 1962 and 1963. The continued increase since 1964 is mainly attributed to transfers from Arab countries as well as to the steadily increasing private transfers. Thus, during the 1960's, there was a structural change in the nature of transfer payments to Jordan whereby U.K.'s transfers have become relatively unimportant compared to U.S. and Arab transfers in later years. Transfer payments have enabled Jordan not only to cover most of its deficit on goods and services but also to accumulate a surplus in certain years such as in 1964 and 1965.



TABLE 12  
TRANSFER PAYMENTS FOR SELECTED YEARS  
(In JD million)

Source	1953	1954	1955	1961	1962	1963	1964	1965	1966
Private	2.34	1.65	1.66	1.72	1.74	1.62	2.00	2.68	2.32
U.K.	6.43	5.87	8.04	2.36	1.50	1.50	1.50	1.40	1.30
U.S.A.	.97	1.25	2.73	17.05	16.71	15.51	14.64	11.98	13.37
U.N.R.W.A.	4.86	5.50	4.66	5.15	5.26	5.51	5.78	6.01	5.50
Arab countries	-	-	-	-	-	-	4.54	7.34	9.49
Other	-	-	-	-	-	-	-	0.05	1.66
Total	14.60	14.27	17.09	26.28	25.21	24.14	28.46	29.46	33.64

Source: For 1953-1955, Ministry of Economy, Economic Planning Unit, Survey of Jordan Economy 1955 (Amman, 1956), p. 33; for 1961-1966, figures were privately secured from the Central Bank of Jordan; Figures for 1956-1960 could not be obtained.

The non-monetary capital account consists of (1) official capital inflows in the form of loans to the government from such agencies as the I.B.R.D., I.D.A., and loans from other governments, (2) private capital inflows, which have not been very significant, as revealed by official estimates. An overall surplus on the balance of non-monetary capital movements has been registered for almost all the years during 1953-1966, thus offsetting the deficit on the current account and even achieving a surplus on the overall balance of current and capital accounts in various years such as 1964, 1965 and 1966. (See table A in the Statistical Appendix).

The above discussion reveals the vulnerability of the balance of payments position of Jordan because the extent of the deficit is mainly affected by two factors: (1) the trade deficit which is in turn greatly increased in drought years and (2) the amount of transfer payments, mainly official transfers that depend on factors external to the economy. A bad agricultural season could greatly increase the imports of cereals, thereby increasing the trade deficit. Should this be coupled with a sharp cut in the amount of transfers uncompensated for by loans, grants or other external sources of finance, the situation could pose serious problems to Jordan's economy. In 1963, the U.S. aid agency decided to drop the level of U.S. transfer payments to Jordan steadily over the years. This urged the Jordan Development Board to prepare a Seven-Year Program with the main objective of reducing the balance of trade deficit and the large dependence of the economy on foreign aid.

F. Money and banking

Jordan is a member in the sterling area and its dinar, introduced in 1950, has always been tied to sterling. Prior to the establishment of the Central Bank of Jordan which started its operations in 1964, the Jordan Currency Board, founded in London in 1949, held the responsibility of currency issue. Total money supply increased sharply over the years, rising from a level of JD 14 million in 1953<sup>61</sup> to a level of JD 60 million

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<sup>61</sup>Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966, op.cit., p. 11.

in March 1967.<sup>62</sup> Whereas money in circulation was 70 percent of total money supply in 1953, this ratio has been declining over the years reaching 52 percent by 1966.<sup>63</sup> This shows that a banking habit is slowly forming among the people and that therefore, a larger sector of the economy is getting under the control of the monetary authorities.

Despite this marked increase in money supply, Jordan has enjoyed relative price stability if compared to the countries in the area. (See table 13). This is partly explained by the fact that Jordan has followed a conservative monetary policy where no deficit financing has been undertaken. Moreover, the increase in the level of expenditures and incomes which has led to an increase in the aggregate demand could have created inflationary tendencies in the economy, if most of the increase in demand was directed to the domestic products which are inadequate for meeting the demand and would have raised prices. However, the marginal propensity to import is relatively high in Jordan and this has greatly alleviated the demand pressure.

Recent years have witnessed an expansion in the activities of commercial banks, insurance companies and specialized financial institutions such as the Agricultural Credit Corporation and the Industrial Development Bank. Total bank deposits have increased from about JD 11 million in 1953<sup>64</sup> to JD 53 million in 1966,<sup>65</sup> with private

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<sup>62</sup>Central Bank of Jordan, Quarterly Bulletin (No.3; Amman,1967), p. 33.

<sup>63</sup>Department of Statistics, Some Economic Effects of Foreign Trade on the Jordan Economy 1950-1966, loc.cit.

<sup>64</sup>General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 53.

<sup>65</sup>Central Bank of Jordan, Quarterly Bulletin, op.cit., p. 40.

deposits forming about 85 percent of total deposits in 1966.

TABLE 13  
GENERAL WHOLESALE PRICE INDEX OF AMMAN  
(1958 = 100)

	1960	1961	1962	1963	1964	1965
General whole- sale price index	111	96	93	102	100	92

Source: U.N., Economic and Social Office in Beirut, Studies on Selected Development Problems in Various Countries in the Middle East (New York: U.N., 1967), p. 63.

Monetary policy with its traditional quantitative weapons does not yet play a significant role in Jordan mainly because over 50 percent of the money supply remains outside the control of the banking system. Another reason is that commercial banks invest most of their reserves in foreign assets rather than in Jordanian ones. The lack of a developed money market is another reason which inhibits the functioning of the traditional central banking weapons. Selective and direct controls may prove to be more effective if used to alleviate the secondary effects of trade fluctuations and channel credit facilities according to a certain priority system.

Tables 14 and 15 on the official foreign exchange reserves of

TABLE 14

OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES BY TYPE OF CURRENCY  
(In JD thousand)

	1960	1961	1962	1963	1964	1965	1966	1967 <sup>b</sup>
<b>Total Reserves</b>	31,846	34,897	41,043	37,651	56,286	64,175	69,556	95,306
1. <u>Central Bank</u> <sup>a</sup>	16,397	17,967	20,235	21,755	26,427	48,956	58,835	87,421
a. Issue Dept.: gold	-	-	-	-	-	1,218	-	-
Sterling	16,397	17,967	20,235	21,755	25,167	23,144	-	-
U.S. dollars	-	-	-	-	-	4,830	-	-
b. Banking Dept: sterling	-	-	-	-	1,260	17,682	-	-
U.S. dollars	-	-	-	-	-	1,987	-	-
Other currencies	-	-	-	-	-	95	-	-
2. <u>Commercial Banks</u>	14,270	16,079	20,308	12,039	25,446	10,996	7,064	5,598
Sterling	13,450	15,690	19,985	11,396	23,570	10,368	-	-
U.S. dollars	533	291	147	446	633	355	-	-
Other currencies	287	92	176	197	1,243	273	-	-
3. <u>Government</u>	1,000	530	-	3,214	3,520	3,244	2,603	2,287
Sterling	1,000	530	-	-	306	1,458	-	-
U.S. dollars	-	-	-	3,214	3,214	1,786	-	-
4. <u>Net I.M.F. position</u>	179	321	500	643	893	979	1,054	-

Source: For 1960-1965, Central Bank of Jordan, Department of Research and Statistics, Quarterly Bulletin (No. 3; Amman, 1965), p. 17. For 1966 and 1967, Central Bank, Quarterly Bulletin, (No. 3, 1967), p. 35.

<sup>a</sup>Prior to 1964, Jordan Currency Board.

<sup>b</sup>For Third Quarter of 1967.

TABLE 15  
**OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES BY TYPE OF CURRENCY FOR  
 THIRD QUARTERS OF 1966 AND 1967**  
 (In JD thousand)

Type of Currency	Third quarter of 1966	Third quarter of 1967
Gold	2,272	2,341
Sterling	53,142	45,496
U.S. dollars	12,132	24,583
French franc	14	8,482
Swiss franc	6	12,052
German	281	2,178
Other	259	174
<b>Total</b>	<b>68,106</b>	<b>95,306</b>

Source: Central Bank of Jordan, Quarterly Bulletin, (No. 3, Amman, 1967), p. 20.

Jordan reveal that most of the reserves were held in sterling balances, which accounted for 89 to 98 percent of total official reserves during 1960-64. However, since 1965, the composition of foreign reserves began to be more diversified and the ratio of sterling balances to total official reserves dropped to 48 percent by the third quarter of 1967. Moreover, gold was virtually absent in the foreign reserves of Jordan prior to 1965. By 1967 gold accounted for 2.6 percent of total reserves. Also the ratio of U.S. dollars has increased from less than 2 percent in 1960 to about 18 percent and 26 percent of total foreign reserves in the third quarters of 1966 and 1967 respectively. Other

foreign currencies that previously accounted for less than 0.5 percent of total reserves up to 1966, increased to 2.3 percent in the third quarter of 1967.

G. Economic development

Jordan's underdevelopment may be basically attributed to the paucity of its resources and the increasing population pressure on these resources. The influx of Palestinian refugees brought with it a sizeable number of people who had experienced a standard of life much better than that then existing in Transjordan, as well as a certain number of skilled workers and an amount of liquid capital all of which had been the main factors behind the initiation of development in various sectors of the economy, especially industry and commerce. Yet this influx also brought with it a large number of destitute refugees who added tremendously to the pressure on the productive resources. Despite the fact that the economic development that has taken place in Jordan between 1950-1966 has been rather spectacular, still the country is faced with various basic problems that require a solution before it reaches a self-sustaining process of growth. The main problems are the chronic trade deficit and consequently the large dependence on official transfer payments to cover it, the high levels of unemployment and underdevelopment, and the relatively low per capita income.

In light of these major problems, the JDB has published a "Five Year Plan for Economic Development in Jordan, 1962-1967", which proposed to raise GDP and to decrease unemployment and the deficit on the balance

of trade at an estimated cost of JD 127 million.<sup>66</sup> However, this plan has been superseded by a "Seven-Year Program for Economic Development of Jordan 1964-1970" which is more specific in content and is basically intent on attaining possibilities of fiscal independence for Jordan. This high priority for a decrease in the level of foreign budget support has resulted from the declared intention of the U.S. aid agency to cut gradually the amount of U.S. aid to Jordan over the years. The program aims at investing JD 275 million and to increase GNP from a level of JD 158 million in 1964 to JD 226 million in 1970. Over the period, various projects are to be carried out and the main agricultural projects consist of the irrigation of the Jordan Valley and the Yarmuk Dam. Mining investment, essentially in phosphates, copper and Dead Sea potash, is very much stressed. Many other encouragements and projects are designed for the various sectors of the economy.

After June 1967, many projects of the Seven Year Program have been interrupted and there is a possibility of a revision in the plan. However, no matter what plan is followed, the fiscal program remains the most essential on which will depend the possibility of the success of the plan.

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<sup>66</sup>General Federation of Arab Chambers of Commerce, Industry and Agriculture, op.cit., p. 64.



## CHAPTER III

### THE PLACE OF THE FISCAL SYSTEM IN THE JORDAN ECONOMY

#### A. Introduction

The aim of this chapter is to measure the importance of the fiscal system in the Jordan economy. After a brief historical account of the Transjordanian fiscal system in Section B, the main features and components of public expenditures and revenues are analyzed in Sections C and D, while Section E discusses briefly the public debt of Jordan.<sup>1</sup>

#### B. The fiscal system of Transjordan

##### 1. Past conditions:

As mentioned in Chapter II, prior to World War One, Transjordan formed a part of the province of Syria under Turkish rule. In 1921, the British gave over its administration to Emir Abdullah. At that time, Transjordan was inhabited by bedouin tribes and a few town-dwellers

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<sup>1</sup>Some tables in this chapter include actual budget figures for the fiscal years 1959/60-1966, reestimated figures for 1967 and budget estimates for 1968. However, the tables relating public expenditures and revenues to GNP include actual figures for the calendar years 1959-1965 only, because the latter year is the latest one for which national accounts have been calculated by the Department of Statistics. It should be noted that the discrepancies between the figures of these tables and the others result from the fact that whereas the budget figures have followed a fiscal year basis (ending March 31) up to 1966, the Department of Statistics has adopted a calendar year basis in The National Accounts 1959-1965.

whose sense of government was severely prejudiced by centuries of Turkish rule, under which taxation and public finance in general were characterized by a state of extreme corruption. Taxation in those days could be described as tribute or loot which was collected more for the officials' benefits than for furthering an increase in government expenditures on reforming the conditions of the tribes. Other than the construction of the Hijaz railway (opened in 1904) which was largely financed by private donations, the Turks did little to gain the sympathy of the tribes who were left largely on their own. In short, public finance under the Ottoman rule was nothing short of chaotic.

With the establishment of the new government of Abdullah<sup>1</sup> in Transjordan, money was needed to finance a police force and an army in order to establish law and order. However, the emirate's finances were in a very chaotic state and "...little revenues could be collected until the armed forces could establish order."<sup>2</sup> Britain soon supplied Transjordan with all the needed money for the budget in the form<sup>of</sup> subsidies, as agreed upon between Abdullah and the British. These subsidies continued forthcoming, under various forms, till they were terminated in an amicable mutual manner on March 31, 1957. Other than these subsidies, Transjordan was also relieved of other financial burdens including its share in the Ottoman Public Debt which Britain repaid in a period of ten years by a yearly subsidy of 31,000 sterling pounds. Transjordan was also granted 40,000 sterling pounds for a hydrographic survey and some public health

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<sup>2</sup>John Baghot Glubb, The Story of the Arab Legion (London, 1948), p. 60.

and public education services financed by foreign charitable and religious institutions.<sup>3</sup>

Despite the urgent need for a revised tax system, the archaic system inherited from the Ottomans remained in use for some years. With time, the necessary statistical data was collected on the basis of which certain taxes were abolished and replaced by more equitable ones, other tax rates were revised, and, most significantly, taxes were uniformly imposed in all parts of Transjordan.

The main four direct taxes were: (i) The land tax which was first introduced in 1933 and which replaced three agricultural taxes levied under the Turkish rule namely, the Tithe, the Werko and the Road tax; (ii) The Animal tax was kept but was reformed and enforced in 1929; (iii) The House and Land tax was levied on the rental of buildings and lands within municipal areas. It replaced the urban Werko of the Ottoman administration and was first applied in 1928; (iv) An Income tax was introduced for the first time in 1933 replacing the old Turkish vocational tax called "Tamattu" which was imposed on merchants and artisans up to that time. The income tax of 1933 was levied at first only on the salaries of employees but was later extended to all other trades and professions.<sup>4</sup>

As for indirect taxes they included: (1) Customs duties;  
(ii) Excise duties imposed on tobacco manufactures, wines and spirits;

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<sup>3</sup>A. Konikoff, Transjordan: An Economic Survey (2nd ed.; Jerusalem: Economic Research Institute of the Jewish Agency for Palestine, 1946), pp. 94-95.

<sup>4</sup>Ibid., pp. 88-91.

(iii) Stamp duty which continued as it existed in Ottoman days up to 1936 when Transjordan enacted a new stamp duty law that required the affixing of stamps on documentary papers.<sup>5</sup>

## 2. The budget of Transjordan

Table 16 contains the main components of total revenues in the pre-Second World War year of 1938/39 and the pre-Palestine war year of 1947/48. While total revenues in the former year were LP 529,613<sup>6</sup> of which 26 percent were grants from Britain, the amount of total revenues in 1947/48 increased to LP 4,195,932 of which foreign grants formed 50 percent. Thus, whereas domestic revenue rose by a little less than five times over the ten year period under consideration, the grants-in-aid increased by about 14 times. This reveals that the rise in total revenues was caused more by direct grants from Britain than by a growth in the economic activity and of the national income of the country. Moreover, it should be noted that, over this period, the tax structure and rates did not change in a manner that would cause an increase or decrease in domestic revenue. These figures also indicate that with Transjordan's slow development, its reliance on foreign aid was greater than would be expected. Definitely part of the increase could be attributed to the rising prices during the war.<sup>7</sup>

On the other hand, government expenditures increased from

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<sup>5</sup>Ibid., pp. 92-94.

<sup>6</sup>The Palestine Pound (LP) was the unit of currency circulating in Transjordan.

<sup>7</sup>No price indices are available for this period to indicate the magnitude of the real increase.

**TABLE 16**  
**TRANSJORDAN'S BUDGET REVENUES BY SOURCE,**  
**1938/39 and 1947/48**  
**(In LP)**

Type of Revenue	1938/39	1947/48
Customs and excises	127,703	929,207
Licenses and taxes	137,649	418,400
Courts and departments fees	45,606	164,442
Revenue from State property	3,952	6,552
Other receipts	12,205	454,599
Sale of State domain	3,568	2,789
Grants-in-aid	139,778	2,108,887
Reserve fund	59,152	111,056
<b>Total</b>	<b>529,613</b>	<b>4,195,932</b>

Source: Ali Dajani, Lectures on the Economy of Jordan (Arab League publications, 1954), pp. 10-11. (In Arabic).

LP 538,718 in 1938/39 to LP 3,661,298 in 1947/48, which is almost a sixfold increase. As appears from Table 17, security's share in total expenditures increased from 37 percent in 1938/39 to 67 percent in 1947/48. In contrast, the share of justice, health and education in total expenditures dropped between these two years forming 3 percent in 1947/48 as opposed to 11 percent in 1938/39.

A main shortcoming of the fiscal system of Transjordan as revealed from table 17 is the low level of government expenditures on economic activity such as public works, agricultural projects and other such developmental activities. Actually the share of government expenditures on economic activity in total government expenditures dropped from

TABLE 17  
 TRANSJORDAN'S GOVERNMENT EXPENDITURES BY TYPE,  
 1938/39 AND 1947/48  
 (In LP)

Type of expenditure	1938/39	% of total	1947/48	% of Total
Administration	149,808	28	787,584	22
Justice, health & education	69,306	11	108,351	3
Defense and security	195,915	37	2,465,817	67
Economic activity	123,689	23	299,546	8
Total	538,718	100	3,661,298	100

Source: Ali Dajani, Lectures on the Economy of Jordan, (Arab League publications, 1954), pp. 10-11. (In Arabic).

23 percent to 8 percent between 1938/39 and 1947/48 respectively. These figures indicate the lack of interest of Transjordan's government along with its British advisors in the economic development of the country. Inevitably, Transjordan's economy remained backward, weak and subsidized increasingly by British grants. This situation became still more "intensified and exposed" after the Palestine war of 1948.<sup>8</sup>

### C. Public expenditures

#### 1. Public expenditures related to GNP:

The current and investment expenditures of the Jordanian government represent a sizeable percentage of national expenditures.

<sup>8</sup>Gabriel Rezek, "The Fiscal System of Jordan" (unpublished, M.A. thesis, Department of Economics, McGill University: Montreal, August 1957), pp. 61-64.

TABLE 18  
GOVERNMENT EXPENDITURES COMPARED TO GNP IN  
1959 and 1965  
(At current prices)

	1959		1965	
	Value & share in GNP	% of total	Value & share in GNP	% of total
1. Current expenditures <sup>a</sup> (JD million)	25.81	82.4	37.89	76.0
Percent of GNP	26.0		21.0	
2. Investment expendi- tures <sup>b</sup> (JD million)	5.52	17.6	11.94	24.0
Percent of GNP	5.6		6.6	
Total <sup>c</sup> (JD million)	31.33	100.0	49.83	100.0
Percent of GNP	31.6		27.6	

Source: Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.).

<sup>a</sup>Current expenditures include total government consumption expenditures plus transfers to households and the rest of the world.

<sup>b</sup>Investment expenditures include total government expenditures on capital formation and government loans, grants and investment in the private sector, excluding change in stocks.

<sup>c</sup>The discrepancy between expenditure figures in the table and the budget figures appearing in other tables is due to the adjustment (made in the National Accounts) of the fiscal years to calendar years for purposes of GNP accounting.

Specifically, in 1965, government expenditures amounted to JD 49,93 million representing about 28 percent of gross national expenditures (GNP at market prices). As revealed from table 18, almost a quarter of total government expenditures represents expenditures on investment while the remaining three fourths are current expenditures.

Between 1959 and 1965 total public expenditures (at current prices) increased at an annual rate of 8 percent which was lower than the 10.5 percent annual rate of increase of GNP at current prices during the same period. Consequently, the share of public expenditures to GNP dropped from about 32 percent in 1959 to 28 percent in 1965.<sup>9</sup> Each of the main categories of public expenditures showed a different rate of increase over this period. First, the annual rate of increase in current expenditures between 1959 and 1965 was 6.6 percent which was quite below the 10.5 percent annual rate of increase in GNP thereby causing its share in GNP to drop from 26 percent in 1959 to 21 percent in 1965, as shown in table 18. On the other hand, the share of investment expenditure to GNP increased from 5.6 percent to 6.6 percent between 1959 and 1965 at an annual rate of increase of 13.7 percent which is higher than the annual rate of increase in GNP (10.5) over the same period.

Revealed in table 18 is the gain in importance of the government investment expenditures at the cost of government current expenditures. Thus, while investment expenditures accounted for 17.6 percent of total government expenditures in 1959, this share increased to 24 percent in 1965 while that of current expenditures correspondingly decreased. Such comparisons clearly demonstrate the effect on the pattern and structure of public expenditures in Jordan of relatively modern ideas concerning central planning and the role of government in fostering economic development through public investments.

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<sup>9</sup>This share was declining during all the years 1959-1965 with the highest share reached in 1959 and the lowest in 1964.



2. The functional distribution of public expenditures:

Table 19 reveals the sharp continuous increase in budget expenditures over the last decade. Although figures for the years before 1959 are not included, still the sharply rising trend of public expenditures could be traced back to the early years of Jordan as a kingdom in 1950.

The rapid expansion of public expenditures since Jordan became a kingdom can be explained by various factors, three of which are worth mentioning: First, a sharp increase in military expenditures due to the Palestine war of 1948 and the state of war with Israel. The importance of army expenditures in total government expenditures is discussed below. Second, the influx of a large number of refugees from the occupied part of Palestine after 1948 and the annexation of the eastern part of Palestine (West Bank) has tripled the original population of the country, all of which required a rapid expansion in government administration and services, especially that a sizeable number of those refugees were accustomed to a higher standard of living where their government offered more varied services than did the government of Transjordan to its inhabitants at that time.<sup>10</sup> UNRWA operations in Jordan greatly relieved the government from the responsibility of caring for the destitute refugees by providing food rations, shelter and educational and medical services. On the other hand, the Jordan government could receive only a small proportion of the cost of its services through taxation, the

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<sup>10</sup> West Jordan continued to have a separate budget through 1950/51 whose deficits were met by the Jordan government. The first consolidated budget of the two banks was that of 1951/52.

TABLE 19  
 RECURRING AND DEVELOPMENT EXPENDITURES  
 1959/60 - 1968  
 (in JD thousand)

Fiscal year <sup>a</sup>	Total ex- penditures	% change	Recurring expenditures	% change	Development expenditures <sup>b</sup>	% change
1959/60	30701	100	25904	100	4797	100
1960/61	32842	106	26863	104	5979	125
1961/62	32983	107	28045	108	4938	103
1962/63	37525	122	29926	115	7599	158
1963/64	39347	128	33193	128	6154	128
1964/65	43623	142	34457	133	9166	191
1965/66	46988	153	36059	139	10929	228
1966	38600	126	28240	109	10360	216
1967	55498	181	39854	154	15644	326
1968	84651	276	56700	219	27951	538

Source: Jordan, Report of the Ministry of Finance, Fiscal years 1959/60 to 1966 and Budget Department, Budget Law for the Fiscal Year 1968.

<sup>a</sup>Actuals 1959/60-1966; 1966 fiscal year was nine months; reestimated figures for 1967 and budget estimates for 1968.

<sup>b</sup>For years 1959/60-1962/63 this category includes some items which can be considered recurring expenditures of the Jordan Development Board.

population being a generally impoverished one with a relatively very low income level. Consequently, foreign aid on a massive scale was indispensable in order to save a sizeable proportion of the population from starvation and to pull the economy from a stagnating level.<sup>11</sup> A

<sup>11</sup>I.B.R.D., The Economic Development of Jordan (Baltimore: Johns Hopkins Press, 1957), p. 4.

third factor which necessitated this sharp growth in public expenditures is the economic development objective fostered by the government since the early years of the formation of Jordan as a kingdom. Although at that time conscious economic planning coupled with a conscious fiscal policy oriented towards achieving the main goals of a certain plan were not yet the important issues at stake as is the case today, still the basic problems of the economy were clearly realized by the responsible people at the time and gradually the increased awareness of these structural problems led to the realization that the government can, through its fiscal measures, largely help in raising the national product, employing the surplus population, controlling the trade deficit and possibly reducing the dependence on foreign aid.

a. Recurring Expenditures: These are grouped into seven categories in table B of the Statistical Appendix. These expenditures are met every year by the various government authorities, ministries and other governmental bodies and they are in the nature of salaries, wages, allowances, repairs, maintenance, stationary, fuel, electricity, telephone charges and other similar items. It is estimated that about two-thirds of recurring expenditures go for salaries and allowances, the government being the largest single employer in Jordan.<sup>12</sup>

The most striking feature revealed from table B in the Statistical Appendix is that defence expenditures form by far, the largest share in total recurring expenditures. On the average during the ten year period

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<sup>12</sup>Rezek, op.cit., p. 115.

1959/60 to 1968 army expenditures represented about 56 percent of total recurring expenditures. On a yearly basis, the share was gradually falling over the years 1959/60 to 1967. However, the budget estimates of defence expenditures for 1968 form 62 percent of total recurring expenditures which is about 12 percent above the share of defence expenditures for 1967. Another way of showing the magnitude of army expenditures in the economy is by a comparison between defence expenditures, domestic revenues and the share of each in the broader national magnitude of GNP. Table 20 reveals that defence expenditures formed during 1959-1965 an average of about 13 percent of GNP. Compared to domestic revenues over the same period, it is observed that defense expenditures by themselves exceeded total domestic revenues during some years such as 1959, 1960 and 1961, a case which has been predominant in the years before 1959.<sup>13</sup> After 1961, domestic revenues started exceeding defense expenditures so that in 1965 while domestic revenues totalled JD 28.12 million forming 15.5 percent of GNP, defense expenditures were JD 19.78 million accounting for 10.9 percent of GNP. However, despite this relative decline, defense expenditures still formed about 70 percent of total domestic revenues which remains a relatively high share.

As revealed from table B in the Statistical Appendix, the second main group is that of general administration which includes recurring expenditures of the following: the Royal Hashemite Court, Parliament, council of ministers and Prime Minister's office; ministries of interior, public works, national economy, finance, foreign affairs, development

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<sup>13</sup>See Jordan, Report of the Royal Fiscal Commission (Amman, August 1960), pp. 12-14. (Typescript).

TABLE 20  
 DEFENSE EXPENDITURES AND DOMESTIC REVENUES AS  
 PERCENTAGE OF GNP  
 1959-1965  
 (At current prices, in JD million)

Year	GNP	Defense expendi- tures	Domestic revenues	Defense exp. as % of GNP	Domestic revenues as % of GNP
1959	99.13	16.01	14.00	16.1	14.1
1960	105.69	16.30	14.90	15.4	14.1
1961	127.14	16.75	15.97	13.2	12.6
1962	130.83	16.15	21.85	12.3	16.7
1963	137.62	18.57	20.40	13.5	14.9
1964	160.62	16.61	22.81	10.3	14.2
1965	180.54	19.78	28.12	10.9	15.5

Source: Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.).

Note: Figures on defense expenditures and domestic revenues do not coincide with those of the budget actuals because the above years were calculated on a calendar year basis, and not a fiscal year, for purposes of GNP calculations. No figures after 1965 are included as the complete National Accounts of 1966 are not yet published.

and reconstruction, information and municipal and rural affairs; departments of geological research and mining, statistics, supply, import and export, income tax, budget, lands and survey, passports, and customs department; external liaison office, Sharia courts, audit bureau and civil service commission. On the average during the years 1959/60 to 1968 expenditures on general administration accounted for 16 percent of total recurring expenditures while on an annual basis this share was increasing gradually over the last decade except for an estimated drop in 1968.

In order of importance, recurring expenditures of the ministry of education ranked third throughout the period 1959/60-1968 averaging about 10 percent of the total recurring expenditures during the period. Again, on an annual basis this average has been increasing steadily over the decade except for its estimated share in 1967 and the estimated one for 1968. In the fourth position ranked expenditures on justice and police including expenditures of the ministry of justice and expenditures on public security which had an average share of 8.2 percent in total recurring expenditures during the mentioned period, while on a yearly basis this share showed some fluctuations. Recurring expenditures on health and welfare services accounted for a rather steady share in total recurring expenditures which averaged about 4.5 percent during the last decade. This group includes expenditures of the ministry of social affairs and labor and of the ministry of health. As for the group of other services it includes recurring expenditures of the following: Jordan River and tributaries regional corporation, ministry of agriculture and its departments of: forests, agricultural extension, agricultural research and marketing, and the veterinary department; antiquities department, authorities of tourism, central water and the East Ghor Canal authority, the development board, civil aviation, ports and railways. The share of these expenditures was relatively small and it averaged about 2.8 percent of total recurring expenditures over the period. The last group of expenditures is that on communications which includes expenditures on posts, telephones and telegrams and whose share in total recurring expenditures has been very small averaging about 1.7 percent during the period under review.

b. Development expenditures: These include expenditure on the various developmental projects such as road and port construction, irrigation and agricultural schemes, mining projects and other such activities. Also included under this section are all capital expenditures of the various ministries and governmental bodies in the nature of construction of schools, hospitals and other public buildings; purchases of durable goods such as office fixtures, machines and various equipments as well as some minor expenditures on membership fees in the I.B.R.D., the I.M.F. and other international agencies. Another important activity worth mentioning is the government participation in industrial enterprises, a policy actively launched in 1951 aimed at encouraging industrialization in order to diversify the economy, offer employment opportunities, attract private capital participation and reduce the imbalance in the current account of international payments. This proved to be one of the most successful governmental activities that were undertaken over the last 17 years and at the end of 1967, government participation in industrial enterprises amounted to JD 7,513,200 which represented about 32 percent of the total paid-up capital of the main twenty enterprises in which the government participates as appears from table 21. In contrast, total government shareholdings at the end of 1954/55 amounted to JD 795,000 which accounted for 50 percent of the total paid-up capital of the main four industrial enterprises in which the government participated at the time.<sup>14</sup>

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<sup>14</sup> I.B.R.D., op.cit., pp. 236-37.



TABLE 21

GOVERNMENT SHAREHOLDINGS IN INDUSTRIAL ENTERPRISES AT 1/12/1967  
( In JD thousand)

Enterprise	Authorized capital	Paid-up capital	Government Participation	
			No. of shares	Value
Jordan Cement Factories Company	4,500	4,500	222,750	2,228
Petroleum Refinery Co.	4,000	4,000	50,000	250
Phosphate Mines Co.	3,000	2,000	1,026,142	1,026
Vegetable Oil Industries Co.	500	444	178,806	179
Jordan Fisheries Co.	100	61	16,357	16
Arab Pharmaceuticals Co.	250	250	11,000	55
Jordan Paper Industry Co.	650	524	66,000	330
Tannery's Co.	400	400	20,000	100
Alia, Royal Jordanian Airways Co.	1,250	1,250	125,000	1,250
Jordan Hotel & Tourism Co.	723	723	62,000	620
Arab Potash Co.	4,501	3,013	100,000	500
Ajloun Electricity Co.	1,000	590	165,365	165
Jordan Electricity Co.	2,500	2,415	60,000	60
Holy Lands Hotel Co.	600	506	100,000	500
Industrial, Commercial and Agricultural Co.	1,000	776	29,000	29
Jordan Mineral Waters Co.	75	41	4,000	20
Union of the Capital's Buses Co.	800	650	10,000	100
Jordan Sweets and Chocolates Factories Co.	250	152	10,000	10
Cloth Factories Co.	450	317	50,000	50
Tourist Transport Co.	300	162	25,000	25
<b>Total</b>	<b>26,849</b>	<b>22,775</b>	<b>-</b>	<b>7,513</b>

Source: Jordan, Budget Department, Budget Law for the Fiscal Year 1968, Appendix, Schedule C.

Note: Figures do not add up to totals due to rounding.



Table C in the Statistical Appendix represents government development expenditures for 1959/60 to 1968 subdivided into six main categories.<sup>15</sup> Before the fiscal year 1963/64, budget expenditures were divided into "ordinary" and "extraordinary" expenditures and the latter included the capital expenditures of the various ministries and departments while the main capital developmental projects, such as port or big roads construction, irrigation schemes etc. were included in the development budget of the Jordan Development Board, also grouped under the heading of "extraordinary" expenditures. Since the fiscal year 1963/64 a more integrated and comprehensive manner of classifying budget expenditures was adopted and it divided expenditures into "recurring" and "developmental" expenditures with no separate budget for the Jordan Development Board.<sup>16</sup>

The share of each of the six subdivisions of development budget expenditures in the total was calculated for the years 1963/64-1968. As appears from table C in the Statistical Appendix, there is no indication of a rising or falling trend for any of the categories except for a rising one in developmental expenditures on agriculture and irrigation. The shares of the other categories were fluctuating during this period and two possible explanations of this phenomenon are that some projects take more than a year to be executed and also that certain projects depend on external financing which might be decreased or may not be forthcoming as planned.

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<sup>15</sup>The components of each category are mentioned in a note at the end of table B in the Statistical Appendix.

<sup>16</sup>The change in the budget format is discussed in Chapter IV.

A main consistent feature of government development expenditures was and still is, that of supplying the various external economies needed to encourage private enterprises. The government participates in big concerns which are considered of particular reference for the development of the country such as its participation in the main industrial enterprises, discussed above, which form key industries for the development of the economy. An Industrial Bank established by the government also extends credit facilities to the industrial enterprises. It is also noticed that the Jordan government maintained a sort of "balanced growth" between the different sectors and regions. Thus over the last fifteen years or so, the government other than participating in, and encouraging the industrial sector, also executed various agricultural and irrigation projects such as the East Ghor canal project as well as others. These introduced <sup>to</sup> a large section of the agricultural population better agricultural techniques and more efficient methods of land distribution and use. The government also established various agricultural departments, cooperatives and organizations to further the development of the agricultural sector, the main ones being the East Ghor canal authority, the Central Water authority, and the Agricultural Credit Corporation which extends credit facilities to the significant agricultural projects. As for the development of the various regions of the country, the government is keen on establishing schools, hospitals, housing constructions and a good road system in all the regions.

D. Public revenues

1. Public revenues related to GNP:

Again, the two years 1959 and 1965 are chosen to measure the importance of public revenues with respect to GNP at market prices. In 1965, total revenues, including domestic revenues, current and capital transfers from abroad and foreign loans, amounted to JD 50.93 million representing 28.2 percent of GNP for that year. As shown in table 22, in 1959, a little more than half of the total revenues were secured from domestic sources, while about a quarter came from direct budget support in the form of current transfers from abroad; capital transfers from abroad accounted for 17 percent of the total revenues and foreign loans for the rest.

Between 1959 and 1965, the relative importance of the various main groups of total revenues changed in a rather structural manner which portrays a new trend in the revenue sources of the Jordan government partly initiated by policy measures and partly by outside factors controlling the financing of budget support to Jordan. The striking feature revealed from table 22 is that total revenues in 1965 represented a smaller share in GNP (28 percent) than in 1959 (34 percent) because the annual rate of growth of total revenues over the period was 7 percent which is relatively lower than the 10.5 percent annual rate of increase of GNP during the same period. Perhaps this point is more emphasized if only the share of a current revenue (domestic revenues plus current transfers from abroad) in GNP is considered. It is observed

TABLE 22  
TOTAL PUBLIC REVENUES COMPARED TO GNP IN  
1959 and 1965  
(At current prices)  
(in JD million)

	1959			1965		
	Value & share in GNP	% of sub- total 1	% of total	Value & share in GNP	% of sub- total 1	% of total
1. Direct taxes	1.48	10.6	4.4	3.10	11.0	6.3
Percent of GNP	1.5			1.7		
2. Indirect taxes	8.36	59.7	24.7	16.66	59.2	31.8
Percent of GNP	8.4			9.2		
3. Income from property and entrepreneurs	1.80	12.9	5.3	3.87	13.8	7.9
Percent of GNP	1.8			2.1		
4. Other cur. trans. from households	2.36	16.8	7.0	4.49	16.0	8.9
Percent of GNP	2.4			2.5		
Sub-total 1 (Total domestic rev.)	14.00	100.0	41.4	28.12	100.0	54.9
Percent of GNP	14.1			15.5		
		% of sub- total 2			% of sub- total 2	
5. Current transfers from abroad	16.69	84.3	49.4	11.83	51.9	23.3
Percent of GNP	16.8			6.5		
6. Capital transfers from abroad	2.62	13.2	7.7	8.54	37.9	17.1
Percent of GNP	2.6			4.9		
7. Foreign loans	0.50	2.5	1.5	2.34	10.2	4.7
Percent of GNP	0.5			1.3		
Sub-total 2 (total foreign assistance)	19.81	100.0	58.6	22.81	100.0	45.1
Percent of GNP	19.9			12.7		
Total revenues	33.81		100.0	50.93		100.0
Percent of GNP	34.0			28.2		

Source: Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.).

Note: Discrepancy between revenue figures in the table and the actual budget figures is due to the use of the calendar year, and not the fiscal year, as the basis.

that this share dropped from 31 percent in 1959 to 22 percent in 1965, indicating a slower annual rate of increase in current revenues (4.5 percent) than in GNP (10.5 percent) between 1959 and 1965.

a. Domestic Revenues:- An analysis of the main changes that took place in domestic revenues reveals that the above-mentioned decline in the share of total revenues in GNP cannot be attributed to a drop in the share of domestic revenues. On the contrary, the annual rate of growth of domestic revenues was 12.3 percent between 1959 and 1965 which is higher than the annual rate of increase of GNP (10.5 percent) for the same period. This led to an increase in the share of domestic revenues in GNP from 14 percent to 15.5 percent between 1959 and 1965. The most outstanding characteristic of domestic revenue is that it is largely derived from indirect taxes, a phenomenon general of under-developed countries but still greatly emphasized in Jordan. A country that depends heavily upon imports because of its limited resources which are needed for production, because its industries are still greatly in their infancy stage and because its standard of living is "heavily subsidized by foreign aid"<sup>17</sup> will naturally derive a large amount of its domestic revenues from indirect taxes, especially customs. Thus, in 1965, indirect taxes formed 59.2 percent of total domestic revenues and about 84 percent of total tax revenue.<sup>18</sup> Moreover, indirect

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<sup>17</sup>Jordan, Report of the Royal Fiscal Commission, op.cit., p. 12.

<sup>18</sup>Indirect taxes include customs and excise duties, trade and import licenses, the national guard tax and revenue from posts, telephones and telegrams. Revenues from the last group are not usually classified under indirect taxes but this classification was adopted in this section only, as it was used in the national accounting magnitudes in Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p.52.

taxes represented the largest single share of total revenues in 1965 (31.8 percent) whereas it ranked second in importance in total revenues in 1959 (24.7 percent). However, its share in domestic revenues declined, although slightly, over the years under review, mainly because of the increase in the importance of other sources of domestic revenue. At the same time, the share of indirect taxes in GNP increased from 8.4 percent to 9.2 percent indicating a higher annual rate of growth of indirect tax revenues (12.2 percent), compared to that of GNP (10.5 percent) over the period.

On the other hand, the annual rate of growth of direct taxes<sup>19</sup> over these years (13.2 percent) was a little higher than both the annual rate of increase of indirect taxes and GNP, thereby increasing their share in domestic revenues, although slightly (from 10.6 to 11 percent) and in GNP (from 1.5 to 1.7 percent). As a percentage of total revenues, direct taxes increased from 4.4 percent to 6.3 percent between 1959 and 1965. Despite this increase, direct taxes still play a relatively minor role in total revenues.<sup>20</sup>

The share of government income from property and entrepreneurship<sup>21</sup>

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<sup>19</sup>Direct taxes follow the classification of Ibid. which includes income tax, social welfare tax, land tax, animal tax and taxes on urban land and buildings.

<sup>20</sup>Table D in the Statistical Appendix contains a breakdown of revenues by components and the percentage contribution of each in total domestic revenue since 1963/64.

<sup>21</sup>This includes rental income from land and buildings owned by the government; income from investment in local companies; interest on bank deposits; profits of the Central Bank and income from oil companies in respect of wayleaves and prospective rights, see Ibid.

in domestic revenues increased from 12.9 percent to 13.8 percent between 1959 and 1965 increasing at an annual rate of growth higher than that of GNP thereby increasing as a percentage of GNP from 1.8 percent to 2.1 percent over the period. The main reason for this is the high increase in government investment income resulting from government participation in the main industrial activities which were progressing markedly over this period. As a result of this increase, this group of revenue accounted for 7.9 percent of total revenues in 1965, which was higher than that of direct taxes. Finally, revenues from "other current transfers from households,"<sup>22</sup> accounted for 16 percent of domestic revenues in 1965 which is slightly below their share in 1959. Their annual rate of growth was slightly higher than that of GNP so that their share in GNP increased slightly over the years (2.4 percent to 2.5 percent).

The main point of observation concerning domestic revenues is the great increase in their share to total revenues which was about 55 percent in 1965 compared to 41 percent in 1959. This increase in their share was partly achieved at the expense of a decline in the share of current transfers from abroad as is pointed out in the following pages. Despite the increase in the share of domestic revenues in total revenues, still this increase should be of a larger magnitude in order to increase total revenues at a higher rate of growth, taking into consideration the expected decline in current transfers from abroad, other than the fact that they are <sup>a</sup>vulnerable source of income.

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<sup>22</sup>These cover various miscellaneous fees and other income such as fines which cannot be readily allocated to other headings, see Ibid.

b. Foreign assistance:- Another main characteristic of Jordan's revenue system is its great dependence on foreign assistance, mainly in the form of budget support, but including as well capital transfers from abroad and foreign loans. However, an analysis of revenues from total foreign assistance between 1959 and 1965 reveals that its share in total revenues dropped from 59 percent to 45 percent during this period. Moreover, the annual rate of increase in total foreign assistance over these years (2.4 percent) was significantly lower than that of GNP (10.5 percent) and therefore its share in GNP dropped from 19.9 percent in 1959 to 12.7 percent in 1965. The explanation of the drop in the share of total revenues in GNP between 1959 and 1965, which was referred to earlier in this section, lies in the decline of the importance of current transfers from abroad, which form the main part of foreign assistance. Tables 22 and 23 reveal that government revenue from current transfers dropped both in absolute and relative amounts between 1959 and 1965. Thus whereas these were JD 16.7 million in 1959 forming 16.8 percent of GNP, their value in 1965 dropped to JD 11.8 million while their share in GNP was 6.5 percent implying an annual rate of decline of 5.5 percent over the period. This drop in budget support meant a decline in their importance in total revenues as they formed only about 23 percent of total revenues in 1965 compared to about 50 percent in 1959 and earlier.<sup>23</sup> Table 23 shows that the decline in the share of budget support in GNP and current revenue (domestic revenue and budget support) was continuous during all the years 1959-1965.

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<sup>23</sup> Jordan, Report of the Royal Fiscal Commission, op.cit., p. 14.



TABLE 23

GOVERNMENT RECEIPTS FROM CURRENT TRANSFERS FROM ABROAD  
RELATED TO GNP AND GOVERNMENT CURRENT REVENUES  
1959-1965  
(At current prices, in JD million)

	1959	1960	1961	1962	1963	1964	1965
Current transfers	16.69	16.52	16.52	15.39	13.28	14.51	11.83
Percent of GNP	16.8	15.6	13.0	11.8	9.6	9.0	6.5
Percent of current revenue	54.4	52.6	50.8	41.3	39.4	34.3	29.6

Source: Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.)

The budgetary dependence on current transfers from abroad dates back to the days of Transjordan before the Kingdom of Jordan was formed in 1950. As mentioned earlier, the U.K., by terms of an agreement with Transjordan, subsidized any deficits arising in its budget and financed various other activities. Britain's annual grants to the Kingdom of Jordan were regulated by means of an alliance between the two countries which was concluded in March 1948 replacing an earlier one of 1946. This agreement was to run for twenty years, and by its terms Britain paid grants to the Jordan Army (Arab Legion), financed certain projects, and provided pension payments to former Palestine government employees.<sup>24</sup> U.K. was the main supplier of official current transfers while the USA

<sup>24</sup>Raphael Fatai, The Kingdom of Jordan (Princeton: Princeton University Press, 1958), p. 75.

official current transfers played a relatively very minor role till 1957. In 1956, the preferential alliance with Britain was abrogated, the British General Glubb of the Jordan army was ousted and the U.K. grants that financed the army and other projects were amicably terminated and the subsidy stopped as of April 1957. At first, Egypt, Syria and Saudi Arabia agreed to supplant the U.K. subsidy but soon Syria and Egypt got on bad terms with Jordan which turned to the USA for aid. Up to that time, USA was providing current transfers to Jordan in accordance with the technical cooperation agreement signed on February 27, 1951. However, till 1957, USA official current transfers played a relatively very minor role as Britain was the main supplier of grants-in-aid till that time. After 1957, USA became by far the main supplier of budget support while Britain's role in those transfers became very secondary in importance. Therefore, since the formation of Jordan, its economy was highly subsidized by great amounts of foreign budget support, without which Jordan could not have progressed at the rate at which it did over the last eighteen years or so. In 1963 it was declared that the American budget support was going to decline gradually over the years and the Jordanian planning authorities prepared a "Seven Year Program 1964-1970" which superseded an earlier Five Year Plan. The main objectives of the new program is to plan the economic activities of the country in such a way that would decrease substantially the dependence of Jordan on foreign budget support, substituting for the loss of revenue from these sources by an increase in internal revenues as well as an increase in international borrowing.<sup>25</sup>

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<sup>25</sup>The role of fiscal policy in the Seven Year Program is discussed in Chapter V.

Although U.S. and U.K. aid was expected to decline gradually during the Plan period 1964-1970, it stopped completely for the year 1968 as appears from the budget estimates. The Arab countries contributed budget support to Jordan, which amounted to JD 40.0 million and which was forthcoming after the June 1967 war with Israel. The share of budget support forms about 69 percent of estimated current revenues for 1968 which is far above the level of 29 percent of 1965.<sup>26</sup>

Capital transfers from abroad<sup>27</sup> form the second main group of foreign assistance (item 6 in table 22) and their annual rate of increase over the years 1959-1965 (22 percent) was remarkably higher than that of GNP (10.5 percent) thereby causing almost a doubling in its share in GNP over this period. This sharp increase in capital transfers offset partly the decline in the absolute and relative amounts of budget support. Thus while current transfers from abroad as a percentage of total foreign assistance dropped from 84 percent to 52 percent, the share of capital transfers from abroad in total foreign assistance increased from 13 percent to 40 percent between 1959 and 1965. In the 1968 budget estimates,

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<sup>26</sup>Jordan, Budget Department, Budget Law for the Fiscal Year 1968.

<sup>27</sup>These comprise payments by U.S. government in respect of various economic development projects plus the proceeds of sales of wheat, flour and other foodstuffs received from the U.S. by terms of the Public Law 480 surplus commodities under titles I, II and III. As the proceeds of these sales are, by agreement, devoted to economic development projects they are considered as capital transfers. Also this item includes the value of equipment and other non-food items received from the U.S. for development purposes. This heading includes, other than U.S. different payments, cash grants for development purposes from West Germany and the Arab countries. See Jordan, Department of Statistics, The National Accounts, op.cit., pp. 54-55.

capital transfers from abroad as a percentage of total foreign assistance estimates are around 7 percent.

Revenues from foreign loans<sup>28</sup> form the third group of foreign assistance and their annual rate of growth (29 percent) was a very sharp one compared to that of GNP (10.5 percent) over the years 1959-1965. Correspondingly, their share in GNP more than doubled during this period and their importance in foreign assistance as a group of revenue went up to 10 percent in 1965 as opposed to 2.5 percent in 1959. The increase in the importance of both foreign loans and capital transfers from abroad was necessary to offset the decline in the importance of budget support during 1959-1965. In the coming years, these sources of finance, especially foreign loans, will become more important if the budget support to Jordan, from whatever source, is going to drop as anticipated by the Seven Year Program.

In conclusion, one can say that although the dependence of revenues on foreign assistance was still sizeable in 1965, still the relative importance of domestic revenues increased and that of foreign assistance dropped by 1965, primarily due to a marked decline in the share of U.S. budget support. In 1965, the two main sources of revenues were indirect taxation (32 percent) and budget support (23 percent). A short note on the 1968 budget estimates shows that the trend over the

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<sup>28</sup>These include loans from the British government in 1959 and 1961; from the British and Kuwait governments in 1960, 1962-1965; from West Germany to Aqaba Port Authority in 1962-1965; from I.D.A. in 1963 and 1965; and from D.L.F. in 1964. See table D in the Statistical Appendix on government external loans as at end of 1967.

years 1959 to 1965 was sharply disrupted due to the aftermath of the war with Israel in June 1967. Thus the share of total foreign assistance in total revenues is estimated at about 75 percent with budget support forming 55 percent of total revenues. On the other hand, in 1965 those shares were 45 percent and 23 percent respectively. As for the share of revenues from domestic sources to total revenues, it is estimated at 25 percent in the 1968 budget compared to an actual figure of 55 percent in 1965.<sup>29</sup>

2. Brief description of the main components of domestic revenue:

a. The income tax:- Revenues from the income tax increased from 7.08 percent of total tax revenue in 1959 to 9.28 percent in 1963/64 but then dropped to 8.67 percent in 1965/66 and went up again in 1966 to 9.84 percent. As a percentage of total domestic revenues income tax was 5.37 percent in 1959/60, 6.80 percent in 1963/64, 6.65 percent in 1965/66 and 7.31 percent in 1966.

Two income tax laws, the Transjordan and the Palestinian were applied separately in the East Bank area, originally Transjordan, and the West Bank area after the 1948 Palestine War and even after the formation of the Kingdom of Jordan in April 1950. In 1951, these two separate laws were replaced by a single income tax law No. 50 applying to all Jordan. This law was later replaced by the income tax law No. 12 of 1954,<sup>30</sup> which caused some reduction in the income tax. This continued

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<sup>29</sup> Jordan, The National Accounts 1959-1965, op.cit.; Jordan, Budget Department, Budget Law for the Fiscal Year 1968, op.cit. Total revenue estimates for 1968 are JD 72.5 million.

<sup>30</sup> Official Gazette, (No. 1177; April 3, 1954), n.p.

in force for a decade with no major changes until it was superseded by the income Law No. 25 of 1964 which was enacted in October of that year and which became effective on April 1, 1965.<sup>31</sup> Both the 1954 and 1964 income tax laws were patterned after the Palestine law which followed essentially the British approach to income tax and therefore treated taxable income according to the global as opposed to the schedular method of taxation.

The 1964 Income Tax Law No. 25 levied the tax on the individual residents after allowing for deductions of usual expenses which are incurred exclusively in earning such incomes, and also allowing for family and other deductions. The law provides the following basic family allowances:

- Residence allowance (for each tax payer)	JD 150
- Wife	100
- First child	25
- Second child	20
- Third child	15
- Fourth child	10
- Maximum family exemptions	<u>JD 320</u>

After consideration of these allowances, the tax is levied on taxable income in accordance with the following rate schedule:

<u>Taxable income (in JD's)</u>		<u>Rate</u>
1st	400	5
2nd	400	7
3rd	400	10
4th	400	15
5th	400	20
6th	400	25
7th	400	30
Next	200	35
Next	2000	40
Next	2000 and above	50

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<sup>31</sup> Ibid., (No. 1800; October 17, 1964), p. 1455.

Other than the above schedule, a social services tax amounting to 10 percent is levied on the income tax liability. There are various other sections in the law, the major features of which are the following:

- (i) Company income is taxed at a flat rate of 25 percent while dividends are exempted from the income tax.
- (ii) Exempt from the tax is income derived from agriculture, cattle breeding and dairy farming.
- (iii) A deduction of 15 percent from salary and wage incomes for tax purposes.
- (iv) A set off against income tax liabilities of the amount paid as urban property tax is allowed.
- (v) Capital gains are not subject to tax.
- (vi) The wife's income is considered as that of the husband for tax purposes.
- (vii) The withholding system subject to adjustment at the end of the year, is followed in collection of taxes on employees.
- (viii) Only income accruing in or derived from Jordan is subjected to the income tax, while income received from abroad is not subject to the income tax.

b. Urban lands and buildings tax:- Revenues from this tax form a small share of total domestic revenues (1.9 percent in fiscal year 1965/66). Between the years 1954 to 1963 there were no major changes in the urban lands and buildings tax Law No. 11 of 1954.<sup>32</sup> In 1963, this law was amended by Law no. 42 of 1963.<sup>33</sup> and Law No. 9 of 1967.<sup>34</sup> This tax is levied on buildings and lands within municipal

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<sup>32</sup>Ibid., (No. 1177; April 1954), n.p.

<sup>33</sup>Ibid., (No. 1730; December 31, 1963), p. 1733.

<sup>34</sup>Ibid., (No. 1978; January 16, 1967), p. 95.

areas and paid by the proprietors of such property. The rate on buildings amounts to 17 percent of its net rental value, while that on vacant land forms 10 percent of its annual capital value. The law prescribes a revaluation of these types of properties every five years except if it is declared otherwise by the Council of Ministers. As for the proceeds of this tax, they are now earmarked entirely to the municipalities from which they are derived.

c. The rural land tax:- Its contribution to domestic revenue is insignificant amounting generally to less than 1 percent. Until March 1955 East Jordan and West Jordan were taxed on agricultural land in rural areas according to different laws, the former following the agricultural land tax Law No. 39 of 1946<sup>35</sup> while the West Bank was taxed according to the rural property tax Law of 1942. A single land tax Law No. 30 of 1955 replaced these two and continued in force till it was amended by the Law No. 15 of 1963<sup>36</sup> and Law No. 18 of 1964.<sup>37</sup> According to the new law, agricultural land which is irrigated is classified into five categories and a specific tax is levied per dunum (1 dunum = 1000 sq. meters or about 0.25 of an acre) of area in each of the categories. These categories are:

<u>Category</u>	<u>Type</u>	<u>Rate (in fils)</u>
1	Land planted with bananas	1,500
2	Land planted with citrus	600
3	Land planted with fruits	300
4	First class irrigated land	100
5	Second class irrigated land	70

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<sup>35</sup>Ibid., (No. 880; December 25, 1946), n.p. This tax replaced Transjordan's land tax of 1933.

<sup>36</sup>Ibid., (No. 1684; May 24, 1963), p. 540.

<sup>37</sup>Ibid., (No. 1764; June 1, 1964), p. 747.



Other than agricultural land, the law also levies taxes on the industrial buildings in rural areas which amounts to a rate of 5 percent of their net annual rental value.

d. The animal head tax:- Its share in domestic revenue is as insignificant as that of the rural land tax. The present animal tax Law No. 41 of 1963<sup>38</sup> superseded Law No. 5 of 1952.<sup>39</sup> The present levy is 200 fils per camel, buffalo, cow or pig, and 120 fils per goat or sheep. Exempted from the tax are animals used for ploughing purposes.

e. Customs:- This is by far the most important domestic revenue source in Jordan in which custom duties play the most significant role which accounted for 38 percent of total tax revenue<sup>40</sup> in 1966. However its contribution to total tax revenue has declined significantly over the years as it was 61 percent in 1959/60 and 45 percent in 1964. This decline in the relative share of customs duties can be mainly explained by the changing structure of Jordan's commodity imports in favor of capital goods and raw materials, as well as a possible gain in the importance of import substitution.

Jordan has a complicated structure of customs duties which includes various basic duties and additional duties of a surtax nature, often imposed under names of either separate taxes, or else as fees, and licenses changed frequently over the last decade. Taxes on commodity

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<sup>38</sup>Ibid., (No. 1730; December 31, 1963), p. 1732.

<sup>39</sup>Ibid., (No. 1100; December 16, 1952), n.p.

<sup>40</sup>This includes items 1 through 10 in table D in the Statistical Appendix.

imports are levied at various ad valorem and/or specific rates taking into consideration the purpose for which the commodity is imported. Accordingly, raw materials, agricultural foodstuffs and capital goods are either lightly taxed or totally exempted while varying duties are imposed on manufactured consumers' goods, depending on whether the commodity is a food item or whether it is regarded as a semi-luxury or luxury item in comparison to the Jordanian standard of living with the latter items bearing heavy duties. Another noticeable point, is that with the gaining importance of import substitution, certain commodities are being charged higher duties which is clearly for protective purposes. The following is the complex rate schedule of customs:

<u>Duty</u>	<u>Rate</u>
Customs duties	Basic rates at various specific and/or <u>ad valorem</u> levels
Additional duties	2%
Inspection charges	2%
Air force tax	2% + specific
Social services tax	0.5%
National guard tax	Specific
Import licenses	4% of CIF value

Recently a new Law unifying additional taxes and fees into one duty paid on commodity imports and exports was enacted<sup>41</sup> and came into force in the middle of 1966 but was later repealed in 1967.<sup>42</sup>

f. Excises:- Revenues from these taxes amount to a sizeable share in domestic revenues which was 11 percent and 13 percent in fiscal

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<sup>41</sup>"Law No. 25 of 1966," Official Gazette (No. 1926; June 5, 1966), p. 990.

<sup>42</sup>"Amendment Law No. 11 of 1967," Ibid., (No. 1978; January 16, 1967), p. 97.

years 1964/65 and 1965/66. Excise taxes are imposed on liquors, cigarettes and tobacco, salt, matches, cigarette paper and playing cards, with most of the revenue from these sources coming from excises on liquors and tobacco while the others contribute rather insignificant amounts each. A recent excise tax imposed on petroleum products was introduced after the start of operation of the Jordan petroleum refinery in 1960 and this tax is contributing sharply increasing revenue over the years. There are other excises levied but they are not so termed such as the national guard tax which is mainly collected from two sources:- (i) a tax on cement production levied at a rate of JD 3.25 per metric ton and (ii) specific import duties on tobacco and liquors. Other excises are stamp fees on documents of various types and currency licenses levied at 0.25 percent with an additional 0.25 percent under the national guard tax.

g. Licenses and fees:- Licenses generally form 2-3 percent of total domestic revenue (3 percent in 1965/66). As for fees, their share is larger and generally amounts to 10-13 percent (10 percent in 1965/66). There is a long list of licenses and fees which includes the major levies mentioned below:

- Trade licenses
- Transport of goods licenses
- Car driving and registration licenses
- Production and sale of liquor and tobacco licenses
- Import licenses
- Revenue stamp fees
- Land registration and settlement fees
- Court fees
- Passport fees
- Other miscellaneous fees

Most of the revenues from fees are derived from stamp duties,

land registration fees and court fees. Other than revenue stamp fees, all the other fees are imposed as a cost of certain public services. As for revenue stamp fees, they are levied on insurance policies, transfers of assets, contracts, bank checks, certificates, bonds and others issued by the government or for communicating with government departments. These fees are more in the nature of taxes and could therefore be classified with excises.

h. Non-tax revenue:- The remaining domestic revenues are mentioned in the Budget under four headings: (i) revenues from posts, telephones and telegraphs. (5 percent of domestic revenue in 1965/66); (ii) revenues from state domain (less than 1 percent of domestic revenue in 1965/66); (iii) interest and profits (7 percent of domestic revenue in 1965/66), and (iv) miscellaneous revenues (11 percent of domestic revenue in 1965/66). No explanation is required for the first group while the second contains revenues from rentals of government lands and buildings and from sale of government property. As for the third group it includes government profits of the currency cover, profits on its investment in local industry and interest realized on the government's balances in local and foreign banks. The last heading is composed of sixteen items among which the following are the most significant: (i) Royalties from Tapline and Iraq Oil companies, (ii) Pension fund receipts and (iii) Penalties and expropriations.

#### E. Public Debt

Jordan's public debt is entirely external as the government has not resorted to domestic borrowing either from the banking or from the

public as the domestic money market is rather under-developed and therefore the monetary authorities have not yet initiated such borrowing. Governmental borrowing from abroad has been for financing certain developmental capital projects such as major port or road construction, and not intended to cover a general budgetary deficit, except for the Kuwait loan of JD 5 million especially borrowed for the general budgetary deficit in the fiscal year 1964/65.

Table E in the Statistical Appendix presents government external loans as at November 30, 1967 and covers external loans agreed upon between fiscal years 1961/62 to 1967. Before fiscal year 1961/62, Britain accounted for all the Jordanian public debt.<sup>43</sup> Since 1961/62 Jordan's external loans were secured from Britain, Kuwait, I.D.A., West Germany, A.I.D., Saudi Arabia and Denmark.

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<sup>43</sup>For figures on external loans during the fiscal years 1949/50 to 1960/61, see Budget Department, Budget Law for the Fiscal Year 1964/65, Appendix, Schedule B.

## CHAPTER IV

### FISCAL POLICY AND ECONOMIC PLANNING IN JORDAN

#### A. Introduction

A study of economic planning and fiscal policy in Jordan since the origin of the Kingdom in 1951 reveals that this period can be divided into two phases: (i) a phase which started with the origin of Jordan as a Kingdom and extended to 1962. This phase was characterized by the absence of centralized and coordinated long-term economic planning as well as the lack of adequate integrated fiscal planning and policy; (ii) the second phase which started in 1962 and which is still underway is one where long-term economic planning combined with conscious fiscal policy became the basic means of tackling the main structural problems facing the economic development of Jordan.

Section B of this chapter will discuss the first phase while section C will deal with the second. The Seven Year Program for Economic Development 1964-1970 and its fiscal implications will be discussed in Chapter V where the main requirements and targets of the Fiscal Program will be analyzed.

#### B. Fiscal policy and economic planning 1951-1962

##### 1. Economic planning:

Despite the remarkable progress achieved by the Jordan economy during this phase, as was revealed in Chapter II, mainly under the

impetus of the vast amounts of foreign assistance to the economy, still, up to 1962, centralized and coordinated long-term economic planning was virtually nonexistent in Jordan. This is a common observation of the two main studies on Jordan undertaken during that period, namely the I.B.R.D. report of 1957<sup>1</sup> and the Report of the Royal Fiscal Commission of 1960.<sup>2</sup> Although the I.B.R.D. report of 1957 recommended coordination of central planning of the economy to enable the achievement of its recommendations for a suggested ten-year development plan which was never fully executed, still in 1960, the Royal Fiscal Commission reported that over-all economic planning was absent "... except as this was done more or less piecemeal by the Council of Ministers."<sup>3</sup> Up to that time, any planning activities that took place were not coordinated into one integrated whole but were rather distributed among the various governmental ministries and departments grouped according to the source of foreign assistance financing each category. Thus up to 1960, planning concerning the U.N. technical assistance appeared to be placed in the ministry of foreign affairs; the projects carried out by U.S. aid were centered in the Jordan Development Board (JDB); the U.K. assistance was the responsibility of the ministry of finance; other projects connected

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<sup>1</sup> I.B.R.D., The Economic Development of Jordan (Baltimore: Johns Hopkins Press, 1957), pp. 424-29.

<sup>2</sup> Jordan, Report of the Royal Fiscal Commission (Amman, August 1960), pp. 172-73. (Typescript).

<sup>3</sup> Ibid.

with foreign assistance were centered at the ministry of national economy and finally all the ordinary (recurring) expenditures that were financed from domestic sources were organized by the budget office of the ministry of finance.<sup>4</sup> This portrays clearly the disunity that existed in the planning function of the government characterized by the lack of a comprehensive integrated long-term planning process.

What is surprising is that although the JDB was already in existence for almost a decade, yet it did not produce till that time any comprehensive economic plan despite the fact that this became its main function since 1957. The JDB was established by Act No. 37 of April 1952 and the primary objective for its establishment then was the desire to satisfy the creditor nation, Great Britain at the time, who preferred to have its funds under a separate administration and possibly to be certain that these funds were allocated to the uses for which they were granted. Therefore, since its establishment in 1952 and until 1957, the JDB was but an agency for the supervision of the expenditures of the British loans granted to Jordan for various development projects.<sup>5</sup> As it was first constituted, the JDB was not called upon to be responsible for coordinating all the developmental activities in the Kingdom and the five-year plan prepared by the JDB for the years 1953-54/1957-58 was nothing more than a hopeful schedule of how the JDB envisaged spending British loans of JD 23.5 million. However, later on,

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<sup>4</sup>Ibid.

<sup>5</sup>Gabriel Rezek, "The Fiscal System of Jordan" (unpublished M.A. thesis, Department of Economics, McGill University: Montreal, 1957), p. 136.



these postulated loans were cut down tremendously and thereby the plan lost its significance and was never executed.<sup>6</sup> However, the JDB executed various basic developmental projects between 1952 and 1957 such as the Deir Alla agricultural research station, the agricultural loans department, the initiation of the desert highway construction, afforestation plans, the construction of wheat silos and other undertakings, most of which were financed by British grants and loans estimated at JD 6.5 million during that period.<sup>7</sup>

In 1957, the government of Jordan realized that the achievement of long-run economic growth, and acquiring the needed large amounts for its finance from foreign sources should become the responsibility of a central specialized body in which the relevant government departments and ministries as well as the private sector are represented. It became also apparent that this central body should be responsible for designing economic policies coordinated with an integrated development plan with the intention of utilizing the country's resources. Therefore, in 1957, a new JDB was established and attached to the Prime Minister's office with the Prime Minister as its president. Its other members included a vice-president, a secretary-general, representatives of the ministries of national economy, finance, public works, agriculture and five representatives from the private sector appointed by the council of ministers. After taking on its new form in 1957, the JDB first liquidated the 1952 JDB as well as the office of consolidated services whose responsibility

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<sup>6</sup> Ibid., pp. 139-140.

<sup>7</sup> Jordan, Development Board: Objectives, Functions, Organizations (Amman, October 1967), p. 7.

since 1954 was the administration of U.S. financed economic and technical projects. After that, the JDB continued the implementation of certain ongoing projects such as the agricultural loans section, the rural development department, the industrial loan fund and the municipal loan fund. The JDB procured the needed finance for these projects and supervised their execution. However, the JDB did not launch its main new responsibility, that of long-term coordinated planning, till 1962, when it prepared the Five-Year Program for Economic Development 1962-1967.<sup>8</sup> Therefore, the phase 1951-1962 remained lacking in centralized long-term economic planning on a comprehensive scale.

## 2. Budgetary structure and fiscal planning:

The absence of coordinated development planning in the sense of analysis and action by Jordan to "... consolidate and make sense as a whole of its governmental and private development efforts"<sup>9</sup> before 1962 implied necessarily the lack of a systematized budget process and fiscal planning during the same period. Development planning involves many decisions connected with the design of the needed development program for the country, the prospects for its finance, the analysis of various alternative actions that could be adopted in its implementation and the introduction of the required administrative and institutional changes that are deemed necessary for its success. There is a close link between

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<sup>8</sup> Ibid., pp. 8-9

<sup>9</sup> Gordon V. Potter, "The Budgeting Process in the Government of Jordan," (unpublished lecture, Amman, September 1966), p. 9. Privately secured from the Budget Department.

budgeting and development planning as the last step in development planning requires a central budgeting process which should relate the various projects to each other, estimate the tax burden which could be imposed, the need for private consumption expenditures, the indebtedness entailed, and thereby arrive at a measure of how far the country can finance the program. Therefore, the budget process encompasses the whole range of fiscal policy. The above reveals that in a developing country, proper fiscal and budget planning requires a certain level of coordinated development planning so that the effective use of the budget in formulating and executing government programs will be achieved instead of merely using the budget as a means of exercising uncoordinated controls upon various government expenditures. Budget and fiscal planning should be considered the principal means of attaining acceptance to a proposed program of government activities during a given fiscal year.<sup>10</sup>

The central government budget should have two purposes: "one is to serve as the major tool of executive management and legislative control, and the other is to reveal information significant to economic analysis and at the same time provide the framework for a policy of stability and development."<sup>11</sup> Up to 1962, the Jordanian budgetary structure was styled to meet only the first purpose with the result that the budgeting process was exercised in a highly rudimentary fashion as the budget was

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<sup>10</sup>Ibid., p. 1

<sup>11</sup>U.N. Department of Economic Affairs, Budgetary Structure and Classification of Government Accounts (New York, February 1951), pp. 3-4.

considered basically a financial plan and stressed the control of expenditures.<sup>12</sup> Although the country was undergoing progress, little attention was paid to budget reform and consequently it was difficult to analyze the effect of government operations on the economy and program planning.

Up to the end of the fiscal year 1962/63, most of the central government's financial activities were reported in the Central Budget while few autonomous budgets such as the Agricultural Bank, Aqaba port, Jordan Hejaz railway and the municipalities also existed. Since 1953/54 and up to the end of 1962/63, the General Budget was divided into three parts which segregated expenditures, not according to their nature but rather according to their source of revenue. Each of these parts was to a large degree administered separately and depended for its revenues on different sources including external ones. This main division of the General Budget, created out of peculiar circumstances, led to an apparent disunity in the budget which greatly impaired the efficacy of the budget management function.<sup>13</sup>

Part one of the General Budget covered the Regular Ministries Budget which was financed mostly from domestic sources, while its deficits were covered by drawings upon the Reserve Fund of the Treasury.<sup>14</sup> Part two of the General Budget was the Military Budget which was almost entirely financed by the U.K. until the termination of the Anglo-

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<sup>12</sup>Potter, op.cit., p. 2.

<sup>13</sup>Rezek, op.cit., p. 65.

<sup>14</sup>I.B.R.D., op.cit., p. 383.

Jordanian treaty which became effective on March 31, 1957, after which the U.S. took over this financing, although the purpose of these grants was no more specified. Some grants from Arab League countries and appropriations from internal revenues covered a small part of the Military Budget.<sup>15</sup> Part three covered the Development Budget of the JDB which was exclusively financed by development loans, no matter what the results of part one and the general cash position of the government were. This was alright as long as these borrowings were interest-free loans from Britain as no extra costs were incurred. Nevertheless, as a principle, no borrowings should have been undertaken except when needed by the cash position of the Treasury or else to meet an excess of international payments over international receipts.<sup>16</sup>

Moreover, expenditures were subdivided into ordinary and extraordinary expenditures, the first category representing expenditures which were annually met by the government while the second category contained mostly capital expenditures. However, there was a great deal of overlapping and misplacements between the two categories. Therefore, it is clear from the above description of budget structure up to 1962, that the major divisions of the General Budget receipts and expenditures portrayed the administrative convenience in presenting the government's financial statements rather than the economic nature of the activities undertaken by the central government. This improper and meaningless budget classification rendered the budget rather useless as an indicator of economic

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<sup>15</sup> Ibid., pp. 383-85.

<sup>16</sup> Ibid., pp. 394-95.

policy formulation.<sup>17</sup>

The budgeting procedure followed during this phase also reflects clearly the lack of concern and understanding of budget and fiscal planning and the important role that these can play in the economic development of the economy. Up to and including the preparation of the 1962/63 Budget, the following procedure was followed:

There was no specific Budget Department whose full-time job was the preparation of the budget, its follow-up and continuous research and analysis needed for its planning. The minister of finance was responsible for the preparation of the Budget but the actual work was carried out by the undersecretary of the ministry, who also held many other duties in addition to the responsibility of budget preparation and administration. He was assisted by the Treasury accountant who also carried many other responsibilities, and a clerk. There were no specialized people exercising the functions of budget examiners and although some ministries had permanent representatives of the ministry of finance whose duty was to pre-audit the expenditures undertaken in those ministries, these representatives were not budget examiners nor were they included in the process of budget preparation. The personnel of the ministry of finance was also lacking in designated specialists in budgeting.<sup>18</sup>

The duties of budget preparation were seasonal in nature, taking only about one month of concentrated work. This clearly shows the

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<sup>17</sup>Rezek, op.cit., pp. 65-68.

<sup>18</sup>Jordan, Report of the Royal Fiscal Commission, op.cit., pp. 158-59.

rudimentary fashion in which the Jordan budget was prepared and reflects the very limited conception of what the budget and fiscal functions involve. Budget preparation did not entail any essential research or analytical activities, and contacts between the responsible people for budgeting and the various government departments were almost non-existent in any meaningful manner except in so far as carrying out the formal and casual matters of receiving the various departmental submissions for requests, making expenditure allotments and some demands for various transfers within the budget law.<sup>19</sup>

The various ministries and departments were asked to submit their budget requests by December 1st of each year, having taken into consideration the general advice of the minister of finance only on prospects of either tightness or ease in the forthcoming fiscal year which used to start on April 1. By December 1, the undersecretary of the ministry of finance would have prepared the revenue estimates for the coming fiscal year based almost solely on previous years' experience.<sup>20</sup> Between December 1 and February 1 the ministry of finance prepared the preliminary budget which was considered by the council of ministers where the various ministers debated and defended their demands. After approval of the council of ministers, the budget was sent to Parliament which referred it to its finance committee for study. After the reporting of this committee, the Budget was debated in Parliament and then passed.

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<sup>19</sup> Gordon Potter and Dr. Taylor [No forename given], "Budget Proposal (unpublished correspondence between Gordon Potter, U.S.A.I.D. Budget advisor and Dr. N. Dajani, Amman, July 15, 1962), p. 14. Privately secured from the Budget Department.

<sup>20</sup> Jordan, Report of the Royal Fiscal Commission, op.cit., p. 160.

By law, Parliament may not increase but can decrease the budget expenditures as approved by the council of ministers. After legislation of the budget, the ministry of finance, through its undersecretary, made allotments of appropriations to the various agencies concerned.<sup>21</sup>

The budget organization and procedure that existed up to 1962 led to very superficial fiscal and budget planning which were characterized by the many weaknesses mentioned above as well as various others such as the unnecessary and prolonged delay in closing accounts. The latter resulted basically from a general failure to realize the importance of knowing the results of recent past fiscal operations for economic and fiscal planning purposes. Another reason was simple inertia in doing the job, which is a general feature of administrative personnel in underdeveloped countries and very clearly noticeable in Jordan's case. A further reason for the excessive delay in closing the accounts resulted from the nature of the budget and accounting systems then in existence. The law demanded that the accounts must remain unclosed till after six months from the close of the fiscal year in order to keep the door open for any necessary adjustments after the end of the fiscal year. This implied a legislated insistence upon substantial delay which also extended into longer delay.<sup>22</sup>

The above discussion of budget and fiscal planning till the end of fiscal year 1962/63 clearly shows that the existing system greatly

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<sup>21</sup>Ibid.

<sup>22</sup>Ibid., pp. 161-62.



undermined the fiscal and budgeting functions to a position far below their potentialities for furthering the government developmental activities. But on the other hand, coordinated long-term development planning itself had not by then played an effective role in the economy.

C. Fiscal policy and economic planning since 1962

1. Economic planning:

This phase is characterized by the emergence of centralized and integrated long-term economic planning prepared primarily by the JDB in cooperation with other governmental bodies. In mid 1962 the JDB was slightly reorganized as to include in its Board the governor of the Central Bank and the director general of the Agricultural Credit Corporation. Between 1962 and 1965 the JDB carried its responsibilities connected with research, planning, securing the necessary finance and the execution of the main developmental projects in the country. In 1965, the JDB was again reorganized in such a manner as to increase its responsibilities of assisting to follow up the implementation of the Seven Year Program for the Economic Development of Jordan 1964-1970. Today, the JDB is effectively "... the central government agency responsible for the planning, financing and follow-up of economic and social development in the Kingdom."<sup>23</sup> Its main functions are the following:<sup>24</sup>

- (a) Preparation of a comprehensive and coordinated long-term economic development program which contains projects in a

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<sup>23</sup>Jordan, Development Board: Objectives, Functions, Organizations, op.cit., p. 7.

<sup>24</sup>Ibid., pp. 10-12.

certain order of priority, to be determined in close cooperation with the concerned ministry or department, and to be implemented in specific time phases.

- (b) Preparation of an annual program of implementation for some of the projects already approved in the long-term coordinated program; this annual program must be incorporated in the government budget of the following year.
- (c) Preparation of studies for all the projects financed by foreign assistance irrespective of the source; preparation and signature of agreements of these projects after approval by the council of ministers; organization of the necessary arrangements for their implementation and supervision.
- (d) Preparation of studies for negotiations of loans between the government of Jordan and any financing agency or authority.
- (e) Reconsideration of the long-term or the annual economic program in view of current developments and the requirements of practical application of the program.
- (f) Submission of recommendations to the council of ministers pertaining to the need for issuing any law, regulation or other measures considered necessary by the JDB for furthering the economic development in the country or for the specific implementation of the programs and objectives of the JDB.
- (g) Upon legislation of the state budget, which incorporates the annual program of economic developmental projects, the

JDB shall directly start the follow-up of the implementation of the approved projects which are carried out by the concerned ministries or departments.

In its early days, the JDB's policy concerning project implementation was to entrust the execution of projects to the relevant ministry if it contained the adequate set-up for this purpose while the JDB had the right to supervise and review the execution of the project only. However, in the case of projects of very significant importance whose execution requires the establishment of a new technical body which is not in existence, or if a certain project requires the responsibility of more than one ministry, the JDB can, by the terms of its constitution, undertake the implementation of the project by establishing a specialized implementation department within the JDB for this purpose. In cases where such projects acquire a permanent nature, the JDB grants that department autonomous powers to execute its functions or may attach it to any of the concerned ministries. This procedure was followed in various cases such as the East Ghor canal authority, the Agricultural Credit Corporation, the Central Water authority, the Regional Corporation for the exploitation of the Jordan River waters and tributaries, the Industrial Development Bank and the Municipal and Rural Loan Fund.

However, in recent years, with the preoccupation of JDB with extensive research for long-term coordinated planning, it became clear that extensive implementation of projects by the JDB would divert it from its main function of central planning activities. Consequently, the

current Seven Year Program recommends that the JDB deal primarily with research, planning and follow-up of implementation.

This analysis of the functions of the JDB reveals that the government of Jordan realized the importance of centralized coordinated long-term planning for the purposes of furthering the economic development of the country and has over the years increasingly entrusted this responsibility to the JDB. Despite the fact that the JDB was reorganized in 1957 to become the main agency responsible for designing and formulating economic development policies and plans, as discussed in Section B of this chapter, still the JDB did not produce any such comprehensive plan earlier than 1962, which can be evidently named as the date of the emergence of long-term economic planning in Jordan.

In 1962, the Five Year Program for the Economic Development of Jordan for the years 1962-1967 was ratified after extensive specific study and action projects in the JDB. The main objectives of the Five Year Program were, in order of priority, an increase in the rate of growth of GNP, a reduction in the existing unemployment level, and thirdly, a cut in the chronic balance of trade deficit. This was the first coordinated long-term economic program produced by the Jordanian authorities. In 1962 and the beginning of 1963, some of the projects approved in the Five Year Program were either implemented or underway. However, in 1963, it became necessary to introduce into the program substantial and significant changes of emphasis resulting from changes in the economic setting which were not apparent when the Five Year Program was under preparation. The main change in the setting was that

whereas the assumption behind the Five Year Program was that the level of budget support would continue to be forthcoming to Jordan at a steady rate during the plan period, it was realized in 1963 that the level of budget support, especially the bulk of it provided by the USA, was going to decline over the years. This required a basic revision of the on-going Five Year Program which meant that, in view of the uncertainty concerning sources of finance, primary emphasis should be placed on redressing the chronic foreign trade deficit substantially, even if this could probably be achieved only at the expense of a slower rate of economic growth in general, compared to earlier years. The outcome of this revision was that the Five Year Program was superseded by the Seven Year Program for the Economic Development of Jordan 1964-1970 which does not indicate that it abandoned the original Five Year Program but it introduced a basic rearrangement of priorities in the goals of the Program as well as in various projects, due to the change in the financial resources available for the program.<sup>25</sup>

After the war with Israel in June 1967, the status of the Seven Year Program became rather awkward. The existing uneasy situation with the uncertainties that it involves about the future of the political and economic status of Jordan poses several dilemmas concerning the Seven Year Program. Under the present conditions of a possible new war and the military occupation of a sizeable and economically important part

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<sup>25</sup>JDB, The Seven Year Program for Economic Development of Jordan 1964-1970 (Jerusalem: Commercial Press, n.d.), p. 1.

of the country, should the execution of the Program continue or should it be structurally changed to meet the current conditions? The economic setting in 1963, when the Program was prepared, was structurally different from the situation today. In 1963, Jordan contemplated in its Seven Year Program a sizeable cut in the chronic trade deficit and the dependence on foreign budgetary aid. This implied restraining the level of public and private consumption expenditures including the defence expenditures which were supposed to remain at the same level throughout the plan period. However, in view of the current situation, Jordan's economy may need to be geared more into a war economy which means that the national resources of the country should be used to meet the defence requirements as a first priority before economic development.

In August 1967, the government of Jordan discussed the awkward position of the Seven Year Program and decided the following:<sup>26</sup>

(i) continuation of the Seven Year Program in principle according to the way it was legislated; (ii) implementation of that part of the plan which can be executed in the East Bank area of Jordan; (iii) discontinuation of that part of the plan which cannot be executed due to the present conditions till further notification.

This brief discussion of economic planning in Jordan since 1962 reveals the important role which is now accorded to long-term economic planning in the effort to solve the basic problems facing the Jordan economy.

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<sup>26</sup> Jordan, Budget Department, "Assessment of the Economic and Financial Situation" (unpublished report, Amman, August 1967), pp. 8-9. (In Arabic). Privately secured from the Budget Department.

## 2. Budgetary structure and fiscal planning:

Commensurate with the growing importance of centralized economic development planning since 1962, there was a general realization that significant changes in fiscal planning were greatly needed. With the introduction of structural changes in the budgetary structure and process since 1962, a conscious fiscal policy and its planning emerged in Jordan for the first time, and today, the intention of the government of Jordan is to try to solve its basic economic problems through proper fiscal and economic planning.

It was mentioned in the previous section that until 1962/63 budget and fiscal planning, in the sense of furthering the requirements of economic planning, were almost entirely non-existent with the result that the budgetary structure and process were based on extremely chaotic and rudimentary methods which did not enable the use of the budget as a guiding document to the economic developmental policy of the government. In 1960, the Royal Fiscal Commission reported on the existing fiscal situation in Jordan and in Chapter 10 of the Report, it recommended the undertaking of fundamental changes in the existing budget organization and practice in order to enable better fiscal and economic planning; very similar recommendations were suggested in the I.B.R.D. report on Jordan in 1957. Also, the Five Year Program for Economic Development 1962-1967 observed in Chapter 20 that budget and fiscal planning in Jordan left much to be desired. Moreover, the experience in the preparation of the 1962/63 budget, the first year of implementing the Five Year Program, evidently revealed the need for an

overhaul in the budgetary structure and fiscal planning. First, there was a delay in the legislative approval of that budget for about six weeks after the start of the fiscal year; second, it compared the new estimates for the coming year only with amounts budgeted for the previous year instead of year-end estimates of actual expenditures; thirdly and most important, it was not clear how the 1962/63 budget was going to meet the needs of the first year of the Five Year Program, which reveals that there was no apparent incorporation of the Program in the fiscal planning of that budget.

Therefore, with the start of the implementation of the Five Year Program, it became clear that what was needed was a strong budget authority, functioning under organized procedures, following an expertly formulated fiscal policy and contacting the operating government ministries and departments more frequently than was hitherto done. The existing archaic budget organization and procedure with the absence of proper fiscal planning could not any more cope with the economic situation. Adjustments to bring the budget into or almost into balance at the last minute are inevitable; that these adjustments should be big lump sums and the subject of bargaining and give and take around the ministerial table, when the budget was debated, without a clear knowledge of the possible effects of such actions on economic development and the nature of the government public services was seriously undesirable.<sup>27</sup> Any adjustments should be intelligently made within the frame of reference

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<sup>27</sup>Potter and Taylor, op.cit., p. 1.



of set priorities and operating programs, if the objective is to use the available revenues in the best manner possible.

Some of the features of the budget practice until 1962 were quite satisfactory. Noticeable among these were that the budget was quite inclusive; another point was the generalized character of constitutional provisions, basing most organizational and process matters by means of regulation. The problems with the budget and fiscal functions were created far less from the legal set-up than from the practices carried out in the same traditional manner. This became particularly true at a time like 1962 when special emphasis was given to the objective of economic development.

What was needed in 1962 was that the responsible authorities should be convinced that the budget is primarily a planning tool, which can, with proper fiscal planning, bring into an integrated whole the correct allocation between private and public uses of the national income and the desired allocation among various projects and services on which the government decides to spend its share of national income. Fiscal planning should reflect well-studied decisions as to priorities, taking into consideration the experience and objectives of the concerned ministries and departments, but making the final choices between the various claims upon available resources, all of which claims may probably be quite justifiable. When these were realized to be the proper functions of budget and fiscal planning, setting guidelines for improvement became relatively clear and the following were the main guidelines for improvement as visualized in 1962.<sup>28</sup>

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<sup>28</sup>Ibid., pp. 1-4.

a. Need for a strong budget department:- The budget and fiscal planning functions should be the responsibility of a department that is strong because of its technical and specialized competence and because it represents the whole government and not only part of it. Until 1962/63 the ministry of finance formulated the budget in accordance with the general and vague contours of the policy of the council of ministers. The need in 1962 was for a budget department which will have its say in formulating fiscal policy and therefore it should be made up of a group of research-minded, analytical and competent people who deserve the very important job of fiscal planning. Strengthening a budget department in this way implies that last minute adjustments in the process of budget-making can be rationally weighed in terms of given priorities, and the likelihood that these adjustments will "... drop to the level of political or bureaucratic compromise to keep everyone happy" will be reduced.<sup>29</sup> A strong budget department allocates resources in accordance with a certain planned program rather than "... upon the basis of allocations of last year or the year before, or the prestige of particular officials!"<sup>30</sup> as was the case at that time.

b. Need for administrative control:- Funds allocated to projects which on paper sound highly important might be greatly wasted if the level of administration in the concerned ministry or department is low. Part of the duty of an effective budget department must be the

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<sup>29</sup>Ibid., p. 2.

<sup>30</sup>Ibid.

improvement of administration in the ministries and departments by paying close attention to the administrative performance in these places. Such a procedure can minimize the waste of funds through administrative inefficiency.

c. Need for budget officials:- Following from (b) above, there was a need for appointing budget officials in the various government ministries and departments. Each budget official should be considered a member of the ministry or department to which he is appointed and not in the budget department, and his duties should not only be the preparation of the budget submissions of his ministry or department but he should also be the continuing contact between the ministry or department and the budget department for discussions on program and fiscal planning as well as administrative reforms. This official could also be the link with the JDB because of the significant overlapping between development and fiscal planning. Such a liaison could prove to be effective for both the budget department and the various government departments in the sense of strengthening program and fiscal planning as well as introducing various administrative improvements. Far too little attention was paid to such basic requirements for the proper fiscal functioning in the phase prior to 1962/63 which resulted in the above mentioned superficial preparation of the budget that took a relatively very short time of the year's work. However, an effective assessment of projects and their administration should be a full-time job in most ministries and departments.

d. Need for coordinating development and fiscal planning:- As mentioned above, the preparation of the Five Year Program for Economic

Development introduced new requirements from the budget function. Up to 1962, conscious fiscal policy formulated for the execution of certain objectives was lacking in Jordan as development planning on a comprehensive coordinated level was also absent. However, with the beginning of long-term planning in Jordan, it became essential to integrate the program into the annual state budget in a comprehensive manner. This requires a general policy determination by the council of ministers before the budget preparation begins, which establishes the priority position for the development program in the allocation of available limited resources. Up to 1962, neither the council of ministers nor any other official group set the main outline of budget policy for the coming year, in the light of which the various ministries and departments should prepare their budget submissions. The absence of such an annual statement on budget policy by the council of ministers up to 1962 is yet another indication of the lack of conscious fiscal policy and planning during that phase. Therefore, an essential guideline for improvement after 1962 was setting the budget policy by an official statement which should include the degree of budget balance contemplated and reasons for that (and how a planned deficit will be covered), the areas that should receive emphasis in the budget and other such instructions "... which may influence departmental submissions and thus reduce the need for bargaining in the later stages of budget-making."<sup>31</sup>

Jordan has invested heavily in the JDB and the preparation of

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<sup>31</sup> Ibid., p. 2.

the Five Year Program and it was felt that this investment should be used to the fullest possible extent. Therefore, what was required was a close working relationship between the JDB and the various ministries as to projects to be incorporated in the annual budget submissions. Another close link needed was between the JDB and the budget department when the latter is weighing the relative merits of the projects in these submissions. In short, what was required was a close cooperation between a proposed budget department, the JDB and the concerned ministries in the fiscal planning preceding the final stage of budget-making. Such a close cooperation in the process of fiscal planning was lacking in the phase up to 1962 which implied that the situation was not likely to improve without a clear break with past practices and the introduction of new ones.

e. Need for research and analysis:- Up to 1962, little research study or analysis went into the budget preparation as was discussed in section B above. Therefore, a major guideline for a new system in 1962 required the introduction of continuous research and analytical activities in the process of fiscal planning in the budget department as well as in the JDB and the government ministries. This again implied the need for a fresh start in fiscal planning.

In view of the realized need for structural changes in the budgetary structure and fiscal planning, and taking into consideration the guidelines for improvement mentioned above, the government of Jordan enacted the "General Budget Organization Law No. 39 for the year 1962."<sup>32</sup>

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<sup>32</sup>Official Gazette, (No. 1645; October 16, 1962). A statement of this law is given in Appendix I.

With the coming into effect of this law on October 16, 1962, a totally new budget system and process were introduced by the government of Jordan which inevitably affected the whole range of fiscal planning and policy in Jordan. It can be stated that the introduction of this law marks the beginning of conscious fiscal policy in Jordan, a feature which has been progressing ever since.

The Law recognized the need for a qualified government agency to be responsible for fiscal and budget policy, budget formulation and budget execution on a full-time basis. Consequently, a permanent budget department, with its director reporting to the ministry of finance was established and staffed with qualified personnel. Article 4 of the Law requires that an advisory board be set up including the minister of finance, minister of national economy, governor of the Central Bank, head of the audit bureau, and vice president of the JDB. This advisory board is asked to assist the budget department in the general formulation of budget policy by rendering its recommendations concerning revenues, expenditures, fees and tax estimates. The Law entrusts the budget department with various specific powers and functions as appears from Appendix I. Significant among these is the responsibility of the budget department in allocating the necessary funds among various categories of projects according to the general economic and fiscal policies which should be determined by the council of ministers. The budget department, in cooperation with the Civil Service Commission is requested to investigate and analyze the administration of programs in the various government departments and ministries in order to further

their administrative improvements. The budget department is also required to prepare an annual budget calendar stating the deadlines for submissions of the budget policy documents, budget estimates and other necessary material in order to ensure that the general budget will be approved by the beginning of the fiscal year.

Article 6 of the Law calls for the assignment of budget officers of a class one rank, in the various government departments and ministries, who will serve as a link between their respective departments or ministries and the budget department concerning all matters connected with their department's or ministry's budget. The Law includes as well various other articles connected with the budget format and contents as appears from Appendix I.

Since the coming into effect of this Law, six government budgets for the years 1963/64 to 1968 have been prepared based on its provisions. During these six years, the budget department has established itself as a significant and integral part of Jordan's economic and fiscal planning set-up and has ushered in a new phase where coordination of economic budget and fiscal policies are paramount. The budget documents formulated since 1963/64 contain major improvements over the budget laws formulated previously. Other significant improvements in fiscal and budget planning that preceded the final formulation of the budget laws are also revealed when compared with the past fiscal and budget planning, if any was in existence. Among the main improvements in fiscal and budget planning as well as the budget laws themselves are:

- (a) The budgets of the various ministries and departments were

presented in terms of their functional programs, a significant change compared to the pre-1962 practice of budgeting which was thought of mainly in terms of finance - i.e. providing funds and distributing them among groups of expenditures according to their source of revenues. On the other hand, the functional classification presents, on the expenditure side, the broad programs which the government is executing in terms of the economic and social interests which are provided. Moreover, since 1963/64, the budget laws used the same objects of expenditures classification in a uniform manner throughout all the chapters and their programs. Also, the more accurate terms of "recurring expenditures" which refer to all the regular government's operating expenses and "developmental expenditures" including either major capital acquisitions or capital developmental expenditures were used in each chapter and besides appearing by items, they were also classified by the functional program in which these items will be included."<sup>33</sup>

(b) The budget laws prepared according to the provision of Law No. 39 of 1962 included also other substantial changes in the budget format and presentation. First, the budget laws compared actual revenues and expenditures for the past year with a reestimate of expenditures for the current year and the estimates for the coming budget year. Another new feature introduced in the budget law presentation was the incorporation of a budget message at the beginning of the budget document which states the basic objectives of the economy in light of

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<sup>33</sup>Potter, op.cit., p. 2.



which the budget was formulated, any new procedures followed in the fiscal and budget planning of the budget document, and a general review of the economic and fiscal conditions in the country. This incorporation of a budget message in the budget documents since 1963/64 reveals an important improvement over previous budgets in the sense of incorporating the main guidelines for fiscal policy in the annual budget law. Unlike previous practices, the budget laws since 1963/64 included a number of additional general summary financial tables on revenues and expenditures as well as financial statements of short and long-term external indebtedness of the government.

(c) In November 1963, a valuable fiscal planning practice was started wherein representatives from the Budget Department and the JDB worked together on an informational and policy paper entitled 'the 1964/65 Budget Situation', which contained economic and fiscal analyses as well as various recommendations. This paper was intended as a background to the 1964/65 budget preparation and to guide the Prime Minister in framing budget policy which should be formally presented before the final process of budget-making starts. Since November 1963, this practice of preparing an assessment of the economic and fiscal situation was continued with additional important government agencies joining in its preparation such as representatives from the Central Bank, the ministry of national economy, and the audit bureau. This practice is of considerable value and, although not yet institutionalized, it will possibly be included in any revision of the General Budget organization Law of 1962.<sup>34</sup>

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<sup>34</sup> Gordon Potter, A Five Year Plan of Budget and Planning Improvement (Amman; December 1966), p. 6 (Typescript).

As for the budget policy letter to be presented by the Prime Minister before budget-making for the coming year begins, this was first introduced by Decree No. 88 of November 20, 1962.<sup>35</sup> This particular decree may be looked at as a turning point in the development of fiscal policy and its planning in Jordan. The decree stresses the creation of the new budget department which involves a totally new approach to fiscal and budget planning starting with the 1963/64 budget and the annulment of the previous fiscal and budget planning practices. This decree also emphasizes that Jordan's fiscal policy requires the formulation of "a balanced budget" in order to sustain fiscal and monetary stability in the economy. As for economic development, the Prime Minister's budget policy letter explained the responsibility of the new budget department in integrating the long-term economic development policy, as expressed in the Five Year Program at that time, within the annual budgets. This requires a stress on the role of the various ministries and departments in the proper preparation of their budget request submissions to the budget department. Reference is made, in this decree, to the adoption by the government of the recommendations of the Report of the Royal Fiscal Commission of 1960 in order to introduce improvements to the fiscal system and planning in Jordan.

This practice of presenting the Prime Minister's budget policy letter before the formulation of the budget law is now a significant practice in the process of fiscal planning in Jordan.

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<sup>35</sup>"Official Decree No. 88 of 1962" (Amman, November 1962). (In Arabic). Privately secured from the Budget Department.

(d) The most important and significant improvements which introduced proper fiscal planning in Jordan were connected with the final preparation and execution of the Budget. This is a complex process that requires wide preparation by all the government agencies, which should be coordinated if the basic objectives of the governmental programs are to be met. The budget encompasses the national plan which cuts across all ministries and departments in an effort to tie all plans and projects together in a comprehensive manner. Elements of discipline and control are greatly needed if a unified plan is to be prepared and executed.

Since the General Budget Organization Law of 1962, Jordan's government has been combining middle and long-term economic planning with short-term budget planning by means of coordinated action among the budget department, JDB, the Central Bank, the ministry of national economy and the audit bureau. The JDB, as discussed earlier in this chapter, is basically responsible for long and middle range economic planning as well as annual implementation planning in cooperation with the budget department for each fiscal year. The Central Bank's responsibility is to maintain a stable national currency and safeguard the economy from uncontrolled inflationary tendencies. The budget department is responsible for annual fiscal planning of all government operations, for assessment and coordination of the government's regular operating expenditures and for ascertaining the achievement of the government's objectives. The ministry of national economy has, among its duties, the responsibility of encouraging the industrial development in the country, and part of the

audit bureau's duty is to insure that the various government agencies are working in the most efficient way possible in order to achieve the government's main objectives. These various ministries and departments prepare the main lines of fiscal policy formulation by the government. In the coming years, Jordan being in the process of executing a Seven Year Program, it is expected that the JDB's developmental projects will be given the highest priority in the allocation of available financial sources. However, this should not be carried too far at the expense of needed expenditures in other fields.<sup>36</sup>

(e) An important additional improvement connected with budget reform was the installation of an obligation accounting system in the ministry of finance since 1963 which enables the accounting division of the ministry to close the accounts of the government on an obligation basis within two to three months after the end of the fiscal year which required a much longer period of time in the past. Another reform was an improved ledger accounting system operating in the accounting and treasury divisions of the ministry of finance which resulted in more timely and accurate fiscal reports of the cash balances and accounts compared to past years.<sup>37</sup>

#### D. Conclusion

A comparison between sections B and C of this chapter reveals the structural changes that took place in economic planning and fiscal

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<sup>36</sup>Potter, "The Budgeting Process in the Government of Jordan", op.cit., pp. 3-4.

<sup>37</sup>Ibid., p. 7.

policy in Jordan since 1962. Thus while up to 1962 centralized and integrated economic planning was non-existent and budgeting was considered primarily a financial plan emphasizing only the control of expenditures, the picture changed structurally since then. Developments since 1962 led to an understanding of the economic implications of the budget and emphasized fiscal planning as a major economic planning instrument. Fiscal and budget planning received their due attention as a means for regulating the volume of government expenditures and taxation in order to achieve certain developmental objectives and at the same time safeguarding the economy from threats of inflation or economic recession. Therefore, since 1962 there began in Jordan a wave of interest in fiscal planning and in the use of the budget as a work program that relates costs to performance. The first clear outcome of this recognition of the role of fiscal policy in economic planning was embodied in the Seven Year Program for Economic Development 1964-1970, whose fiscal program forms by far the most crucial part of the plan.

## CHAPTER V

### FISCAL IMPLICATIONS OF THE SEVEN YEAR PROGRAM FOR ECONOMIC DEVELOPMENT 1964-1970

#### A. Aim, goals and assumptions

The Seven Year Program was prepared through close cooperation between different government ministries, departments and authorities as well as the JDB whose main responsibility is the preparation of long-term coordinated economic planning. The Jordanian government prepared the Seven Year Program for Economic Development 1964-1970, with the main objective of enhancing the economic development and attaining a large degree of financial and economic independence. The Program aims at investing JD 275 million, 47% of which is expected to be undertaken by the private sector while the rest should be invested by the public sector, in order to increase GNP from JD 137 million in 1963 to JD 226 million in 1970, that is at an average annual rate of increase of 7.3 percent. At the same time, the balance of payments deficit is expected to decline by 43 percent during the plan period. The goals of the plan in order of priority are:<sup>1</sup>

(a) A major cut in the chronic balance of trade deficit and "... such reduction on dependence upon budget support as Jordan may be able to sustain."<sup>2</sup>

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<sup>1</sup> JDB, The Seven Year Program for Economic Development of Jordan 1964-1970 (Jerusalem: Commercial Press, n.d.), p. 5.

<sup>2</sup> Ibid.

(b) An increase in the per capita income level at as fast a rate as possible compatible with the first goal in (a).

(c) A large reduction in the unemployment level.

This order of priority of goals differs from that of the previous Five Year Program that was superseded by the Seven Year Program. The order of priority of goals in the former were income, employment and lastly the balance of trade deficit. The basic assumptions behind the Seven Year Program also differ from those behind the Five Year Program because the economic setting has changed rather immediately after the preparation of the Five Year Program, which was the main reason for the preparation of the new Seven Year Program. The main assumptions behind the latter Program are:<sup>3</sup>

(a) "If all goes well, and with great effort, Jordan may be able to sustain a reduction in foreign budgetary aid from JD 14 million in 1963/64 to JD 11.0 million in 1967/68 and to JD 6.0 million in 1970/71."<sup>4</sup> In case the foreign budgetary assistance forthcoming from the USA and the UK declines below this level, Jordan will have to negotiate with these or other countries for securing the additional needed amounts.

(b) Development loans will be secured at a large magnitude during the Plan period, increasing proportionately more than developmental grants. It is contemplated that a JD 100.4 million will be borrowed abroad by the government over the Plan period. About JD 22

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<sup>3</sup>Ibid., pp. 6-7.

<sup>4</sup>Ibid., p. 6.

million of this is set for net relending by the central government to the municipalities and the private sector.

(c) Development grants and Public Law<sup>480</sup>/revenues will continue forthcoming at a stable rate throughout the period.<sup>5</sup>

(d) Public Law 480 grants of commodities in surplus in the USA will go on covering a large part of the deficits which Jordan may have in wheat and grains and possibly in other commodities during the Plan period.

(e) Prices of domestic goods, exports and imports are assumed constant during the period.

(f) UNRWA operations will be continued over the Plan period at their magnitude and cost of 1963.

(g) Remittances from Jordanians working abroad, as well as other transfers to households are expected to rise from about JD 9 million in 1963 to JD 10 million in 1970.

(h) Internal and external political stability is assumed over the Plan period.

The basic difference in the assumptions behind the Five Year Program and the Seven Year Program is that, contrary to the latter, the Five Year Program assumes that foreign aid will increase in amount over the Plan period.

#### B. Implications of the Goals of the Seven Year Program

As a result of its political and economic background since its

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<sup>5</sup>Public Law 480 revenues are the proceeds of sales of wheat, flour and other foodstuffs received from the USA under the terms of this Public Law.



origin as a Kingdom in 1951, Jordan has an economic system which is structurally distorted and unbalanced, characterized mainly by a chronic and a sizeable balance of trade deficit which resulted in a situation where foreign current budgetary support accounts for a large portion of total current revenues. In order to solve the basic structural problems of the economy, and in view of the understanding that the relatively large amount of U.S. budgetary aid will decline steadily over the Plan period, as agreed upon between the USA and the Jordanian governments in 1963, the JDB, in conjunction with the various government agencies prepared the Seven Year Program. The first priority of this Program is directed at the attempt to alleviate greatly the balance of trade deficit in order to guide Jordan as quickly as possible towards financial and economic self-sufficiency which <sup>is a</sup> formidable job that entails great sacrifices by Jordanians and that requires responsible and competent work especially by those responsible for the execution of the fiscal program of the Plan, on which the success of the plan greatly depends.

The implications of the Seven Year Program goals are that the decline in foreign budget support and the cut in the balance of trade deficit will take place against a background of a moderately rising average standard of living, a less rapid increase in government and private current expenditures than that before the plan, and an increase in the share of gross investment in GNP. The program aims at creating certain conditions in the economy which will make it possible to secure domestically a large part of government revenues, that should supplant in part the drop in the foreign budget support so as to maintain government

expenditures at an appropriate level. Thus, over the Plan period, private consumption is expected to increase by 32 percent at an annual rate of growth of 4 percent. This implies that the average standard of living will increase by only 1 percent annually taking into consideration the annual population rate of growth which is about 3 percent.

Comparatively, in the pre-plan period, private consumption expenditure was increasing at an annual average rate of 7.5 percent.<sup>6</sup> Government consumption expenditures (recurring expenditures) are assumed to increase by 23 percent during the Plan period implying an annual average rate of growth of 3.2 percent compared to an annual rate of increase of 5.4 percent in the pre-plan period. Taking total consumption expenditures as a whole, their annual rate of increase is set at 3.8 percent compared to 7 percent in the pre-plan period.<sup>7</sup> These relatively lower annual growth rates of consumption expenditure envisaged for the Plan period portray the extent of the great sacrifices that Jordanians have to offer for the success of the Program.

As for gross investment, its share in GNP is expected to be 18.7 percent in the final year of the Plan as compared to an annual average growth rate of 13.7 percent in the pre-plan period and 13.6 percent in the base year of 1964.<sup>8</sup> Over the plan period, it is expected that

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<sup>6</sup>U.N. Economic and Social Office in Beirut, "An Analysis of Development Plans in Various Countries in the Middle East," Studies on Selected Development Problems in Various Countries in the Middle East (New York, 1967), p. 8.

<sup>7</sup>Ibid., pp. 7-8.

<sup>8</sup>Ibid., p. 4.

foreign budget support will decline from a level of JD 14 million in 1963 to JD 6 million in 1970 implying an annual rate of decline of 11.5 percent compared to a rate of decline of 7.5 percent in the pre-plan years of 1961-1963. The balance of trade deficit is expected to decline by 43 percent over the Plan period, although between the pre-plan years 1961 and 1963, the balance of trade deficit has increased by 38 percent. During the Plan period, imports of goods and services are allowed to grow at an annual rate of 4.5 percent only while exports are expected to increase at an annual rate of growth of 16.5 percent. These growth rates are different from those in the pre-plan period where imports were increasing at an annual growth rate of 6 percent and exports at 14.5 percent.<sup>9</sup> To achieve these requirements, GNP must increase by 64 percent over the plan period, an average annual rate of 7.3 percent.

If the main objective of development envisaged by the Seven Year Program was merely one of achieving a 7.3 percent annual average increase in GNP it would not be extra difficult to achieve. Data on the pre-plan period shows that the average annual rate of growth of GNP was at 10.3 percent which means that a slower rate of growth is envisaged for the plan period in order to concentrate on solving the more important goals of alleviating greatly the balance of trade deficit and decreasing the dependence of the economy on foreign budget support. Unfortunately, the most important objective of the Program is not only

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<sup>9</sup>Net factor income from abroad is not included.

the growth of GNP at 7.3 percent a year but that this growth rate must occur while total domestic expenditure (including private and government consumption expenditure as well as total gross capital formation) is not permitted to grow at more than 5 percent annually. It is a known fact that the growth of GNP does not occur independently of the growth of domestic expenditure. It is the latter that "... sets the pattern of final demands in the economy and thus determines both local production and imports."<sup>10</sup> Therefore, if no change occurs in the pattern of final demand, a restriction of the growth rate of domestic expenditures to 5 percent a year, in order to achieve the goals of the Program, would necessarily limit local production and imports to an annual growth rate of 5 percent. This excludes the growth rate of exports' production whose limitation depends primarily upon the growth rate of the external demand for exports. If Jordan is keen on reducing its balance of trade deficit, it should aim at increasing domestic production of either import substitutes or else of goods and services that are likely to increase the value of exports. To fulfil these requirements, domestic trade and services, which depend entirely on the growth of domestic demand, must not grow at more than 5 percent annually, while the extra growth required to bring about the overall annual rate of increase of GNP up to 7.3 percent must be concentrated in such sectors as mining, manufacturing, agriculture and that part of the services sector that caters to

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<sup>10</sup>R.S. Porter, The Economic Implications of Balancing the Jordan Current Budget (Beirut; Middle East Development Division, March 1963), p. 2. (Typescript).

the tourist trade. These sectors have potentialities of either enhancing the value of exports or of reducing the growth of imports by producing import substitutes. The annual growth in these sectors should be considerably higher than 7.3 percent so that when it is coupled with the 5 percent annual growth of domestic expenditures, the overall annual growth of GNP will be around 7.3 percent.<sup>11</sup>

The above analysis indicates that to achieve the main goals of the Seven Year Program, namely reducing the balance of trade deficit and the amount of foreign budget support, entails two problems: (i) a production problem that requires the concentration of the bulk of government development expenditures on relatively few sectors; (ii) a fiscal problem that arises from the planned discrepancy between a 5% annual rate of increase of domestic expenditure and a growth rate of GNP of 7.3 percent. Such a discrepancy requires the implementation of a well-integrated fiscal policy that aims at restraining domestic expenditures to the required rate of growth and channelling the needed resources from consumption and capital expenditures deemed unnecessary for the purposes of the development program into expenditures that are essential for its success. In what follows, the main highlights of the production and fiscal problems will be analyzed.

### C. The production problem

The rapid growth of the economy under the effect of ample amounts of foreign aid partly explains the high proportion of imports in

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<sup>11</sup>Ibid., p. 2-3.

the total amount of goods and services used in the economy and which averaged about a third between 1959 and 1963. Any policy designed to reduce the balance of trade deficit involves a reduction of this proportion or else "... a quite impossible burden would be thrown on the exporting sectors of the economy."<sup>12</sup>

The British expert R.S. Porter examined the manner in which imports were used in the Jordan economy for the year 1961 based upon a detailed study of the various items in the customs statistics. Tables 24 and 25 contain the relevant statistical material needed for the discussion presented in summary form.<sup>13</sup> In examining the commodity import content of final outlays, Porter divided total imports into two groups: (i) direct imports which were not subjected to further processing and which accounted for 68 percent of total imports and (ii) imports needed by the various industrial sectors which absorbed 32 percent of total imports. In 1961, almost one half of imports were used directly for private consumption purposes. Table 24 shows that although 1961 was a good agricultural year, more than half the imports<sup>going</sup>/to private consumption were made up of either agricultural products or manufactured foodstuffs. Table 25 indicates the import content of local production of the main consuming industries. Although the figures are not very accurate because of statistical difficulties, still a significant

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<sup>12</sup>Ibid., p. 7

<sup>13</sup>Ibid. The detailed tables are included in the statistical appendix of Porter's report, pp. 1-5. No preparation of a similar table for a later year was attempted by the writer as it involves complicated statistical processes and as 1961, the year covered by Porter is recent enough.

TABLE 24  
IMPORTS GOING DIRECTLY TO PRIVATE CONSUMPTION  
1961

Item	JD thousand	Percent of total
Agricultural products	6,002	28.2
Manufactured foodstuffs	5,189	24.4
Textiles and clothing	4,302	20.2
Chemicals and pharmaceuticals	1,719	8.1
All other	4,078	19.1
Total	21,290	100.0

Source: R.S. Porter, The Economic Implications of Balancing the Jordan Current Budget (Beirut: Middle East Development Division, March 1963), p. 9. (Typescript).

TABLE 25  
IMPORTS ENTERING LOCAL PRODUCTION IN 1961  
(In JD million)

Item	Imports	Total output	Imports as % of total output
Agriculture	.52	27.19	1.9
Mining & quarrying	.20	2.76	7.3
Manufacturing	7.49	26.03	28.8
Food manufacturing	2.46	10.74	23.0
Beverages & tobacco	.42	2.69	15.6
Textiles & clothing	1.14	2.97	38.4
Non-metallic minerals	.21	2.23	9.4
Petroleum refinery	1.36	2.68	50.7
Other manufacturing	1.90	4.72	40.2
Electricity	.06	1.09	5.5
Construction	3.00	9.82	30.5
Trade, transport and banking	1.93	41.41	4.7
Total	13.20	108.30	12.2

Source: R.S. Porter, The Economic Implications of Balancing the Jordan Current Budget (Beirut: Middle East Development Division, March 1963), p. 9. (Typescript).

feature revealed in this table is that whereas the import content of agricultural production was less than 2 percent in 1961, that of manufacturing industry was almost 30 percent, ranging from 9 percent to 51 percent.<sup>14</sup> These differences in the import content of the various lines of productions must be taken into consideration when designing development policy. Therefore, the policy which will make the maximum contribution to alleviating the balance of trade deficit should not only allocate the available funds on the basis of the relative returns to capital but should also consider "... the import content of the output when the capital has been invested."<sup>15</sup> It follows that in view of Jordan's limited indigenous raw materials which are needed for a substantial manufacturing industry, a development policy designed to reduce import requirements to a minimum must necessarily be based primarily on agriculture.<sup>16</sup> This explains the central importance given to the agricultural sector in the Seven Year Program. As about one half of imports consumed by the private sector were either raw agricultural products or manufactured foodstuffs, it is clear that the most important group of import saving production lies in foodstuffs. Any significant impact on the balance of trade deficit requires that such imports be reduced over time which implies impressive increases in production.<sup>17</sup>

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<sup>14</sup>Ibid., p. 10

<sup>15</sup>Ibid., p. 11

<sup>16</sup>Ibid.

<sup>17</sup>Ibid.



Agricultural exports account for a very large percentage of Jordan's total exports. This is another reason for stressing the increase in agricultural production in order to alleviate the trade deficit. In the export field, apart from agricultural products, Jordan stresses the need for an increase in the exports of phosphates, potash and services from tourism, all of which receive due emphasis in the Seven Year Program. Other than calling for massive capital investments in agriculture, the Program calls also for extensive agricultural research as well as for various incentives to encourage agricultural production.

In conclusion it is clear that in order to reduce the trade deficit significantly, the stress should be placed on investing the main developmental funds in the agricultural sector as well as in mining. Possibilities for import savings are not great in other sectors especially in the manufacturing industries whose production entails a high import content. The solution to the balance of trade deficit must start first with the development of agriculture, followed by increased phosphates exports, the development of the Potash industry and measures that will increase earnings from tourism. The bulk of development investments must be concentrated in these four lines, especially the first two and care must be taken not to dissipate these funds on investments that will not further the purposes of the development program and that will not therefore contribute much to alleviating the balance of trade deficit.

D. Fiscal Implications of the Seven Year Program:

If the Program is successful in increasing GNP by 64 percent during the Plan period, the trade deficit will not decline substantially without a budgetary and fiscal policy directed toward achieving this aim.<sup>18</sup> The Seven Year Program states that its fiscal program is by far the most important part of the whole Program and that if the revenues and expenditures set in the Program are not accepted then the effect of the Program in solving the basic problems of the economy will be very small. The Program emphasizes the importance of the fiscal program by stating that:

Jordan would be derelict if it failed to make positive use of its fiscal policy as the main force to join the public and private sectors into a partnership to restructure its economy, to move it towards self-sufficiency, towards less dependence on external budget support, and towards a high level of economic growth.<sup>19</sup>

The intention of the Seven Year Program is to channel future economic progress "... more into investment and less into consumption than in the past"<sup>20</sup> in order to redress the trade deficit, reduce budget support and promote growth. This requires a vigorous fiscal program which is first summarized in the following six points as quoted from the Seven Year Program and then analyzed in detail.<sup>21</sup>

- (i) Consumer spending especially on imported luxuries is prevented from growing as fast as it has in the past.

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<sup>18</sup> Ibid., p. 7.

<sup>19</sup> JDB, op.cit., p. 45.

<sup>20</sup> Ibid., pp. 48-49.

<sup>21</sup> Ibid., p. 49.

- (ii) Increased levels of private savings are channelled into productive investments.
- (iii) Government recurring expenditures, civilian, army and security which are not related to implementing capital projects, are permitted only slight growth, or, indeed are curtailed.
- (iv) Tax revenue expands to replace declining budget support and pay for planned capital projects.
- (v) Exports expand and imports hold steady, and the composition of imports shifts away from consumer to capital items. (The plan of course, encourages the expansion of local import-substituting industries).
- (vi) Government borrowing and consequently government debt increase to fill the gap between government revenue and government capital and recurring expenditures.

The above, in a nutshell, is the austere fiscal program required for the success of the Seven Year Program. As already mentioned, over the Plan period GNP is expected to grow at a rate of 7.3 percent a year while domestic expenditures are supposed to increase at a rate of 5 percent annually. This disparity between the two rates requires careful policy concerning private consumption expenditure, government current expenditures and gross capital formation. The government can guide and control its own capital and current expenditures directly, but in order to control and direct private consumption and capital expenditures, the government must rely on taxation policy in order to restrain private expenditures at the required growth rate. Private consumption expenditures account for a very high percentage of total consumption expenditures (about 78 percent in 1963) and therefore restraining the rate of growth of this category is of vital importance.<sup>22</sup>

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<sup>22</sup>Porter, op.cit., p. 17.

The fiscal problem of the Seven Year Program can be stated as follows:- the expected increase of 64 percent in GNP (7.3 percent annually) during the Plan period resulting from the developmental effort is expected to raise the incomes accruing from employment and property by the same proportion, keeping the basic assumptions of the plan in mind. Private savings are supposed to increase at a remarkably high rate of 45 percent annually over the Plan period (from a level of JD 2.7 million in 1963 to a level of JD 37.5 million in 1970). If the balance of payments target is to be met, private consumption expenditure must not be allowed to grow at more than a rate of 4 percent a year, a cumulative increase of 32 percent over the Plan period, in order to divert resources for the needed developmental activities. It will be very difficult to keep the rate of growth of private consumption expenditure at 4 percent as it implies a very moderate rise in the standard of living if the 3 percent annual rate of population growth is taken into consideration. Therefore, it is of primary importance that the government must also restrain its current expenditures and not be tempted to use the extra revenues, derived from restraining private consumption, for additional government current expenditures which will only aggravate the trade deficit. These extra revenues must replace, in part, the decline in foreign budget support.

Having stated the highlights of the fiscal problem involved in the execution of the Seven Year Program it is now necessary to analyze the government's spending and tax programs.

1. Spending program:

Tables F, G and H in the Statistical Appendix contain the government's recurring and capital expenditures for the Plan period. The government's spending program includes some spending on capital out of budget funds over the Plan period although there exists great pressure on these funds. This is done in order to prove to the lending and granting agencies, that supply Jordan with either loans or grants, that Jordan is convinced that it ~~wants~~ to develop despite the sacrifices involved.<sup>23</sup> As was mentioned earlier, it is expected that government recurring expenditures will be restrained to an annual growth rate of 3.2 percent, a cumulative increase of 23 percent over the Plan period, in order to mobilize resources for capital expenditures required by the Seven Year Program and also to hold down the tax burden as much as possible. The Seven Year Program states that:

It is imperative to restrain Army and Security expenditures, if economic development is to be maximized. It is proposed to maintain the level of expenditure on the military throughout the period of the Plan. At the same time, it must be recognized that developments over this period may make this impracticable.<sup>24</sup>

One of the largest increases in government recurring expenditures is on education which is greatly needed in light of the 1961 Census which revealed that only 56 percent of the children 6 to 14 years of age were in school and that 45 percent of the population were under 15 years of age, a relatively young population that needs educational

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<sup>23</sup>JDB, op.cit., p. 50.

<sup>24</sup>Ibid., p. 22.

services on a large scale, which investment is justified in view of its long-run advantages.<sup>25</sup>

The central government's capital spending calls for capital projects of JD 8.3 million in 1964 which increase to JD 29.8 million in 1967 and then drop to a level of LD 15.3 million<sup>in</sup>/1970. Jordan's budget, even with extensive foreign budget support is not expected to supply all the needed funds for capital expansion from domestic sources, which in fact will cover but a small part of the resources needed for the capital expenditures. The plan depends partly on development grants from abroad as well as government borrowing partly domestically but mainly internationally. The development grants of JD 35.6 million planned for all the period are very important as they partly alleviate the pressure on the budget and borrowing and also because they secure a part of the foreign exchange required for capital projects.<sup>26</sup>

## 2. Tax program:

A good indication of the areas which can yield extra revenue through increased taxation can be revealed from considering the structure of the economy which will emerge if the development program is executed on the lines analyzed above. The tax program that the Seven Year Program calls for is "... both complex and comprehensive."<sup>27</sup> It calls for increased revenues from various existing taxes, new sources of revenue from the

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<sup>25</sup>Ibid.

<sup>26</sup>Ibid., p. 51

<sup>27</sup>Ibid.

legislation of new taxes and the repealing of certain taxes with little loss of revenue. The program also calls for various administrative reforms and general consolidation of rates as on customs. It is stated in the tax program that many of the required changes in taxation and administration were well analyzed in the Report of the Royal Fiscal Commission of 1960 and that these should be implemented as soon as possible.<sup>28</sup>

The tax program of the plan is designed to raise enough domestic revenues to finance part of the public investment projects of the plan; it must also divert the excess income from the private sector so as not to enable heavy consumer demand to bid away the limited scarce resources required for the capital expenditure program in the private sector. Regarding the distribution of the tax burden among the various income groups, the Plan demands that it must be distributed in as equitable a manner as possible. However, at the same time, the Plan realizes that a more equitable distribution than the one already in existence might not be attained, as the government, in its quest for more revenues to finance the main targets of the Plan, must relegate the more equitable distribution of the tax burden to a secondary place in view of the more pressing needs for increasing revenues. The tax program aims at reducing luxury consumption as much as feasible, encouraging foreign investments in Jordan, and "... discouraging productive activity and investment as little as possible."<sup>29</sup>

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<sup>28</sup>Ibid.

<sup>29</sup>Ibid., p. 52.

a. Direct taxes:- As was discussed in Chapter III, the most important direct taxes in Jordan are the income tax, the urban property tax and the agricultural land tax. Another tax is one imposed on animals but it has yielded no significant revenue in recent years. Taxes imposed on agricultural income are the agricultural land tax and the animal tax, both of which have yielded relatively very insignificant amounts of revenue during recent years and together have accounted for 0.6 percent of total domestic revenues in the fiscal year 1963/64.<sup>30</sup> Moreover, whereas in 1963 income originating in the agricultural sector amounted to about JD 22 million before provisions for depreciation,<sup>31</sup> the revenues obtained from those agricultural taxes were about JD 112,000 which meant that taxes falling on agricultural income amounted to about 0.5 percent.

If the Seven Year Program is successful in attaining its production targets, then the incomes accruing to the agricultural sector will witness major increases. Therefore, any well-studied fiscal policy must obtain some of this increase in the form of taxation, and it is believed that even a very moderate increase in agricultural taxes imposed on agriculture could secure relatively sizeable sums of money. However, in designing any increases in agricultural taxation, care must be taken not to discourage increases in agricultural production. It seems that the problem can best be dealt with by first revising the

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<sup>30</sup>See Table D in the Statistical Appendix.

<sup>31</sup>Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p. 3.



the existing land valuation system in order "... to spread the base of the tax as broadly as possible."<sup>32</sup> After that, increases in the imposed tax rates in a very moderate manner would not allow any single farmer to feel seriously burdened with taxes.

Jordan's tax system exempts from taxation income derived from agriculture, cattle breeding and dairy farming. The Seven Year Program recognizes that "the outright exemption of agricultural income and agricultural land from taxation can no longer be justified given the pressing revenue needs of the kingdom and rising agricultural income."<sup>33</sup> Moreover, the program calls for a special study and recommendations on those exemptions to be carried out with the possibility of replacing these exemptions by tax deductions in the form of incentives for increasing expenditures on improving and maintaining agricultural productivity.

Concerning the urban lands and buildings tax, the Seven Year Program is keen on replacing the present Landlords and Tenants Law by a new legislation that would secure from this tax a greater amount of revenue than has hitherto been the case. To do this, "... the annual rental assessed for the purpose of rent control should vary in accordance with its use!"<sup>34</sup> The present valuations are far too low and extensive and careful revision of these, especially the more highly valued lands and buildings, could substantially raise revenues from this source without excessive hardship.

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<sup>32</sup>Porter, op.cit., p. 22.

<sup>33</sup>JDB, loc.cit.

<sup>34</sup>Ibid.

The remaining important direct tax is the income tax which has yielded about 6.8 percent of total domestic revenues in 1963/64 compared to 2.3 percent yielded by the urban property tax. The Seven Year Program is interested in introducing significant changes into the income tax law by means of which an increasing amount of revenue can be secured for the central government, especially in view of the Program's requirements for restraining private consumption expenditures at a rate well below that of the expected annual increase in GNP. The Program demands the imposition of income tax Law No. 25 of 1964 and requires that its base should include not only income mentioned in Article (5) of the Law but also incomes originating from agriculture, animal husbandry, company shares and dividends, capital gains and investment from abroad, all of which are exempted by the provisions of Law No. 25. This Law, compared to its predecessor, is expected to increase the rates imposed on higher income brackets, reduce the possibility of evasion and levy a profit tax on corporations without granting the right for a set-off.<sup>35</sup>

In view of the necessity to reduce to a minimum all unnecessary consumption expenditures, the Program is keen on introducing a tax on luxuries. This tax must be imposed on all luxury goods whether imported or domestically produced. It is not expected that such a tax will be an important revenue producer as it is primarily designed to restrain luxury consumption and luxury imports.

It should be recognized that reforms in direct taxation necessarily take time to come into force and consequently it will not

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<sup>35</sup>Ibid.

be wise to depend on a tremendous increase in this source of taxation during the Plan period. The Seven Year Program maintains that direct taxes, mainly from income and property taxes, must produce more than two times their revenue of 1963.<sup>36</sup> Some of this increase is expected to be secured automatically with the expected growth in incomes but the greater part of this revenue will be forthcoming only if better collections and higher rates are imposed. In view of this, the Program calls for the adoption of a very firm policy for tax collections and accordingly demands the enacting of a new law for revenue collections to replace the inefficient Law No. 6 for 1952 for Levying Government Revenues. The new law should make revenue collections the responsibility of the ministry of finance instead of dividing the job between this ministry and that of the interior.<sup>37</sup>

b. Indirect taxes:- As a doubling of revenues from direct taxes over the Plan period is regarded as the limit which the economy can sustain without drastic effects on incentives, the rest of the needed increase in taxation must be secured from indirect taxes. Revenues from indirect taxes in Jordan depend heavily on customs and associated taxes on imports. In 1963/64, revenues from customs accounted for about 29 percent of total domestic revenues, by far the largest single contribution to domestic revenues. However, it is clear that the Program's policy aimed at import substitution as well as a general restraint on

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<sup>36</sup> Ibid., p. 23.

<sup>37</sup> Ibid., p. 53.

the growth of imports during the plan would have adverse effects on revenue collected from customs duties. To a very limited extent, part of this loss in revenue could be overcome by imposing higher duties. However, it is a recognized fact that, from a revenue point of view, higher duties can be effective in securing more revenues only if imposed on articles consumed on a mass level, such as food, clothing and textiles which implies rising prices for the poor classes except if the government undertakes a price control policy to ensure that not all of this increase is paid by the consumers.<sup>38</sup> Even if higher duties would raise some extra revenues, still it will be very difficult, if not totally impossible, to secure all the additional revenues required from this source. Consequently, it is apparent that indirect taxes must be diversified in order to reduce their great dependence on customs duties and impose heavier taxes on domestically produced goods such as on tobacco, alcohol, beverages, fuels as well as on various licenses such as import licenses, trade licenses and road transport licenses. Although such taxes will raise the prices of those items, these are not items that are consumed on a mass scale and therefore the higher prices will not have adverse effects on the poor. It is expected that such increases in taxes and licenses will increase revenues substantially. New forms of indirect taxes must also be introduced and the Seven Year Program calls for the introduction of a sales tax in 1967 which although regressive in form and will not help in producing a more equitable distribution of the tax

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<sup>38</sup>Porter, op.cit., p. 24.

burden, still is expected to provide part of the additional revenue required by the Program in order to offset to some extent the decline in foreign budget support.

The tax program of the plan calls for various other less important proposals such as raising the rates on telephones and telegrams by a considerable amount; introducing an inheritance tax which would add to the progressivity of direct taxes; increasing the rates on salt tax for revenue purposes and the possibility of removing the tax on bank checks.<sup>39</sup>

The target of the whole tax program is to attempt to increase the government's total domestic revenue from JD 19.4 million in 1963 to JD 35.3 million in 1970, as appears in Table H in the Statistical Appendix. This means a cumulative increase of 84 percent during the Plan period and an annual rate of growth of 9 percent. As for direct taxes as such, their cumulative increase over the period is expected to be of a magnitude of 120 percent over the Plan period, an annual rate of increase of 12 percent. The two most important categories of indirect taxes, namely customs and excises are planned to grow at an annual rate of growth of 8.5 percent implying a cumulative increase of 77 percent over the Plan period. All these expected increases are intended to raise the share of total domestic revenues in GNP over the Plan period to 16 percent in 1970 as compared to 14 percent in 1963. Out of the planned increase of JD 15.9 million in total domestic revenues over the Plan period, JD 8 million is expected to offset the

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<sup>39</sup>JDB, loc.cit.

decline in the foreign budget support and the remainder is needed to cover the increase in the recurring government expenditures. Therefore, the tax program of the plan will not be able to finance, to any important extent, the government-financed capital expenditures. Funds for the latter expenditures must be secured from foreign loans and grants.

3. Government borrowing and debt management:

Over the Plan period, it is expected that government borrowings, internal and external, will amount to about JD 105 million. The magnitude in total revenues that is most striking is the relatively large amount of planned external borrowing of about JD 100 million over the Plan period. This estimate is arrived at as a residual after allowing for the expected amounts of foreign budget support and development grants as well as domestic revenues. Internally, the program calls for borrowings of JD 5 million over the Plan period.

Finally, a word must be mentioned about the role that the Central Bank is expected to play in so far as fiscal policy is concerned. The Seven Year Program states that monetary policy "... should complement rather than supplant fiscal policy" in Jordan.<sup>40</sup> The Central Bank is expected to control the commercial banks operations and see that these do not in any way hinder the economic developmental policies undertaken. The Bank should also design certain policies which will provide credit facilities to the various sectors in accordance with the targets of the Seven Year Program. Moreover, monetary policy should initiate the

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<sup>40</sup>Ibid., p. 337.

development of a capital market in Jordan as well as encourage the sale of government bonds to cooperatives, commercial banks, insurance companies, savings and loans societies and the private sector at large. This is in accordance with the fiscal program that envisages the sale of government bonds over the Plan period. This is a new projected financial development which requires joint work among the ministry of finance, the Central Bank and the JDB. In short, the relationship between fiscal and monetary policies and their effects on the various sectors of the economy should be clearly understood and should be under periodic review and appraisal by the responsible authorities.<sup>41</sup>

#### E. Conclusion

From the analysis of the basic goals and assumptions of the Seven Year Program it is evident that the reduction in the balance of payments deficit is the crucial requirement contingent upon the anticipated decline in foreign budgetary aid. To achieve the basic requirements of the program involves two closely interrelated problems: (i) problems connected with securing the planned increases in production which need a proper production expenditures policy that will concentrate the bulk of developmental expenditures on the relevant sectors of the economy in order to attain the goals of the program; (ii) fiscal problems connected with mobilizing revenues to be spent on the proper expenditures, and restraining unnecessary expenditures by diverting these resources into

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<sup>41</sup>Ibid., pp. 339-340.

the required channels. The Program requires a solution of these two problems if the main objective of a cut in the trade deficit is to be attained. In a way, fiscal policy can be regarded as the key to the solution, because even without an increase in production, or a very minor one, the undertaking of aggressive tax measures will help in alleviating the trade deficit, while increases in production combined with a negative or neutral fiscal policy will not contribute much to the solution of the trade deficit.<sup>42</sup>

In practice, things will not be as simple as this but the principal methodology remains clear. If fiscal means can restrain private consumption and direct resources into the required channels, the balance of trade deficit will be out and the internal budgetary problem will be greatly solved. Therefore, a great responsibility is entrusted to the authorities that must bring about the required increases in taxation rates to make sure that private consumption expenditures do not increase at a rate faster than what is compatible with reducing the trade deficit.

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<sup>42</sup>Porter, op.cit., p. 4.



## CHAPTER VI

### EVALUATION OF THE PLAN'S FISCAL POLICY AND RECOMMENDATIONS FOR REFORM

#### A. Introduction

The analysis undertaken in Chapters III, IV and V leads to several major conclusions concerning fiscal policy and economic development in Jordan.

1. As in most developing countries, Jordan's domestic revenue system depends heavily on indirect taxes with import duties accounting for the main share in this group. On the other hand direct taxation plays a relatively minor role.

2. The main characteristic of Jordan's budget is a large and chronic deficit which has been continuously covered by foreign assistance funds in the form of budgetary aid, development grants and loans, and technical assistance. The volume of these funds has gradually declined over recent years so that its share in total revenues has dropped from 58 percent in 1959 to 45 percent in 1965 resulting from an absolute decline in the level of budgetary aid, which has formed the main component of the foreign assistance funds and whose share in total revenue has dropped from 50 percent to 23 percent over the same period. Moreover, foreign budgetary aid is expected to continue declining over the Seven Year Plan period. In view of these facts, the possible contribution of the Jordan budget towards the financing of the plan is limited, although it is still expected to account for a relatively small share in the financing of the investment program out of an anticipated budget surplus in the plan.

3. Since 1962 Jordan became conscious of its need for coordinated long-term and short-term economic and fiscal planning in order to tackle the structural problems facing the economy. Consequently, a new budget department was established which became responsible for the preparation of the main guidelines for fiscal planning and the incorporation of the government's main planned projects in the annual budget law. A Seven Year Program for Economic Development was also initiated intent on achieving several ambitious goals which were designed to solve largely the structural problems of the economy.

4. The achievement of the main goals of the plan requires primarily a fiscal policy that will mobilize sufficient additional domestic revenue to supplant the expected decline in budget support without hampering investment incentives and therefore absorb a good portion of the expected increase in purchasing power caused by developmental activities, with possible favorable stabilizing and balance of trade effects. At the same time, fiscal policy must try to divert resources from expenditures deemed unnecessary for the achievement of the goals of the plan to developmental purposes.

Section B of this chapter will attempt to evaluate the fiscal policy proposed in the Seven Year Program and to analyze any major achievements of its planned targets since 1964, the base year of the plan. Section C will include an evaluation and recommendations for reform concerning: (i) the fiscal and budgetary planning process since 1962; (ii) the conflict between development and military expenditures, and (iii) certain aspects of the main taxes.

B. Evaluation of the fiscal program of the Seven Year Plan

The Seven Year Plan sets forth ambitious economic goals. The successful achievement of these goals depends, to a large degree, upon the private sector and its ability to grasp the new economic opportunities which are expected to result from the development process during the Plan period. However, the achievement of the ambitious goals of the plan depends primarily on the success of the government in implementing the ambitious investment program which it designed for itself, and within the time period set in the plan. The total investment program of JD 274.8 million is to be shared between the public sector (JD 145.6 million) and the private sector (JD 129.2 million). Table 26 on the sources of finance for development expenditures 1964-70 depicts various characteristics that underlie the fiscal program of the Plan.

1. Deficit financing:

It is clear from this brief summary table that deficit financing is not envisaged as a method of financing the development expenditures of the plan. Such a conservative policy shows that the Jordanian authorities are keen on maintaining the fiscal and monetary stability that existed in Jordan till now. The fiscal program, seen from this viewpoint, can be judged as one which is well designed to avoid any inflationary pressures that could possibly ensue if deficit financing were to be adopted as a major method of financing the Plan.

2. Foreign aid:

Table 26 reveals that about 49 percent of the required funds for

TABLE 26  
 SOURCES OF FINANCE FOR DEVELOPMENT EXPENDITURES  
 1964-1970  
 (In JD million)

Source of finance	Public sector <sup>a</sup>	Private sector	Total	% of total
Borrowing from abroad	78.1	22.3 <sup>b</sup>	100.4	36
Development grants and technical assistance	35.6	-	35.6	13
Surplus of government revenue over current expenditures <sup>c</sup>	26.8	-	26.8	10
Sale of government bonds	5.1	-	5.1	2
From private savings	-	106.9	106.9	39
Total	145.6	129.2	274.8	100

Source: FAO, FAO Mediterranean Development Project: Jordan Country Report (Rome, 1967), p. 205.

<sup>a</sup>Including the central government, JDB, Jordan River tributaries Regional Corporation and the local government.

<sup>b</sup>Including JD 17.5 million borrowed by the government and reloaned to the private sector.

<sup>c</sup>Including budget support grants and drawings on reserves amounting JD 3.5 million.

the financing of the plan's investment program are expected to come from foreign aid in the form of loans (JD 100.4 million), as well as development grants and technical assistance (JD 35.6 million). The importance of foreign aid as an indispensable source of financing development expenditures is such that "the date of the implementation of the larger investment projects of the Seven Year Plan depends primarily in fact, on

the availability of foreign loans and development grants."<sup>1</sup> Moreover, any revisions introduced to the planned projects that might cause an upward movement in their costs are likely to increase the foreign exchange needed and will ultimately increase "... the dependence on foreign aid as a source of finance."<sup>2</sup>

The magnitude of foreign aid in the total resources needed for development expenditures is obviously quite high especially that of foreign borrowings which accounts for 36 percent of the total. The high dependence on foreign borrowings introduces an element of vulnerability to the fiscal program of the development plan. The planned amount of JD 100.4 million of borrowings abroad is obviously large in view of the present commitments of about JD 50 million by international agencies and foreign governments.<sup>3</sup> Therefore it will not be surprising if a shortfall in external borrowings occurs which implies the need for a greater effort at exacting domestic revenues, or additional foreign grants, if the expenditure targets of the plan are to be met. The implications of this expected increase in external borrowings over the plan period are: (i) to be able to repay such foreign borrowings in the future, Jordan should secure the needed foreign exchange for repayments, a fact which places great emphasis on the need to alleviate the chronic balance of trade deficit; (ii) in view of the expected increase in Jordan's long-

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<sup>1</sup>FAO, FAO Mediterranean Development Project: Jordan, Country Report (Rome, 1967), p. 208.

<sup>2</sup>Ibid.

<sup>3</sup>See Table E in the Statistical Appendix.

term obligations, it is imperative that a large amount of foreign exchange reserves should be set aside to safeguard the economy against any inability to secure foreign exchange. This implies that not only should Jordan increase its earnings of foreign exchange but it should also increase its foreign reserves to meet any unfavorable situation;<sup>4</sup> (iii) the fact that the bulk of the debt is planned to be externally held imposes a greater burden on the domestic economy than if it were domestically held as interest payments will accrue to organizations outside the economy; (iv) the ambitious external borrowing program set at its upper potential limit portrays the seriousness of the fiscal problem of implementing the Plan. The fiscal authorities must not think of increasing the debt burden further as a substitute for a slower growth of domestic revenues than anticipated in the plan, nor should spending be allowed to increase more than planned.<sup>5</sup>

During the period 1964/65 to 1966, only some of the planned foreign loans and grants were actually realized, amounting to approximately JD 15 million. Firm commitments were also obtained for about JD 38.6 million while negotiations are presently undertaken concerning a third and greater/<sup>part</sup> of foreign loans and grants. Table 27 compares the actual receipts in 1964/65 to 1966 with the anticipated receipts of the Plan.

It is clear from table 27 that there was a "lag" between actual

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<sup>4</sup>JDB, The Seven Year Program for Economic Development of Jordan, 1964-1970 (Jerusalem: Commercial Press, n.d.), pp. 6-7.

<sup>5</sup>Ibid., p. 55.

TABLE 27  
ACTUAL AND PLANNED FOREIGN AID  
1964-1966  
(In JD million)

	1964/65		1965/66		1966	1966/67
	Actual	Planned	Actual	Planned	Actual	Planned
Development grants and technical assistance	1.7	3.3	2.4	6.6	0.5	8.4
Foreign develop- ment loans	2.0	1.7	2.6	4.3	5.4	12.9
Total	3.7	5.0	5.0	10.9	5.9	21.3

Source: FAO, FAO Mediterranean Development Project: Jordan, Country Report (Rome, 1967), p. 209.

receipts from foreign grants and loans and planned estimates. One explanation could be that actual receipts usually come as the projects for which funds are allocated get underway.

### 3. Private savings:

The plan envisages a rise in the average and marginal rates of national savings (public and private) with the annual increment in income which is not to go to additional consumption being quite substantial. The intention of raising the growth rate of national savings involves serious problems for Jordan as it depends heavily on foreign grants and loans, and the main aim of increasing total savings is to decrease this dependence on foreign aid. The plan intends to implement

"... drastic structural changes" that will hopefully increase national savings with the expectation that the country will be able "... to finance about 70 percent of its planned investment out of domestic resources in the final year of the plan...."<sup>6</sup>

The bulk of the increase in the national savings is expected to be generated by the private sector which forms a striking feature of the fiscal program of the plan. Table 26 reveals that the private sector is expected to account for 47 percent (JD 129.2 million) of the total developmental expenditures over the plan period. About JD 106.9 million are anticipated from private savings, that is about 39 percent of the total funds necessary for the entire investment program. It is clear therefore, that a major prerequisite for the implementation of the plan's investment program depends on the achievement of the planned growth of private savings. In view of the large investment responsibilities assumed by the public sector, the excess of total investment over national savings forms a considerable portion of the aggregate income level. Part of this I-S gap is expected to be offset by the ability of the private sector to save more than what it will invest while the over-all saving-investment gap will be greatly covered by an inflow of foreign loans and capital as well as current transfer payments (mainly budget support).<sup>7</sup>

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<sup>6</sup>U.N. Economic and Social Office in Beirut, "An Analysis of Development Plans in Various Countries in the Middle East," Studies on Selected Development Problems in Various Countries in the Middle East (New York: U.N., 1967), pp. 4-5.

<sup>7</sup>Ibid., pp. 5-6.



In order to achieve the planned growth in the level of private savings, the private sector will "... have to bear the brunt of the austerity"<sup>8</sup> that the planned goals imply, and under such conditions, "... the measures intended to curb the growth of current government expenditure and strengthen revenue appear less strategic than those that will be adopted to stimulate private savings or restrain private consumption."<sup>9</sup> Over the plan period, the rate of growth of private consumption is set at 4 percent annually implying about a 1 percent annual increase on per capita basis when the 3 percent annual growth rate of population is considered. Such a low annual growth rate of per capita private consumption reflects the severity of the effects of restraining private consumption and implies that any upward change in the anticipated population growth rate may introduce considerable difficulties in keeping down the private consumption level at such a relatively low annual growth rate.<sup>10</sup>

Among the tax measures proposed to curb private consumption are measures to increase indirect taxes which also tend to have a direct effect on decreasing imports. As for direct taxes, their rate of increase is anticipated to rise but slightly and they continue to form only a very small proportion of private incomes as seen from Table 28 below.

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<sup>8</sup> Ibid., p. 6

<sup>9</sup> Ibid.

<sup>10</sup> Ibid., p. 7.

TABLE 28

TAXATION, CONSUMPTION AND SAVINGS RATIOS, ACTUAL  
IN 1963 AND PLANNED IN 1970  
(Percentages)

Item	1963	1970
Indirect taxes/private incomes	7.7	9.2
Direct taxes/private incomes	1.7	2.4
Local government taxes/private incomes	1.9	2.3
Government fees/private incomes	2.1	2.0
<b>Total taxes/private incomes</b>	<b>13.4</b>	<b>15.9</b>
Consumption/disposable incomes	89.5	80.3
Savings/disposable incomes	9.2	19.7
Net transfers/disposable incomes	1.3	-
	100.0	100.0

Source: FAO, *FAO Mediterranean Development Project: Jordan, Country Report* (Rome 1967), p. 207, as taken from JDB, *The Seven Year Program for Economic Development of Jordan, 1964-1970* (Jerusalem: Commercial Press, n.d.), p. 43.

Note: The relations between the various variables can be clarified in the following identities:

$GNP - \text{indirect taxes} - \text{Government income from property and entrepreneurship} = \text{Private income.}$

$\text{Private income} - \text{taxes} - \text{net transfers from households} = \text{Disposable income.}$

$\text{Disposable income} = \text{Consumption} + \text{savings} + \text{net transfers.}$

Other than proposing those tax measures that apparently withdraw only small amounts from private incomes and otherwise leave disposable incomes relatively quite high, the plan does not seem to be clear as to how it proposes to curtail the growth rate of private consumption from

about 7.5 percent annually in the pre-plan period to a level of 4 percent over the plan years. This is more difficult to understand especially when revenue from direct and indirect taxes as well as fees paid to the central and local governments is anticipated to increase from 13.4 percent to merely 15.9 percent of private incomes between the beginning and the end of the plan period. Therefore, it appears that probably the domestic revenue targets of the Plan should have been set at much higher rates in order to attain the proposed growth rate of private savings.<sup>11</sup>

Another noticeable feature is that the volume of projected private savings over the plan period is set at JD 189.0 million, which is significantly larger than the planned expenditure of JD 129.2 million on gross capital formation by the private sector. If these planned targets were to be realized, then it would not be very easy to understand why the private sector is anticipated to be a net borrower from the government rather than a net lender to it. Moreover, the net government loans to the private sector (JD 16.7 million) minus the private sector's purchases of government bonds (JD 5.1 million) would increase the discrepancy between resources from planned private savings and projected private gross capital formation by about JD 11.6 million thus making it stand at JD 71.4 million.<sup>12</sup>

Such a gap results "technically" from a limited planned increase in the tax rates together with a planned slow increase in private consumption and "... a rather strict limitation of private investment in

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<sup>11</sup>FAO, op.cit., p. 208.

<sup>12</sup>Ibid.

house construction."<sup>13</sup> In case these proposals are realized, the expected result would be a tendency towards a price and monetary deflation and/or a large outflow of private savings into investments abroad. If these proposed assumptions were to be relaxed in order to attain monetary balance, the expected result would be an increase in the rate of consumption and house construction, which would imply an increase in imports and in turn in the trade deficit. Taking into consideration the past trend in the private sector and the lack of any plans to introduce government controls over imports, consumption and investment, it would seem rather likely that a higher growth rate of consumption and imports and therefore a slower rate of savings than anticipated in the plan would be realized.<sup>14</sup> Judging from the actual results of 1964 and 1965 (the first two years of the plan), it is noticed that private savings did not exceed gross private capital formation in 1964 and exceeded it by only JD 2.1 million in 1965. Although private savings have increased in 1964 and 1965 they still did not exceed 13.6 percent and 12.4 percent of disposable income respectively.<sup>15</sup> The main justification for the projection of such a high growth rate of private savings could be the argument that the excess of private savings over private investment will be expected to offset partly the planned excess of public investment over public saving.

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<sup>13</sup>Ibid.

<sup>14</sup>Ibid.

<sup>15</sup>Jordan, Department of Statistics, The National Accounts 1959-1965 (Amman, n.d.), p. 7.

There is one major opportunity that should be grasped in case an excess of private savings over private gross capital formation is realized during the plan period. The monetary authorities as well as the government should find in this excess the opportunity for launching a program for the mobilization of savings through the sale of government bonds. This will first add to the resources needed for the investment program, and second, it will enhance the development of a domestic capital market that will later on attract private capital to stay in the country and could possibly attract foreign capital investment in Jordan.<sup>16</sup>

#### 4. Sale of government bonds:

As mentioned in Chapter III, the government does not have any domestic public debt. The plan envisages the sale of government bonds amounting to JD 5.1 million over the plan period and starting in 1966. This is expected to account for about 2 percent of the total funds needed for the investment program. The amount does not seem to be unreasonably high. However, there is the possibility that this may not be achieved primarily because of a psychological handicap in the country which was caused by the unfulfilment of the mandate government of Palestine of its promises to repay some of the bonds which were held by Jordanians and which had already matured a very long time ago.<sup>17</sup> A Public Debt Law No. 66 of 1966 was issued in October 1966 but up to date no bonds have yet been floated. Jordan should try to find the right time to initiate

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<sup>16</sup> FAO, loc.cit.

<sup>17</sup> Abdul Rahman Toukan, "The Implications of Achieving Fiscal Independence for Jordan" (unpublished Ph.D. thesis, Department of Economics, Vanderbilt University, 1967), p. 13.

the idea of sale of government bonds in the money market thereby absorbing any realized excess of private savings over private investments. At the same time, this is likely to develop the money market in such a way that will help the Central Bank in exercising its function of influencing the money supply in the market and thereby ensuring monetary stability.

#### 5. Budget surplus:

As was already stated, the budget is highly unbalanced and the possible contribution of the budget towards providing funds for the financing of the plan is the more limited by the expected decline in the budget support as envisaged in the Plan. Therefore, the attainment of the anticipated current surplus which is expected to provide a share of 10 percent in the financing of the investment program requires, first, the control of the growth of recurring government administrative and defense expenditures to the lowest possible limit <sup>compatible</sup> with efficiency and security demands.<sup>18</sup> This rate is set at 3.2 percent annually over the plan period compared to an annual growth rate of 5.4 percent in the pre-plan period. Second, the attainment of a budget surplus requires an increase in the tax rates which, other than increasing revenues, is also expected to be a means for restraining private consumption and the growth of imports in general.

Of the various tax measures proposed in the fiscal program, the main ones that were applied since 1964 were an increase in customs and

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<sup>18</sup>FAO, op.cit., p. 205.

excise duties that was applied in 1965, and a more progressive income tax schedule that was introduced in 1966. Actual revenues from customs duties substantially exceeded those projected in the plan in the years 1964/65 through 1966. This resulted from a very large increase in imports as well as the imposition of higher tariff rates. As for direct taxes, they "lagged" behind the plan's projected allocations although the growth in incomes was higher than anticipated in the plan. Finally the recommendation for increasing the telegram and telephone rates was not carried out in 1965 nor was a sales tax introduced as was proposed for 1967. Table 29 below compares the actual with the planned revenues for 1964/65 through 1966.

TABLE 29  
ACTUAL AND PLANNED DOMESTIC BUDGET REVENUES  
1964-1966  
(In JD million)

Revenue	1964/1965		1965/1966		Calendar 1966	1966/67
	Actual	Planned	Actual	Planned	Revenue estimate	Planned
Customs and excises	8.6	8.4	12.5	10.0	15.0	10.5
Taxes	3.5	3.4	4.0	4.8	4.1	5.3
Licenses	1.0	1.0	1.5	1.6	4.2	4.9
Fees	2.8	2.7	2.6	3.0		
PTT	1.2	1.2	1.4	2.2	1.5	2.4
Interest and profits	3.5	1.3	1.8	1.7	5.3	5.0
Others	3.2	4.7	2.9	3.7		
Total	23.8	22.7	26.7	27.0	30.1	28.7

Source: FAO, FAO Mediterranean Project: Jordan, Country Report (Rome, 1967), p. 206 as taken from Jordan, Ministry of Finance and the JDB.

Concerning foreign budgetary aid, the decline in the level of U.S. and U.K. budget support for 1964/65 through 1966 was in accordance with the plan's projections. The 1967 reestimated figures for this support were about JD 1 million short of the projections while the 1968 budget estimates of U.S. and U.K. aid are nil compared to a projection of JD 10 million in the plan.

As for restrainign the growth of the government's recurring expenditures, which is a requirement for the attainment of a budget surplus, a comparison of Tables B and F in the Statistical Appendix shows that the actual recurring expenditures for 1964 through 1966 were very much in line with the projections of the plan. The reestimated figures for 1967 are above the plan's projections by some JD 2 million, mainly because of an increase of approximately this amount in defense expenditures over what was projected. The exceptionally high level of defense expenditures in the 1968 budget estimates which are almost double the plan's projections for that year resulted in a budget estimate of recurring expenditures which is appreciably in excess of the plan's projections. Such a disruption in the trend of recurring expenditures in the 1968 budget estimates, if actually executed, will make it difficult to restrain these expenditures in the following years, thereby violating an important requirement for the creation of a budget surplus.

Table 30 shows that over the years 1964/65-1966 a budget surplus was attained which was greater than anticipated in 1964/65 and 1966 but was below its projected figure in 1965/66.



TABLE 30  
 ACTUAL AND PLANNED BUDGET SURPLUSES  
 1964-1966  
 (In JD million)

	1964/65		1965/66		Calendar 1966	1966/67
	Actual	Planned	Actual	Planned	Actual	Planned
Budget surplus	8.8	6.8	2.1	3.9	4.0	3.4

Source: JDB, The Seven Year Program for Economic Development of Jordan, 1964-1970 (Jerusalem: Commercial Press, n.d.), p. 35 and Jordan, Report of the Ministry of Finance, fiscal years 1964/65-1966).

#### 6. Conclusion:

It is observed that the plan sets forth very ambitious economic goals and projects optimistic targets in the sense of a tendency to predict valuations of parameters that result in gaps, essentially the investment-saving gap, which are smaller than is generally expected after considering the assumptions of the plan and the past and present trends in the Jordan economy. An analysis of the plan's accounts reveals that the optimistic targets are especially noticed for the accounts of 1970, where the I-S gap, after increasing in the 1960's, is expected to drop "dramatically" by the end of the planning period in 1970.

Although the planners presumably know thoroughly the workings of the Jordan economy, still, they are, in general, necessarily biased to design an optimistic development plan in light of factors that are

not strictly economic, such as socio-political factors. Therefore, the introduction of such factors into the picture requires that more be planned than is generally expected to be achieved. The plan is not constructed as an econometric model which would concern itself only with the plausible and the expected results, regardless of the end outcome of the model. Instead, the end results of the plan were determined by a combination of economic and non-economic factors, so that the final valuations of the plan's parameters were, to a large extent, designed to fit the desired outcome.

An econometric model<sup>19</sup> was designed for Jordan by the U.S. Aid Mission and its valuations of the parameters are generally less ambitious and optimistic than those in the plan, especially in the valuation of the exports-imports gap and the investment-savings gap.

As was revealed from the discussion in this section, the plan sets forth various projections, some of which are plausible while others are either insufficient or else not very realistic. The most striking feature of the plan is the valuation of the level of private savings which is an important determinant of the investment-savings gap. However, there is very little evidence on which to base such a valuation and, therefore, it is rather questionable whether the private savings target, which is so basic to the plan, will be achieved or not. Other valuations could also be considered as quite ambitious, such as the external borrowing program which is again very significant for the closure of the I-S gap estimated in the plan.

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<sup>19</sup>Richard Porter, Future Aid Requirements for Jordan (U.S. Aid, n.d.), (Typescript).

Nevertheless, despite the fact that the plan's targets are generally ambitious and sometimes deemed beyond attainment during the plan period, the plan as such should not be too severely judged. Probably, the plan's fiscal program should be judged more in the light of its success at entrenching, on the various government levels, a clear consciousness of the fiscal problems facing the economy. If the plan succeeds at that it will have achieved enough, although its projected magnitudes might not all be accomplished.

C. Evaluation and recommendations for reform of fiscal planning, the conflict between development and military expenditures, and the main taxes

1. The fiscal and budgetary planning process:

The following evaluation will not deal with all the specific aspects of the fiscal and budgetary planning process. Only certain major features will be tackled here. This does not mean that the other aspects are not important but rather that they are beyond the scope of this chapter.

The budgeting process is by far the most comprehensive and practical instrument through which the government can bring into effect its avowed fiscal policy. In Jordan, where financial and other resources are not enough for the provision of the maximum rate of economic growth, difficult and continuous decisions are required by the top government authorities as to how to distribute the limited resources between normal government recurring expenditures that provide services to the public

at large and economic development expenditures. As was discussed in Chapter IV, the coming into effect of Budget Organization Law No. 39 of 1962 was an excellent start towards providing the beginnings of new organizational arrangements, reforms in existing ones, and a better assignment of responsibilities, all of which will ultimately lead to efficient long-, middle- and short-range fiscal planning for the economy. Despite the important accomplishments of this system in the relatively few years of its existence, especially in the fields of budget formulation and preparation, much still remains to be done, whether as to revisions in certain articles of Law No. 39, the execution of certain articles not yet implemented, and the required change in certain practices carried out by the fiscal planning authorities, as well as needed reforms in the administration of the various ministries.

Although presently the budget department, in cooperation with the JBB, the Central Bank, the ministry of national economy and the audit bureau are competent and capable of presenting reasonably complete data concerning fiscal and budgetary planning, as was revealed in Chapter IV, still this proper amassing of necessary data will serve little purpose if it is not actually used when the final decisions concerning fiscal policy are arrived at by the decision makers at the highest government levels. Apparently "despite frequent admonition from different sources, the council of ministers continues to make decisions on budget, fiscal and economic proposals in an irresponsible way."<sup>20</sup>

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<sup>20</sup>Gordon V. Porter, A Five Year Plan of Budget and Planning Improvement (Amman, December 1966), p. 26.

A look at the background preparation of the 1963/64 budget law, the first to be prepared under Law No. 39 of 1962 can be cited as an example of such irresponsible decisions.<sup>21</sup> Despite extensive clarifications and explanations of the new procedures to be followed in fiscal planning and the required careful preparation of each ministry's budget requests in order to incorporate the economic development objectives into the fiscal planning process, the top government officials deliberately decided to embark on 1963/64 fiscal year with an estimated deficit of about JD 6 million which created serious immediate complications in view of the intended decline in budget support and the insufficient cash balances of Jordan. The Prime Minister instructed that the estimation of expenditures and revenues be based on the 1962/63 estimates which were quite inflated as a result of the non-recurring Tapline payment received in 1962/63, and which increased expenditures in that year above normal expenditures by some JD 4 million. This meant that the 1963/64 figures were estimated beyond the available means of the government who deliberately planned a deficit in the first document under the new reformed fiscal planning system. Such action on the part of high government officials implies serious fiscal and economic inconsistencies with regard to the stated goals of the Seven Year Program that aim at eliminating the need for foreign budget support and reducing the balance of trade deficit. The fiscal policy of the plan states that the anticipated increases in GNP should not be totally diverted to government operating expenditures

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<sup>21</sup>Gordon Potter, "Critique on the Government of Jordan 1963/64 Budget" (Official correspondence between Gordon Potter and the Budget Department Director, Amman, August 1, 1963). Privately secured from ministry of finance.

nor to private non-developmental consumption to the detriment of the gross capital formation. The Plan's fiscal policy is expected to increase government revenue, and the responsible authorities should overcome the temptation to use these extra revenues on additional government recurring expenditures. Therefore, any planned estimate of a sizeable deficit like that of JD 6 million in 1963/64, and some other years after that, without the available resources to pay for it, is not only a step backward in the attempt to reduce dependence on foreign budget support, but will also make the task of restraining government recurring expenditures in the following years more burdensome.

Therefore, in order to achieve more coordinated fiscal planning it is suggested that "... The council of ministers immediately exercise self discipline..."<sup>22</sup> In the light of this and other needed reforms for a better functioning of fiscal planning, it is necessary that certain revisions should be incorporated in the Budget Organization Law No. 39 of 1962.<sup>23</sup> Any such revision should primarily attach the budget department to the office of the Prime Minister and make the Director of the budget department responsible for the Prime Minister instead of the minister of finance. This is essential as the fiscal planning process is a crucial one which has to be closely coordinated with the final decisions concerning fiscal policy in the council of ministers. Moreover, the procedure of a joint preparation of the "Review of Economic and Fiscal Situation" by various relevant government agencies should

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<sup>22</sup>Potter, A Five Year Plan of Budget and Planning Improvement, op.cit., p. 27.

<sup>23</sup>This law is currently under review in the budget department.

become an institutionalized procedure as the first step in the budget process to be a background to the Prime Minister's recommendation on economic, budget and fiscal policies. Another reform concerning Law No. 39 is that the budget department should carry out article 6 of this law concerning the appointment of budget examiners to the various ministries and governmental departments who will serve as the link between the various government agencies and the budget department, a procedure not yet followed.

One practice which draws attention in the fiscal planning process in Jordan is the vast discrepancies noticed between estimated revenues and expenditures and their actuals. Historically, the fiscal planning authorities have adopted the practice of deliberately underestimating government revenues from domestic sources while overestimating government expenditures, a practice which has often assured a net budget surplus by the time of recording the actual revenues and expenditures. Although it is usual to follow a cautious process in the estimation of revenues and expenditures, still, in Jordan, the extent of discrepancies between estimates and actuals is rather out of bounds and is usually designed deliberately. Despite the fact that this persistent practice was highly criticized by the Royal Fiscal Commission as well as in the recommendations for the fiscal planning reform in 1962, it is noticed, as revealed from table 31, that the fiscal planning authorities have not appreciably abandoned this practice. It is believed by some foreign advisors that the budget is being used as "... a window-dressing document for negotiations of external aid."<sup>24</sup> Thus, domestic revenues are persistently

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<sup>24</sup>Gordon Potter and Dr. Taylor [No forname given], "Budget Proposal" (unpublished correspondence between Gordon Potter, U.S. AID budget advisor, and Dr. N. Dajani, Amman, July 15, 1962), pp. 3-4. Privately secured from the budget department.

TABLE 31

DISCREPANCIES BETWEEN ESTIMATES AND ACTUALS OF BUDGET  
DOMESTIC REVENUES AND EXPENDITURES  
(In JD thousand)

Domestic Revenues			
Year	Estimates	Actuals	Discrepancy
1959/60	9,000	12,749	- 3,749
1960/61	11,000	13,840	- 2,840
1961/62	13,105	14,678	- 1,573
1962/63	18,937	21,110	- 2,173
1963/64	17,486	19,378	- 1,992
1964/65	21,534	23,828	- 2,294
1965/66	26,923	26,732	+ 191
1966 <sup>a</sup>	23,250	23,310	+ 60

Expenditures			
Year	Estimates	Actuals	Discrepancy
1959/60	39,302	30,700	+ 8,602
1960/61	36,867	32,842	+ 4,025
1961/62	35,022	32,982	+ 2,040
1962/63	41,618	37,525	+ 4,093
1963/64	43,875	39,347	+ 4,528
1964/65	50,990	43,623	+ 7,367
1965/66	59,798	46,988	+12,810
1966 <sup>a</sup>	55,091	38,600	+16,491

Source: Report of the Ministry of Finance, fiscal years 1959/60-1966.

<sup>a</sup>1966 fiscal year was for nine months only.

underestimated and expenditures overestimated possibly to emphasize the need for foreign aid. It is also possible, that by this practice, the government of Jordan tries "... to provide a cushion in the budget,



making it possible to operate on a reduced budget if the volume of external assistance granted falls short of that requested."<sup>25</sup>

Table 31 reveals the excessive discrepancies between estimated and actual figures. On the revenue side, the average discrepancy between estimates and actuals for the years 1955/56-1959/60 was 16.5 percent of actual revenues,<sup>26</sup> for 1960/61-1962/63 it was 13.8 percent of actuals and for 1963/64-1966 it was 4.7 percent of actuals. On the expenditure side, it is noticed that estimates departed from actuals by far greater absolute amounts, and the average ratio of discrepancies to actuals varied from 17 percent between 1955/56-1959/60,<sup>27</sup> 9.6 percent between 1960/61-1962/63 and 24.5 percent between 1963/64-1966. It is clear from these average ratios that after 1962, the overestimation of expenditures continued at a high ratio while that for revenues declined markedly.

Although such a practice generally provides a way of assuring the avoidance of budget deficits by the time of the closing of the accounts, still many arguments may be cited against such a practice: (i) It is far better to negotiate for external aid in an open manner and on the basis of the most realistic estimates possible as this increases the confidence of the aid-granting and loan-giving agencies in the budget procedure of Jordan; (ii) If the budget estimates are too unrealistic

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<sup>25</sup>Ibid., p. 4.

<sup>26</sup>Jordan, Report of the Royal Fiscal Commission (Amman: August 1960), p. 165.

<sup>27</sup>Ibid.

and constructed mainly for external aid negotiating purposes, it is likely that the budget will fail in its primary function as an operating document for the government ministries and departments. When the fiscal planning process is abused in such a manner, more realistic estimates must be prepared after the aid negotiations end which involves unnecessary work by the budget department and possible revisions in the ministries and department programs after the fiscal year is already underway;

(iii) Such a practice also has implications of sterilizing some funds and thereby eroding developmental activities. This is so because the persistent overestimation of expenditures and underestimation of revenues results, by the close of the fiscal year, either in a budget surplus or a small deficit contrary to the estimates of either a large deficit or a minor surplus. This discrepancy could have been gainfully employed on developmental expenditures instead of remaining sterile.<sup>28</sup>

The above points reveal that such a practice, although it was partly reduced over the years, should be totally discontinued and replaced by more research and analysis in the preparation of estimates. The present practice of revenue budgeting in Jordan needs more specific planning especially in light of the emphasis placed on the need to increase the rate of growth of domestic revenues in the Seven Year Program. As already discussed, this Program establishes long-term revenue objectives and has even named certain years for their implementation. Under the present practices, it is primarily the budget department which is

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<sup>28</sup>Potter, A Five Year Plan of Budget and Planning Improvement, op.cit., p. 33.

responsible for revenue budgeting and a temporary committee meets every year to design revenue budgeting.<sup>29</sup> However, considering the decisive role of taxation policy in order to raise increasing revenues for the government and to restrain unnecessary expenditures, it is suggested that a full-time staff should become responsible for continuous review and analysis of the existing tax and other domestic revenue laws in order to assess the equity principle applied by the existing revenue structure, possibilities of untapped revenue sources, effect of the various taxes and other revenue items on the developmental activities as well as other similar responsibilities. Accordingly, in the short-run, the budget department director could appoint a budget examiner to do full-time research on this duty while in the long-run a full-time department should be founded.<sup>30</sup>

Another field worthy of mention is that of administration. It is noticed that various budget procedures are not being carefully followed, and the blame cannot be all placed on the staff, who, in many cases, do not understand completely the system they are operating with its requirements for scientific research and analysis as well as careful planning, all of which are "...unnatural to the inclinations of the typical Jordanian Civil Servant."<sup>31</sup> Consequently, the budget department should undertake a program of administrative analysis and research. Not only does the Budget Organization Law No. 39 request that such a program

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<sup>29</sup>Griffenhagen-Kroeger Inc., Recommendations for Efficient Utilization of Current Budget and Accounting Systems of the Government of Jordan ("Public Administration Improvement Project"; Amman, December, 1965), p. 24. (Typescript.)

<sup>30</sup>Ibid., p. 25.

<sup>31</sup>Ibid., p. 15.

be started in the budget department in conjunction with the civil service department but there are evidently urgent needs for a start of such an activity as soon as possible. Presently there is a general absence of motivation and understanding of dealing with management tools such as staff reports, planning and scheduling, management reports and a multitude of such procedural activities. Briefly, the administrative role in the government ministries is not satisfying in the least and there is the likelihood that even if proper fiscal planning is processed, the implementation of the planned projects will not be carried out. Therefore, the budget department should keenly further the initiation of efficient administrative activities in the various government ministries. In particular, the budget department should develop management recommendations to the various ministries for executing the major financial recommendations of the Seven Year Program. Jordan can also call on technical assistance to help in administrative training for the civil servants of the main ministries and departments.<sup>32</sup>

The list of needed reforms in the fiscal planning process is not exhausted by the above. Many others can be cited concerning budget comprehensiveness and format, program and performance budgeting etc... but the above are the most relevant for the present evaluation.

## 2. Conflict between development and military expenditures:

It was observed in Chapter III that the public sector in Jordan accounts for a sizeable share of GNP which averaged about 30 percent

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<sup>32</sup>Ibid., pp. 28-29.

between 1959 and 1965. Although government expenditures over the years have appreciably helped in the remarkable growth of the Jordan economy, still one cannot infer much from the relatively high share of public expenditures in GNP before closely examining the major components of those expenditures as regards their effects on the long-term growth of the economy.

Such a close study of the government's activities, as revealed from its budget expenditures over the years since 1951, clearly shows that the largest single group<sup>of</sup> expenditures was that of defense. As revealed from Table 20 in Chapter III, defense expenditures by themselves sometimes accounted for more than the total of domestic revenues.<sup>33</sup> As a ratio of total expenditures (both development and recurring), defense expenditures accounted for varying ratios between 1959 and 1968 which ranged from 52 percent in 1959/60 to 41 percent in 1968 budget estimates (table 32).

These defense expenditures became necessary since the Palestine War of 1948 and were continued on a large scale over the years. The present state of affairs in the area requires extensive military preparation by the Jordanian government on a larger scale than before. The existence of the needs for both extensive defense expenditures and developmental expenditures especially in view of the present partly on-going Seven Year Program, implies an apparent conflict between developmental objectives that require a restraint on public recurring expenditures,

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<sup>33</sup>In the budget estimates for 1968, defense expenditures are estimated at almost double the estimates for domestic revenues (JD 35 million compared to JD 18.5 million).

TABLE 32

RATIO OF DEFENSE EXPENDITURES IN TOTAL PUBLIC EXPENDITURES  
(In JD million)

Year	Total public expenditures	Defense expenditures	Percentage ratio
1959/60	30.7	15.8	52
1960/61	32.8	16.1	48
1961/62	32.9	16.4	48
1962/63	37.5	16.8	46
1963/64	39.3	18.5	46
1964/65	43.6	18.5	41
1965/66	46.9	18.7	40
1966	38.3	14.3	37
1967	55.4	20.1	41
1968	84.6	35.1	42

Source: Jordan, Budget Department, Budget Law for the Fiscal Year 1968, Appendix, Schedule A.

and the large shares accorded to defense over the years since the formation of Jordan as a kingdom, and not only since June 1967. Despite this conflict, the Jordanian case is interesting because it shows how the fiscal policy of a developing country adapted itself and evolved under the continuous pressure of defense requirements without abandoning the developmental objectives and stability. However, this process could be maintained over the past years because of the massive amounts of foreign aid that were forthcoming to Jordan. Under present conditions, this conflict between development and military expenditures is more emphasized than ever for two obvious reasons: (i) the recent war with Israel and the military occupation of a sizeable and economically

important part of the country; (ii) while in the past Jordan could rely heavily on U.S. and U.K. foreign aid to supply all of its military expenditures as well as a good part of its other expenditures, it cannot very well depend on that any longer in view of the abrupt termination of the U.S. and U.K. budget support for this year. Although the Arab countries have contributed sizeable amounts of support after June 1967, this is not yet a regularized long-run payment agreement. Moreover, it is doubtful whether Jordan can, under the present war-like situation in the area, attain all its projected external borrowing program which constitutes a main source of funds necessary for financing the plan.

Therefore, although the plan called for a maintenance of defense expenditures at their 1963 level, this could not be adhered to in view of the new developments. Today, the current issue in Jordan concerning economic policy is whether the incipient forces of economic development can be sustained, or whether the additional calls on Jordan's resources for defense expenditures have to imply a slower rate of growth in productive investment. It is suggested that the proportion of defense expenditures to total government expenditures has always formed a claim on the country's pool of resources which was not the most conducive to accelerated growth. However, with the aftermath of the June 1967 war this became more apparent as other aims than economic development ones started to have a relatively high priority in the present budgetary policy of Jordan.

The analysis of the Jordan economy revealed the paucity of financial and other resources and the considerable dependence of the economy on external aid in order to defray all the needed government expenditures,

whether developmental or military. In light of this limitation, and considering the possibility of a decline in the level of external aid, as was anticipated in the plan, Jordan should try to adopt a clear priority system of expenditure objectives designed in view of significant political and economic requirements of the nation.

If Jordan were to place military expenditures at the top of its priority scale, then various features of the Jordan economy should be changed in order to facilitate this, which requires certain fiscal policies aimed at mobilizing most of the country's resources for the war effort. At a time when the national effort is to be at its highest, and when the use of national resources is greatly demanded for such efforts, private investment and consumption must be cut down appreciably so that the highest possible proportion of the limited resources may be diverted to the war effort. A choice of this nature involves various problems that should be efficiently dealt with in view of the limited resources of the country. The role of fiscal policy under such conditions is therefore important as an indirect means of attaining a rapid transfer of the needed resources and restriction of unnecessary expenditures to further the objectives of the war effort.

On the other hand, if Jordan prefers to place economic developmental objectives at the top of its priority scale for expenditures, restraints are necessary on government and private consumption expenditures which implies a tremendous transfer of funds from defense expenditures to developmental ones. In short, it is likely that if Jordan wishes to allocate its limited resources in the most gainful manner that it should



try to make a choice of either concentrating more on developmental expenditures, or else on military ones. To sustain efficiently expenditures on the two levels is probably beyond Jordan's means.

In view of this present conflict between development and military objectives in Jordan, any analysis of future economic development will be rather inconclusive, for other aims than those of economic development have always been in the background as evidenced by the large share of defense expenditures in GNP, domestic revenues and total expenditures.

### 3. Evaluation of the main taxes:

The analysis carried out in the foregoing chapters reveals that the burden of the Jordanian tax system is not excessively heavy if compared to standards in other developing countries. The ratio of total domestic revenues to GNP was about 14 percent in 1959, very close to the median ratio for low income countries which stood at 13.7 percent in 1959.<sup>34</sup> An empirical study of tax incidence in Jordan also reveals that the burden of taxation is not excessive.<sup>35</sup> It was also observed that the tax system as a whole is regressive as it is heavily weighed with indirect taxes and other levies. In view of such characteristics, the Seven Year Plan's tax proposals are primarily designed to raise domestic revenues by increasing the tax rates of various taxes, introducing new taxes, and higher progressive rates on certain taxes. At

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<sup>34</sup>U Tun Wai, "Taxation Problems and Policies of Underdeveloped Countries," I.M.F. Staff Papers, IX (November, 1962), p. 429.

<sup>35</sup>See Toukan, op.cit., pp. 18-45. Main results were: Total per capita taxes amounted to 11.9 percent and 11.3 percent of per capita GDP in 1959 and 1961 respectively. Direct taxes amounted to 1.4 percent and 1.3 percent of per capita GDP in the same years while indirect taxes accounted for 10.4 percent and 9.9 percent respectively.

the same time, the tax program of the plan demands that the existing inequalities in the distribution of the tax burden be alleviated as much as is compatible with the first objective. Administratively, the plan calls for a more efficient administration of the main taxes and a system of tax collections that is economical.

a. The income tax:- Starting in 1966, a more progressive income tax schedule was introduced in accordance with Law No. 25 of 1964. Despite this, the income tax still suffers from various problems connected with its administration. Moreover, an analysis of the tax rate schedule and the exemptions and allowances found in the Law, shows that some suggested reforms could possibly increase the revenue from this tax, which is relatively low at present. The suggested reforms could also reduce the inequality in the distribution of the tax burden.

(1) Administration:- No matter how perfect the legal provisions of the income tax law are, inefficient administration of the tax can easily result in tax evasion on a large scale, a characteristic which is quite common in underdeveloped countries and perhaps Jordan is no exception to that. An empirical study on Jordan's tax structure has revealed that there is a considerable amount of income tax evasion. In 1964, the ratio of income tax evasion to actual collections was estimated at 2.5 percent.<sup>36</sup>

Tax evasion is known to have adverse effects on equity and allocation of resources. It is adverse to the principle of equity in the distribution of the tax burden as the tax is collected from honest

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<sup>36</sup>Ibid., p. 57. For a detailed discussion on the estimates, see pp. 53-68.

taxpayers while the cheats who evade payment, are thus not burdened with tax payments. Moreover, the cheats tend to spend the gained money from tax evasion on expenditures that are generally not in line with the requirements of the expenditures' policy of the plan, thereby producing a misallocation of resources. The necessary conclusion is that if more expenditures on reforming and upgrading the staff of the income tax department can have positive effects on reducing evasion by some multiple of the expenditures incurred, this reform should be executed as it decreases greatly the inefficiencies of the tax system as a whole.<sup>37</sup>

The present structure, staff and budgetary allocations of the income tax department are inadequate for solving the tax evasion problem and will not be able to cope with any future extra burden of work connected with the expected increase in the number of assessments. It is noted that only 46 percent of the assessees were assessed in the years 1962/63 and 1963/64.<sup>38</sup> As for the department's staff, their ratio to the number of assessments did not increase much over the decade 1954-1964. If the department's expenditures are taken as a ratio of the actual income tax collections, it is noticed that this ratio has declined between 1954 and 1964 from 6.3 percent to 4.4 percent respectively.<sup>39</sup>

This brief description of the existing income tax administration reveals that reforms are badly needed to cut on the considerable amount

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<sup>37</sup> Ibid., p. 102.

<sup>38</sup> Galeb Arafa, The Economics of Income Tax Evasion in Jordan (Amman: Yusuf Bahous and Co., 1965), p. 59, (In Arabic).

<sup>39</sup> Toukan, op.cit., p. 103.

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<sup>39</sup> Toukan, op.cit., p. 103.

of evasion, follow-up the new means capable of coping with the unassessed returns and the expected increase in the responsibilities of this department. Among the various changes that may be introduced are: (i) an increase in the number of staff employed in the department, part of whom should hold university degrees; (ii) the appointment of an efficient director of the income tax who has adequate experience in public finance and administration, and who should be a person with high integrity; (iii) incorporating an amendment in the law in order to grant the director of tax greater powers regarding the final assessments and in the reopening of disputed cases; this will remove any bias or disagreement between the assessor and the assessee; (iv) intensive training programs in public finance, tax administration and other connected areas must be given continuously to the staff of the department; (v) more budget allocations should be allowed for this department in order to increase its staff, introduce mechanization, and allow for a higher pay scale that will possibly strengthen the morale of income tax officers. Such action will enhance the status of the department which up till now has been largely neglected in matters of administrative reforms.

If such administrative reforms replace the present existing practices, it is very likely that the revenues from income tax will be increased as tax evasion will be greatly reduced. However, the relatively low yields of income tax in Jordan as was revealed in Chapter III, are also caused by certain features of the income tax law which allows for many exemptions from the tax and which contains certain articles that allow for an escape from the tax as appears in the following discussion.

(2) Income tax rate structure, exemption and allowances:-

The Income Tax Law No. 25 of 1964 includes a detailed list of exemptions and allowances for individual residents. The main exempted items from the tax are dividends, lump sum retirement or injury payments, student earnings, and capital gains.<sup>40</sup> Moreover, the individual's income will not be subjected to the tax before considering the personal and family allowances that can reach a maximum of JD 320 and, in cases where the individual has employment income or pension income, before deducting 15 percent of his taxable income, to a maximum of JD 200. Other than these, the individual may deduct from his taxable income the following: "travel and subsistence expenditures without specific limitations, entertainment expenses to a maximum of JD 150; university education charges of up to JD 200 per student; dependency or non-related child maintenance costs up to JD 50; and up to 25 percent for charitable contributions. He may also credit against tax five percent, to a maximum of JD 8, of life insurance premiums paid or pension fund contributions made."<sup>41</sup>

Evidently, the advantages from these exemptions (Article 8 of Law No. 25 of 1964) accrue mostly to the taxpayers in the upper income brackets. Moreover, such exemptions and allowances tend to lower the top "slice" of income that can be subjected to the tax.<sup>42</sup>

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<sup>40</sup>Capital gains are discussed separately in the following pages.

<sup>41</sup>Jasper S. Costa, Review, Jordan Income Tax Law No. 25 of 1964 (Amman, June 1966), p. 3. (Typescript).

<sup>42</sup>Ibid., p. 5.

Another noticeable deficiency in the income tax law is that its progressive tax rate schedule on non-company taxable income carries a relatively higher tax burden at the lower end of the scale than the upper end.<sup>43</sup> Thus the rate of tax on individual income, marginally and effectively, increases more steeply in the first seven brackets, due to their relatively narrow income range of JD 400 each, than in the remaining higher brackets. The tax rates range from 5-30 percent marginally, and 5-16 percent effectively, on the first JD 2800 as compared to a top marginal rate of 50 percent and an effective rate of 32.1 percent at JD 8000. Such an income tax rate schedule in which the lower seven income brackets are subjected to a relatively higher tax than the upper income brackets, necessarily implies a discrimination against such lower incomes. Consequently, it would seem desirable "... to review the actual impact of the tax in all income brackets, with a view to a re-examination of the rate structure, if found necessary."<sup>44</sup>

Table 33 below depicts the rate of progression in the income tax rate schedule by the use of an elasticity index of progression which is computed for the tax rate schedule, for personal income changes of JD 400 at a time. This elasticity measures the rate of change in tax liability due to a given rate of change in personal income. As revealed from the table, this index starts to decline steadily and swiftly from 2.6 at a level of JD 3520 to 1.6 at an income level of JD 7520 implying a lower elasticity coefficient at higher incomes. Also, there is an

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<sup>43</sup> Ibid., p. 5.

<sup>44</sup> Ibid., p. 11.

TABLE 33

THE RATE OF CHANGE IN THE PROGRESSION OF THE 1964 INCOME  
TAX SCHEDULE OF JORDAN COMPUTED FOR INCOME INTERVALS  
OF 400 JD'S, FOR A FAMILY WITH FOUR CHILDREN

Tax bracket	Income (JD)	Change in income %	Tax rate %	Tax liability (JD)	Change in tax liability %	Elasticity (6) ÷ (3)
(1)	(2)	(3)	(4)	(5)	(6)	(6) ÷ (3)
Up to	320	-	0	0	-	-
1st	720	-	5	20	-	-
2nd	1120	55.5	7	48	140	2.48
3rd	1520	35.0	10	88	83	2.30
4th	1920	26.3	15	148	68	2.50
5th	2320	20.0	20	228	54	2.70
6th	2720	17.0	25	328	43	2.50
7th	3120	14.0	30	448	36	2.50
8th	3520	12.8	40	598	33.4	2.6
	3920	11.3	40	758	26.7	2.36
	4320	10.2	40	918	21.1	2.06
9th	4720	9.3	40	1078	17.4	1.86
	5120	8.4	40	1238	14.8	1.76
	5520	7.8	50	1418	14.5	1.85
	5920	7.2	50	1618	14.1	1.95
	6320	6.7	50	1818	12.3	1.83
10th	6720	6.3	50	2016	11.0	1.74
	7120	5.9	50	2218	9.9	1.67
	7520	5.6	50	2418	9.1	1.62

Source: Abdul-Rahman Roukan, "The Implications of Achieving Fiscal Independence for Jordan" (unpublished Ph.D. thesis, Vanderbilt University, 1967), p. 108.

Notes: (i) Column (2) shows personal income accumulated at JD 400 for each step.

(ii) The last column shows the ratio of a percentage change in tax liability to percentage change in income increases by JD 400 at each step. The resultant number is an elasticity coefficient which indicates the variation in the rate of progression at various levels of income.



abrupt change in the tax rate at a taxable income of JD 2800 for the short income range of JD 200 which in effect causes the progression index to rise from 2.5 to 2.6. Accordingly, a proposed reform of the tax schedule should soften the rise in progression at the taxable income range of JD 2800 - JD 3000 in order to be more in accordance with the progression rates at higher and lower incomes. Another proposal could be a reduction in the sharp decline in progression at higher incomes which requires the following:<sup>45</sup> (i) widening the eighth bracket of JD 200 to JD 800 at the existing rate of 35 percent thereby causing a decline in the progression rate from 2.6 to 2.44; (ii) reducing the range of the ninth and tenth brackets from JD 2000 to JD 1000 each at the same rates of 40 percent and 50 percent respectively, and (iii) including an additional bracket at a rate of 60 percent for taxable income above JD 6000. With these changes, the index of progression is expected to decline over all these ranges from 2.44 to 1.83 as opposed to the present decline from 2.6 to 1.6.<sup>46</sup> These suggested changes, along with the existing income tax schedule are presented in Table 34 below.

These suggested changes serve the equity and revenue considerations of the income tax. The reduction of the tax rate on the middle income band may be justified by the fact that the rate of progression in that band is much steeper than in the higher bands. As for the increases in higher income rates, they are designed to soften the swift decline in the rate of progression and to increase revenues.

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<sup>45</sup> Toukan, *op.cit.*, p. 105.

<sup>46</sup> *Ibid.*, pp. 105-106.

TABLE 34

THE 1964 INCOME TAX SCHEDULE AND  
SUGGESTED CHANGES

Existing rate schedule			Suggested rate schedule		
Taxable brackets	income (in JD's)	1964 schedule	Taxable brackets	income (in JD's)	Suggested schedule
1st	400	5	1st	400	5
2nd	400	7	2nd	400	7
3rd	400	10	3rd	400	10
4th	400	15	4th	400	15
5th	400	20	5th	400	20
6th	400	25	6th	400	25
7th	400	30	7th	400	30
Next	200	35	Next	760	35
Next	2000	40	Next	1000	40
Next	2000	50	Next	1000	50
and above			Next	1000	60
			and above		

Source: Abdul-Rahman Toukan, "The Implications of Achieving Fiscal Independence for Jordan" (Unpublished Ph.D. thesis, Vanderbilt University, 1967), p. 109.

One justification for the 60 percent new rate is that it will be applied to individual incomes that exceed JD 6020 which are relatively few in number.

It was mentioned in Chapter III that the liability of the lands and buildings tax can be deducted from the income tax liability for all individuals who are subject to the income tax. This implies that those individuals whose income is below the exemption level of the income tax are not refunded with whatever amount they pay for the lands and buildings tax which is not a justifiable procedure. Such a deduction

defeats the main purpose of imposing this tax which is expected to pay for the increasing demand for services in the urban municipal areas. From an equity point of view, it is not equitable as it allows high income earners to take advantage of such a deduction while most low income earners do not get any advantage, their incomes being below the exemption limit of the income tax. Therefore, on grounds of equity, revenue, and administrative feasibility, it is advisable to cancel this deduction. The justification connected with economic efficiency relates to the possible discouragement of luxury buildings and will be dealt with under the lands and buildings tax below. There will be a smaller administrative burden because such a cancellation will, first, reduce inter-departmental work, the income tax and the lands and buildings tax being separately administered by two departments, and, second, because it cuts on the time and effort needed by the income tax department for deducting this liability.<sup>47</sup>

The evaluation of the income tax rate schedules, exemptions and allowances reveals that the structure of the income tax does not adhere fully to the often stated desirable tax objectives such as taxing in accordance with the ability to pay principle, through a comprehensive progressive tax rate schedule and affecting a redistribution of income from the higher income groups to the lower. This makes the legal structure of the tax appear as if somehow biased towards regressivity. The above suggested changes are likely to reduce the inequity in the urban sector as well as intersectoral inequities, and raise the share of the income

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<sup>47</sup>Ibid., p. 107.

tax in total revenues.

b. The company tax:- In the past, corporate profits were taxed at a flat/<sup>rate</sup>of 25 percent and to the extent that these profits were distributed, the individual shareholders were allowed to subtract from their total income tax liability the tax paid by the corporation in respect of their shares of the dividends. Thus, corporate dividends were taxed like any other source of income except for the retained earnings of the corporation.

On the other hand, with the promulgation of the new income tax law of 1964, corporate profits became taxed at a flat rate of 25 percent, with no refunds to the shareholders but with an exemption of dividends from the income tax. This new practice is inequitable to the small shareholders whose income falls below the level of income that is exempted from the income tax, and those whose incomes are lightly taxed. These carry now a heavier tax liability than before because they are no more refunded with what the company pays of taxes in respect of their shares. On the other hand, this procedure is advantageous to the high income groups as it offers them an excellent chance to escape the high marginal income tax rates by incorporating, thereby keeping their income tax liability after a certain level of income at 25 percent only. For example, assume a taxable income of JD 12,000, JD 3000 of which are net salary (after allowing for the maximum deduction of JD 570 for personal and family and general allowances) and JD 9000 as corporate profits which are distributed as dividends exempt from tax. The tax levied on the salary would amount to JD 518 (about 17.3 percent), while the tax imposed

on the corporation would be JD 2250 (25 percent), thereby levying a total tax of JD 2768 (about 23.2 percent) on the JD 12,000 taxable income. On the other hand, a tax on this same income if conducted as a sole proprietorship, would amount to JD 4568 (about 38 percent). Therefore, the difference resulting from a change of individual income to corporation form of income, amounts to JD 1800 (about 64 percent). It is noticed that many Jordanian taxpayers are gaining from this apparent tax loophole.<sup>48</sup>

The above reveals that company income taxed at a flat rate of 25 percent fares better than non-company income which is effectively taxed above that rate. However, although such deficiencies should be reformed, it must be remembered that the corporation type of business is of fairly recent origin in Jordan and is as such instrumental in mobilizing savings and channelling them into investments that further the goals of the plan. Consequently, many would hold the opinion that company taxation should not be subjected to excessively high tax rates. A sort of dilemma arises here when revenue considerations come into the picture, especially at this stage in the economy of Jordan when increasing revenues are greatly needed. However, although the revenue aspect is very important, investment is in turn crucial as a determinant of the national income in the country and consequently, the tax revenues available through a higher income level.

Despite this dilemma, the company tax rate in Jordan, if compared

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<sup>48</sup> Costa, op.cit., pp. 3-4.

to rates in other developing countries, is found to be relatively low.<sup>49</sup> Therefore, it is possible that it could be raised to an extent that would not adversely affect the incentives to invest in companies while at the same time it is likely to increase revenues.<sup>50</sup> Moreover, a study on Jordan's fiscal system suggests a tax credit of 15 percent to be allowed against income tax liability.<sup>51</sup> This is likely to be more equitable to small income earners who are shareholders in companies because it subjects company income to the progressive rates of the income tax. Such a reform is not expected to create administrative problems as the income tax administration had a long period of experience in administering such deductions in accordance with the previous income tax law.

c. The urban lands and buildings tax:- Table D in the Statistical Appendix shows that this tax has not been productive in revenue. One explanation of this feature is the "... lag between an increase in the value of real estate in urban centers and official valuation for the purpose of levying the tax."<sup>52</sup> Jordan's law demands a valuation every five years but even if such a revaluation takes place in a regular manner, it still would not correspond with the real value of properties because of the limitations imposed by the operation of

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<sup>49</sup>U Tun Wai, loc.cit., p. 437.

<sup>50</sup>Toukan, op.cit., p. 110. This study recommends an increase in the company tax rate from 25 percent to 30 percent.

<sup>51</sup>Ibid., p. 111.

<sup>52</sup>Ibid.

the Rent Control Law. This law states that a house once rented to a tenant, remains at the same level of rent until the tenant decides to leave voluntarily and the house is then rented to another tenant. Moreover, the law adopts the annual rental value as the basis for levying the urban property tax.

As mentioned earlier, this tax is very important for increasing the revenues going to municipal areas, badly required to meet the expanding needs for municipal services especially in the rapidly growing urban centers. This implies the need for a more efficient and rational manner of collecting this tax, making it more responsive to the rapidly increasing real values of urban properties.

Two remedies for the existing situation may be suggested. The first remedy<sup>is</sup>/proposed in the Seven Year Plan and is a long-run solution. It suggests the revision of the Rent Control Law in order to allow for a periodic revision of the rental values so as to take into consideration the growing value of urban property. The second suggested remedy is a short-run solution which advises a revaluation of properties in accordance with their market values for purposes of the urban tax. It is suggested that the excess of the tax liability over what obtains if the property were to be valued in line with the actual rental could be imposed on the tenant instead of the owner of the property, as the former is the one who receives the benefits of the services of this extra value without paying any rental in return. This solution is possibly the most feasible and equitable one in the presence of the existing Rent Control Law. Such a short-run remedy is very significant

from an economic efficiency viewpoint as it may hopefully discourage the construction of luxury housing and divert the resources into cheaper housing necessary for the middle and lower income groups. The suggested short-run reforms may affectuate this by imposing the tax according to the market worth of the rental which implies a higher tax on expensive luxury houses whose rentals are currently frozen by the Rent Control Law. A last point is that, with the long experience acquired in the administration of this tax, there will be no great problem in finding the experienced people needed for executing the suggested reform. Higher administrative costs may be incurred in order to get the additional needed trained man-power but, in all probability, such costs will form only a small fraction of the expected increase in revenues from this tax.<sup>53</sup> Up to the present date, the main recommendations of the plan concerning the land and buildings tax have not been carried out.

d. The agricultural land tax:- Agriculture is a main sector in the Jordan economy which accounts for a sizeable part of the gross domestic product. Nevertheless, agricultural income is not yet subjected to the income tax. The plan proposes that the income tax be imposed on such income as "the outright exemption of agricultural income and agricultural land from taxation can no longer justified given the pressing revenue needs of the Kingdom and rising agricultural income."<sup>54</sup> This is possibly an ideal solution for the long-run. Some experts of the

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<sup>53</sup>Ibid., p. 112.

<sup>54</sup>JDB, op.cit., p. 52.



Jordan economy observe that this course of action should not be undertaken until the volatility of the income of this sector drops by introducing greater dependence on irrigated agriculture and better dry-land farming methods. Moreover, an early imposition of the income tax on agricultural income will possibly involve various administrative problems arising from (i) the volatility of agricultural income, (ii) the presence of a sizeable subsistence agricultural sector, (iii) poor record keeping and (iv) the low level of literacy.<sup>55</sup>

In view of the inadvisability of subjecting agricultural income to the income tax except in the long-run, it is suggested that the existing agricultural land tax should be retained after introducing some revisions that will reflect land productivity and that will make it slightly more progressive. Some suggested changes in the land tax include: (i) a revision of the rate structure in accordance with land productivity of the major crops; (ii) introduction of a slight rate of progression to accord with land area and (iii) subjecting rain-fed land to the land tax in accordance with a certain rate prepared for this category which reflects its productivity. Such guidelines for a reform of the land tax if carefully designed will hopefully provide for a more equitable and more productive land tax without hampering agricultural productivity.<sup>56</sup>

e. Excise taxes:- As was already discussed, revenues from indirect taxes depend heavily on customs and other taxes on imports.

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<sup>55</sup>Toukan, op.cit., p. 114.

<sup>56</sup>Ibid., pp. 114-16.

However, if the plan's goals are to be achieved, with the implications of a policy of import substitution and a restraint of the growth of imports, the growth of revenue from customs and associated import duties is expected to be appreciably restrained even with the imposition of higher rates. Therefore, in order to increase domestic revenues as required by the plan, indirect taxation should be diversified in order to obtain more revenues from sources other than imports. Excise taxes form the right avenue for this. These taxes are generally favored in developing countries because of their easy administration and as they produce sizeable amounts of revenue. There are some theoretical arguments that are against excises because they have inherently regressive effects. However, the inherent regressivity can be appreciably reduced by imposing high rates on luxuries and semi-luxuries while keeping low rates on necessities.

The favorable arguments concerning excises support in particular excise taxes on tobacco, and alcoholic beverages. Such commodities are not generally considered among the necessities, they have a low elasticity of demand and the social costs connected with their sumptuary nature and their consumption all strengthen the case for levying taxes on them on equity and social welfare grounds.

The demand elasticity for cigarettes and wines in Jordan is low, which gives a justifiable basis for a mild revision of the excise taxes imposed on both these commodities if this is necessary for revenue considerations. Cigarette prices in Jordan are considerably low if compared with cigarette prices in other countries in the area. It is

suggested that excise taxes on cigarettes be increased by some 25 percent over the existing prices while the new suggested prices will still be lower than in other neighbouring countries. Also, excises on wines can be increased by the same percentage because the prices of wines in Jordan are also low compared to other countries in the area. Such increases in excise taxes on wines and cigarettes will be expected to secure more revenues than currently obtainable and to further the social welfare goals of society. Moreover, the increase in the prices of these domestically produced commodities remains much lower than prices of similar imported ones, thereby eliminating the possible danger from foreign competition.<sup>57</sup>

f. Capital gains:- One of the main shortcomings of the Jordanian tax system is the exemption of capital gains from taxation. Such gains are a part of the ability to pay as any other source of income, if not more because of their nature of being an unearned surplus.

One reason for the absence of a tax on capital gains is possibly the conventional way of defining income. An accurate definition of income is one which "... considers income during a given period as consumption plus or minus any change in asset values."<sup>58</sup> Such a definition allows for capital depreciation or appreciation, but, in operation, it is not very practicable as it involves difficulties in valuation of such gains on an accrual basis. Therefore, it is more feasible to tax capital gains when they are already realized. Such a method requires solving the

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<sup>57</sup> Ibid., pp. 116-119.

<sup>58</sup> Ibid., p. 119.

problem of the time period during which a capital asset is held. The longer the time period, the less should the tax liability be on the realized capital gains.<sup>59</sup>

The plan proposes the imposition of income tax on capital gains but this has not been achieved yet. Jordan should initiate a capital gains tax in order to tap such an important source of income, particularly gains that are realized on real estate in the rapidly growing urban areas as well as gains from stock appreciation. It is likely that the introduction of a capital gains tax will involve administrative difficulties, and therefore, in the early few years it should be imposed only on those two categories. It is relatively easy to levy taxes on these two sources of capital gains as records of their transactions are kept in a consistent manner. Sales of real estate and transfers of titles are registered in the lands and surveys department while most transactions dealing with company shares are registered in the companies concerned. Such information can be easily given to any central office founded for the administration of a capital gains tax.<sup>60</sup>

It should be remembered that capital gains form an irregular source of income, a fact which should be considered in deciding the level of the tax. Also, capital losses must be duly deducted from present or future gains on the basis of equity.

The above recommendations for reform of the main taxes are suggested in the light of the main objectives of the plan's tax program.

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<sup>59</sup>Ibid.

<sup>60</sup>Ibid., p. 120.

If successfully implemented, these suggestions are expected to add substantial amounts to domestic revenues. At the same time, it is likely that they will bring about a more equitable distribution of tax burden and a more efficient administration of the main taxes.

## APPENDIX I

### GENERAL BUDGET ORGANIZATION LAW NO. (39) FOR THE YEAR 1962 (Provisional Law)

Article 1 This Provisional Law shall be called "The General Budget Organization Law for 1962" and shall be effective from the date of its Publication in the Official Gazette.

Article 2 Definition of terms used in this Law:

- A- The terms "General Budget" includes the detailed and financial program of the Hashemite Kingdom of Jordan and consists of the estimated revenues and expenditures for a designated fiscal year.
- B- The word "Department" means any ministry, department or bureau, office, board, corporation or authority whose allocations are included in the "General Budget Law".
- C- The term "expected results" means the services and benefits which will accrue to the public during a fiscal year through the Government department.

Article 3 A- A special department called "General Budget Organization Department" shall be established and attached to the Minister of Finance and provided with adequate number of employees.

B- The Department will be headed by an official called "Director of General Budget" with the rank of an undersecretary to be appointed in accordance with the legal principles adopted for appointment of undersecretaries.

C- The Budget Director shall be directly responsible to the Minister of Finance for all operations of the budget organization department.

Article 4 The Minister of Finance, Minister of National Economy, Governor of the Central Bank, Head of the Audit Bureau, and Vice President (Development Board) shall serve as an advisory Board to render their recommendations in respect of revenues, expenditures, fees and taxes estimates and in the general Budget Policy.

Article 5 The General Budget Organization Department will enjoy the following powers and carry out the following functions:

- A- Prepare the general annual budget of the Hashemite Kingdom of Jordan.
- B- Propose allocations of funds necessary for executing the general policy adopted by the Council of Ministers.
- C- Reduce, increase, assemble, correlate or revise appropriation requests made by all Government departments.
- D- Examine all programs, activities and projects for which appropriations are requested to ascertain their effectiveness and interrelationship.
- E- Assure the elimination of unnecessary duplications of programs and of financing.
- F- Insure compliance of appropriation requests with economic, fiscal and other policies as determined by the Council of Ministers.
- G- Request information concerning all programs, activities, projects and their financing from all Government departments.
- H- Review all documents, correspondence and financial records of any Government department.
- I- Investigate and analyze, in cooperation with the Civil Service Commission, the administrative operations and programs of all Government departments to develop progress for their improvement.
- J- Prepare and issue the budget calendar consisting of deadline dates for submission of budget policy documents, budget estimates and other materials in order that the General Budget may be approved by April 1, of each year.

Article 6 Each Government department will assign as official of class one called "Budget Office" to be the link between that department and the General Budget Organization Department in all matters pertinent to the department's budget.

Article 7 The General Budget draft law shall include the following:

- A- A table showing forecasts of revenues and expenditures for next budget year and a narrative resumé discussing how the various proposed Government programs fall within the purview of budget policy message.
- B- General summary financial statements showing actual revenues and expenditures for the last completed year and estimated revenues and expenditures for the current fiscal year.
- C- A table showing estimated revenues for next fiscal year by sources of revenue under existing laws at the time the budget is transmitted.
- D- Summary financial statements showing the conditions of treasury.
- E- Financial statements of short and long-term, internal and external indebtedness of the Government and proposed plans for debt retirement.
- F- Brief narrative description of the program content and program objectives of the Government together with expected results and funds allocated for Government departments to be grouped together by budget chapters as provided in the constitution.

Article 8 The Council of Ministers may set up the regulations required for executing the provisions of this law.

Article 9 The Council of Ministers and Ministers, each within his duties, are charged with executing the provisions of this law.

Published in the Official Gazette, October 16, 1962.



STATISTICAL APPENDIX

TABLE A

BALANCE OF PAYMENTS 1953-1966  
(In JD million)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
<u>Balance of Goods and Services</u>	-11.51	-11.16	-16.00	-13.19	-15.19	-21.19	-27.67	-28.45	-25.46	-23.18	-36.18	-24.45	-26.83	-35.62
Imports, C.I.F.	18.21	18.59	25.26	24.61	29.76	33.97	39.39	41.43	40.93	43.51	53.63	49.38	55.77	67.27
Exports & re-exports, F.O.B.	2.66	3.05	3.57	5.61	5.54	3.53	3.41	3.95	5.27	5.92	6.56	8.73	9.91	10.40
Trade Balance	-15.55	-15.54	-21.69	-19.45	-24.22	-30.44	-35.98	-37.48	-35.66	-37.59	-47.07	-40.65	-45.86	-56.87
Debits on invisibles	1.40	1.44	1.80	2.07	2.83	2.81	3.43	4.42	5.15	7.24	7.72	7.77	8.35	9.57
Credits on invisibles	5.44	5.82	7.49	8.33	11.86	12.06	11.74	13.45	15.35	21.65 <sup>a</sup>	18.61	23.97	27.38	30.82
Net services	4.04	4.38	5.69	6.26	9.03	9.25	8.31	9.03	10.20	14.41 <sup>a</sup>	10.89	16.20	19.03	20.25
<u>Balance of transfer payments</u>	12.49	12.66	15.77	15.16	16.71	23.46	25.72	26.45	26.21	25.21	24.14	28.52	29.46	33.64
Balance of payments on current A/C	0.98	1.70	- 0.23	1.97	1.52	2.27	- 1.95	- 2.00	0.75	2.03	-12.04	4.07	2.63	- 1.98
<u>Balance of nonmonetary capital</u>	1.02	2.44	2.47	2.19	- 0.02	1.58	0.61	1.91	0.81	2.35	1.41	6.23	2.59	5.23
Balance on current and non-monetary capital A/Cs	2.00	4.14	2.24	4.16	1.50	3.85	- 1.34	- 0.09	1.56	4.38	-10.63	10.30	5.22	3.25
<u>Errors and omissions</u>	- 0.14	- 0.15	0.11	- 0.02	0.24	-	0.87	2.13	0.71	1.40	4.41	6.76	1.70	5.48
<u>Balance of monetary sector</u>	- 1.86	- 3.99	- 2.35	- 4.14	- 1.74	- 3.85	0.47	- 2.04	- 2.27	- 5.78	6.22	-17.06	- 6.92	- 8.73
Accounts with I.M.F.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in assets <sup>b</sup>	- 1.86	- 3.99	- 2.35	- 4.14	- 1.74	- 3.85	0.47	- 0.14	- 0.16	- 0.15	- 0.15	- 0.25	- 0.09	- 0.08
Change in liabilities <sup>c</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	- 1.41	- 2.91	- 6.50	6.15	-18.08	- 8.08	- 9.73
								- 0.49	0.80	0.87	0.22	1.27	1.25	1.08

Source: Privately secured from the Central Bank of Jordan, Amman.

<sup>a</sup>Includes a non-recurring additional payment by Tapline due to amendment of agreement.

<sup>b</sup>Assets: Increase -; decrease +.

<sup>c</sup>Liabilities: Increase +; decrease -.

STATISTICAL APPENDIX

TABLE B

BUDGET RECURRING EXPENDITURES 1959/60 - 1968  
(At current prices, in JD million)

	1959/60	%	1960/61	%	1961/62	%	1962/63	%	1963/64	%	1964/65	%	1965/66	%	1966 <sup>a</sup>	%	1967 <sup>b</sup>	%	1968 <sup>b</sup>	%
1. General administration	3.2	12.4	3.6	13.4	4.1	14.7	5.0	16.7	5.6	16.9	6.1	17.7	6.2	17.3	5.2	18.4	7.3	18.4	8.1	14.3
2. Defence	15.8	61.0	16.1	60.0	16.4	58.4	16.8	56.0	18.6	56.0	18.6	54.1	18.8	52.2	14.4	51.1	20.2	50.9	35.2	62.1
3. Justice and police	2.4	9.3	2.5	9.3	2.5	8.9	2.5	8.3	2.7	8.1	2.7	7.8	3.1	8.6	2.2	7.8	3.4	8.6	3.3	5.8
4. Education	2.4	9.3	2.6	9.6	2.8	10.0	3.1	10.3	3.4	10.3	3.7	10.8	4.0	11.1	3.4	12.0	4.6	11.6	5.2	9.2
5. Health and welfare	1.1	4.2	1.1	4.1	1.3	4.7	1.4	4.7	1.4	4.2	1.5	4.4	1.7	4.7	1.5	5.3	2.1	5.3	2.3	4.1
6. Communication	0.4	1.5	0.4	1.4	0.4	1.2	0.5	1.7	0.5	1.5	0.7	2.0	0.7	1.9	0.6	2.2	0.8	2.0	0.9	1.6
7. Other services	0.6	2.3	0.6	2.2	0.6	2.1	0.7	2.3	1.0	3.0	1.1	3.2	1.5	4.2	0.9	3.2	1.3	3.2	1.7	2.9
<b>Total</b>	<b>25.9</b>	<b>100.0</b>	<b>26.9</b>	<b>100.0</b>	<b>28.1</b>	<b>100.0</b>	<b>30.0</b>	<b>100.0</b>	<b>33.2</b>	<b>100.0</b>	<b>34.4</b>	<b>100.0</b>	<b>36.0</b>	<b>100.0</b>	<b>28.2</b>	<b>100.0</b>	<b>39.7</b>	<b>100.0</b>	<b>56.7</b>	<b>100.0</b>

Source: Jordan, Report of the Ministry of Finance, fiscal years 1959-1966 and Jordan, Budget Department, Budget Law for the Fiscal Year 1968.

<sup>a</sup> 1966 figures are for nine months only.

<sup>b</sup> Reestimates for 1967; budget estimates for 1968; actuals for 1959/60-1966.

Note on categories

Row 1 Includes the following chapter headings in 1965/66 Budget Law: 1/2, 3/1, 4/1, 4/3, 4/4, 10, 11/1, 11/2, 11/3, 13, 13/2, 13/3, 13/4, 13/5, 14, 15, 17, 18, 19, 20/1, 24.

2 Chapters 5/1, 5/2.

3 Chapters 4/2, 6.

4 Chapter 7.

5 Chapters 8/1, 8/2, 8/3, 16.

6 Chapter 12 telephone, telegraph and postal services only.

7 Chapters 3/3, 9/1, 9/2, 9/3, 9/4, 9/5, 9/6, 20/2, 20/3, 21, 22, 23, 25/1, 25/2.

STATISTICAL APPENDIX

TABLE C

BUDGET DEVELOPMENT EXPENDITURES 1959/60 - 1968  
(At current prices, in JD thousand, rounded)

Category	1959/60	1960/61	1961/62	1962/63	1963/64	%	1964/65	%	1965/66	%	1966 <sup>a</sup>	%	1967 <sup>b</sup>	%	1968 <sup>b</sup>	%
1. Jordan Development Board	3304.6	2504.2	2725.7	2972.6	3264.6	53.0	3433.8	37.4	5092.4	46.6	3735.3	36.0	4610.1	29.4	8165.0	29.1
2. Economic and financial affairs	4.5	1169.5	42.6	897.8	1056.0	17.2	4219.5	46.0	1319.9	12.1	711.8	6.9	2078.1	13.2	1452.7	5.1
3. Social, health and educational affairs	138.1	60.1	26.9	435.5	199.0	3.2	123.5	1.3	1212.1	11.0	1462.7	14.2	1698.5	10.8	1384.9	5.0
4. Public works and communications	594.3	608.4	1014.5	2326.0	1055.4	17.1	756.9	8.3	1955.2	18.0	1873.8	18.1	3303.1	21.1	4256.7	15.3
5. Agricultural and irrigation affairs	16.3	78.5	701.3	928.9	362.0	6.0	472.7	5.2	937.5	8.6	1822.8	17.6	2835.4	18.3	6728.9	24.1
6. Other development expenditures	740.7	1559.1	426.9	38.1	217.4	3.5	160.4	1.8	411.8	3.7	753.6	7.2	1118.3	7.2	5962.8	21.4
Total	4798.5	5979.8	4937.9	7598.9	6154.4	100.0	9166.8	100.0	10928.9	100.0	10360.0	100.0	15643.5	100.0	27951.0	100.0

Source: Jordan, Report of the Ministry of Finance, fiscal years 1959/60-1966 and Jordan, Budget Department, Budget Law for the Fiscal Year 1968.

<sup>a</sup>The 1966 fiscal year was for nine months.

<sup>b</sup>Figures for 1959/60 to 1966 are actuals; 1967 are reestimates and 1968 are budget estimates.

The categories include:

- Row 1 Government participation and investments in various developmental and technical projects; before 1963/64 it includes some recurring expenditures.
- 2 Ministries of finance and national economy, departments of: customs, statistics and budget.
- 3 Ministries of social affairs and labor, municipal and rural affairs, education and health.
- 4 Ministries of public works, communications and transport; civil aviation.
- 5 Ministry of agriculture and its departments of lands, forests, veterinary, agricultural extension, research and marketing; authorities of natural and water resources and the East Ghor Canal authority; Jordan River and tributaries regional corporation.
- 6 Ministries of: foreign affairs, interior, justice, information (including television in 1968) and tourism; departments of: supply; import and export, antiquities; other emergency expenditures.

## STATISTICAL APPENDIX

TABLE D

ACTUAL BUDGET RECEIPTS 1959/60 - 1966  
(At current prices, in JD thousand, rounded)

	1959/60	1960/61	1961/62	1962/63	1963/64	% of total domestic rev.	1964/65	% of total domestic rev.	1965/66	% of total domestic rev.	1966 <sup>a</sup>	% of total domestic rev.
1. Income tax	714.8	824.3	926.6	1144.7	1321.3	6.80	1300.6	5.46	1778.7	6.65	1704.6	7.31
2. Urban lands & buildings tax	307.5	334.8	386.6	426.5	460.3	2.30	496.6	2.08	512.3	1.92	94.6	0.40
3. Agricultural tax	86.3	9.7	88.6	25.4	35.5	0.18	44.3	0.18	54.0	0.20	35.1	0.15
4. Animal tax	59.8	58.9	44.1	105.9	76.9	0.39	73.9	0.31	36.7	0.14	14.2	0.06
5. Social welfare tax	187.2	180.5	196.0	220.4	270.1	1.30	260.6	1.09	318.5	1.19	282.6	1.21
6. National guard tax	462.9	659.9	863.9	1166.0	1279.0	6.60	1326.2	5.56	1287.5	4.82	1130.6	4.85
7. Customs:												
(a) Import duties	4355.0	4176.1	3817.8	4156.7	4200.4		5178.7		7289.3		6631.3	
(b) Inspection fees	243.9	237.9	239.4	248.4	277.2		266.9		694.7		-	
(c) Miscellaneous fees	17.2	83.4	15.8	15.9	34.0		87.0		15.0		-	
(d) Additional import fees	441.5	442.4	530.6	450.1	508.5		498.2		677.9		-	
(e) Exports duties	18.1	-	-	-	-		-		320.8		-	
(f) Import licenses	420.1	458.6	432.0	477.6	574.6		576.9		682.5		614.3	
Total customs	5495.7	5378.5	4935.5	5349.1	5603.5	28.90	6607.7	27.73	9680.2	36.17	7843.0 <sup>b</sup>	33.64
8. Excises:												
(a) Liquor	29.1	26.4	36.4	63.7	79.5		93.8		180.5			
(b) Tobacco	377.5	411.5	559.3	534.9	847.9		967.8		1486.7			
(c) Matches	3.3	1.6	-	.3	-		0.2		0.1			
(d) Salt	15.4	12.9	18.4	18.0	9.4		10.0		11.1			
(e) Stamp charges	17.7	20.0	26.9	22.2	18.4		27.3		30.8			
(f) Petroleum products	-	170.4	874.6	856.8	1187.5		1440.6		1746.9			
Total Excises	443.0	642.8	1516.4	1495.8	2143.0	11.00	2539.7	10.66	3456.1	12.93	3810.8	16.35
9. Licenses	276.4	391.4	434.8	463.8	458.6	2.35	477.3	2.00	798.5	2.99	645.1	2.77
10. Miscellaneous fees	2055.0	2015.7	2075.2	2329.6	2580.4	13.30	2765.0	11.60	2597.7	9.72	1752.1	7.52
11. Post, telephone, telegraph	690.6	697.4	771.0	1012.7	1101.7	5.68	1246.3	5.23	1396.2	5.22	1308.8	5.61
12. State domain	80.6	71.7	122.6	65.7	71.9	0.86	69.0	0.29	72.0	0.27	97.4	0.42
13. Profits and interest	635.7	913.4	1117.6	1175.8	1210.9	6.24	3484.2	14.62	1831.3	6.85	1705.2	7.31
14. Royalties and other miscellaneous revenues	1853.2	1570.5	1179.6	6123.7	2755.9	14.21	3136.7	13.16	2912.4	10.89	2272.3	9.74
Total domestic revenue	13302.2	13839.8	14678.6	21105.1	19378.7		23828.4		26732.2		23310.9	
15. Foreign grants and loans												
(a) Economic and technical assistance	15905.3	17559.3	18398.3	15705.3	15685.3		15407.0		15271.8		9883.1	
(b) Loans for development projects	2500.0	500.0	500.0	2042.7	1301.3		6976.0		2587.0		2165.7	
Total foreign assistance	18405.3	18059.3	18897.3	17747.9	16986.6		22383.0		17858.8		12048.8	
Total revenue	31757.5	31899.1	33575.9	38853.0	36365.3							

Source: Jordan, Report of the Ministry of Finance, fiscal years 1959/60 to 1966.

<sup>a</sup>1966 fiscal year was a nine-month year.

<sup>b</sup>No clear breakdown is available, possibly because of the new unified tax imposed in 1966 and which includes additional taxes and fees.

STATISTICAL APPENDIX

TABLE E

EXTERNAL LOANS AS AT NOVEMBER 30, 1967  
(In JD thousand)

Source of funds	Benefiting organization	Date of contract (fiscal year)	Amount of loan contracted	Amount withdrawn to date	Interest rate	Duration of loan (years)	Repayment date	Amount repaid to date			Amounts that are mature		
								Principal value	Interest	Total	Principal value	Interest	Total
Britain	Treasury	1966	12766.7	12766.7	-	22	1973				12766.7		12766.7
Britain	Treasury	1966	800.0	800.0	-	17	1974				800.0		800.0
Britain	Treasury	1967	900.0	185.0	-	17	1975				185.0		185.0
Kuwait	Industrial Development Organization	1961/62	1040.0	1040.0	4	9	1963	340.0	184.0	524.0	700.0	76.0	776.0
Kuwait	Al-Hasa, or phosphates <sup>1</sup> project	1962/63	3000.0	2917.3	4	7	1966	400.0	125.0	525.0	2517.3	615.3	3132.6
Kuwait	Yarmuk project	1962/63	4000.0	377.6	3	16	1968	-	-	-	377.6	8.1	385.7
Kuwait	Jerusalem electricity project	1962/63	2400.0	240.0	3	26	1965	37.5	24.3	61.8	202.5	105.5	308.0
Kuwait	Jordan Hotel	1962/63	85.0	85.0	3	8	1966	9.8	3.4	13.2	75.2	16.7	91.9
Kuwait	Jerusalem International Hotel	1962/63	175.0	175.0	4	10	1966	35.0	19.6	54.6	1140.0	25.0	165.0
Kuwait	Treasury	1964/65	5000.0	5000.0	4	10	1970	-	-	-	5000.0	1100.0	6100.0
I.D.A.	Natural resources authority	1963/64	892.0	801.2	.75	40	1973	-	6.2	6.2	801.2	195.6	996.8
I.D.A.	Municipality of Amman	1961/62	535.7	505.3	.75	40	1971	-	3.5	3.5	535.7	107.9	643.7
I.D.A.	Agricultural credit corporation	1963/64	1071.3	1071.3	.75	40	1974	-	19.9	19.9	1071.3	223.2	1294.5
I.D.A.	Agricultural credit corporation	1967	1074.3	-	.75	40	1977	-	-	-	-	-	-
West Germany	Aqaba port authority	1961/62	1344.0	1344.0	3	17	1965	158.2	117.5	275.7	1185.8	166.8	1352.6
West Germany	Aqaba port authority	1964/65	688.0	166.2	3	20	1967	-	2.1	2.1	166.2	16.0	182.2
West Germany	Aqaba port authority	1967	1651.8	-	3	20	1974	-	-	-	-	-	-
U.S.A.	Treasury	1965/66	585.7	169.2	1 & 2.5	10 & 30	1975	-	0.6	0.6	169.2	-	169.2
U.S.A.	Treasury	1966	571.4	155.7	1 & 2.5	10 & 30	1976	-	0.2	0.2	155.7	-	155.7
U.S.A.	Treasury	1966	2250.0	-	1 & 2.5	10 & 30	1976	-	-	-	-	-	-
U.S.A.	Agricultural credit corporation	1966	214.0	208.0	4.6	22.5	1969	-	4.8	4.8	208.0	-	208.0
U.S.A.	Treasury	1966	248.0	104.2	4.6	22.5	1970	-	-	-	104.2	-	104.2
U.S.A.	Treasury	1967	642.8	136.5	1 & 2.5	10 & 30	1977	-	-	-	136.5	-	136.5
U.S.A.	Treasury	1966	582.1	-	2.5	19	1969	-	-	-	-	-	-
Saudi Arabia	Treasury	1966	5000.0	1500.0	-	8	1970	-	-	-	1500.0	-	1500.0
Denmark	Treasury	1966	640.5	-	-	15	1971	-	-	-	-	-	-
			48158.3	29748.7				980.5	511.3	1491.8	28798.2	2656.4	31454.6

Source: Jordan, Budget Department, Budget Law for the Fiscal Year 1968, Appendix, Schedule B.



STATISTICAL APPENDIX

TABLE F

EXPENDITURE ON GROSS NATIONAL PRODUCT AT MARKET PRICES  
(in JD million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Private consumption expenditure	102.8	102.4	116.3	120.9	125.8	130.8	136.1	141.5	147.2	153.1
2. Central government recurring expenditure	28.0	29.9	33.2	34.6	35.8	36.7	37.7	38.7	39.8	41.0
3. Central government gross capital formation	4.9	7.6	6.2	8.6	13.1	21.8	29.8	22.6	19.6	15.3
4. Private sector gross capital formation	11.4	10.0	11.3	12.1	13.9	15.0	17.6	21.0	24.9	24.7
5. Local government expenditures (recurring and capital)	1.3	1.5	2.8	2.9	4.1	4.2	4.2	4.4	4.4	4.6
6. Gross domestic expenditures (rows 1 to 5)	148.4	151.4	169.8	179.1	192.7	208.5	225.4	228.2	235.9	238.7
7. Exports of goods and services and net factor income from abroad	24.0	31.0	28.8	36.4	38.0	42.2	47.0	53.5	61.6	70.2
8. Expenditure of gross domestic product and exports (row 6 + 7)	172.4	182.4	198.6	215.5	230.7	250.7	272.4	281.7	297.5	308.9
9. Imports of goods and services	46.5	51.8	61.1	57.2	62.4	69.4	76.5	77.6	81.2	82.9
10. Expenditure on gross national product (row 8-9)	125.9	130.6	137.5	158.3	168.3	181.3	195.9	204.1	216.3	226.0
11. Increase in GNP over preceding year (%)	-	3.7	5.3	15.1	6.3	7.7	8.1	4.2	6.0	4.5

Source: JDB, The Seven Year Program for Economic Development of Jordan, 1964-1970 (Jerusalem: Commercial Press, n.d.), p. 34.

STATISTICAL APPENDIX

TABLE G

CENTRAL GOVERNMENT RECURRING EXPENDITURES  
(In JD million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. General administration	4.1	4.6	5.5	6.1	6.7	7.0	7.3	7.6	7.9	8.2
2. Defense	16.4	16.8	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
3. Justice and police	2.5	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
4. Education	2.8	3.1	3.4	3.7	4.0	4.3	4.7	5.2	5.8	6.4
5. Health and welfare	1.3	1.4	1.5	1.5	1.6	1.7	1.8	1.9	1.9	2.0
6. Communication	0.5	0.5	0.5	0.7	0.8	0.8	0.9	0.9	1.0	1.1
7. Other services	0.4	1.0	1.0	1.1	1.4	1.6	1.7	1.8	1.9	2.0
8. Total central government	28.0	29.9	33.2	34.4	35.8	36.7	37.7	38.7	39.8	41.0

Source: JDB, The Seven Year Program for Economic Development of Jordan, 1964-1970 (Jerusalem, Commercial Press, n.d.), p. 36.

STATISTICAL APPENDIX

TABLE H

CENTRAL GOVERNMENT REVENUES AND EXPENDITURES  
(In JD million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Customs and excise	6.0	6.4	7.2	8.4	10.0	10.5	11.0	11.5	12.2	12.8
2. Taxes	2.5	3.1	3.4	3.4	4.8	5.3	5.9	6.3	6.9	7.5
3. Licenses	0.9	0.9	1.0	1.0	1.6	1.7	1.8	1.9	2.0	2.1
4. Fees	2.1	2.3	2.6	2.7	3.0	3.2	3.4	3.6	3.8	4.0
5. Post, telephone and telegraphs	0.8	1.0	1.1	1.2	2.2	2.4	2.6	2.8	3.0	3.2
6. State domain revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
7. Interest and profits	1.1	1.2	1.2	1.3	1.7	1.8	1.9	2.0	2.1	2.2
8. (a) Miscellaneous income (recurrent)	1.2	2.4	2.8	2.6	2.2	2.2	2.2	2.3	2.3	2.4
(b) Miscellaneous income (non-recurrent)	-	3.7	-	2.0	1.4	0.9	0.5	-	-	-
9. Turnover or sales tax	-	-	-	-	-	-	0.2	0.4	0.7	1.0
10. Total domestic revenues (rows 1 to 9)	14.7	21.1	19.4	22.8	26.9	28.1	29.6	30.9	33.1	35.3
11. Budget support (U.S. and U.K.)	16.4	14.7	14.0	18.6	12.8	12.0	11.0	10.0	8.0	6.0
12. Total current revenues (row 10 and 11)	31.1	35.8	33.4	41.4	39.7	40.1	40.6	40.9	41.1	41.3
13. Recurring periodic expenditures (Table 3, row 8)	28.0	29.9	33.2	34.6	35.8	36.7	37.7	38.7	39.8	41.0
14. Surplus (+) or deficit (-) on current account (row 12-13)	-3.1	+5.9	+0.2	+6.8	+3.9	+3.4	+2.9	+2.2	+1.3	+0.3
15. GOJ-financed capital expenditures	2.5	4.5	2.9	4.9	5.7	4.4	3.9	2.8	1.8	0.8
16. Increase (+) or decrease (-) in available cash balance (row 14-15)	+0.6	+1.4	-2.7	+1.9	-1.8	-1.0	-1.0	-0.6	-0.5	-0.5
17. Central government gross capital formation (Table 4, row 30)	4.9	7.6	6.2	8.6	13.1	21.8	29.8	22.6	19.6	15.3
18. Net loans to private sector and local governments (Table 9, row 8)	1.0	1.7	0.6	1.2	3.0	3.3	4.8	6.4	2.9	0.7
19. Repayment of foreign loans	-	-	0.1	0.1	0.5	0.8	1.2	2.4	2.7	4.6
20. Capital funds required (Row 16+17+18+19)	6.5	10.7	4.2	11.8	14.8	24.9	34.8	30.8	24.7	20.1
21. Surplus on current account (row 14 above)	3.1	5.9	0.2	6.8	3.9	3.4	2.9	2.2	1.3	0.3
22. Development grants plus revenue from PL 480 sales (Table 8, row 5)	2.9	2.8	3.7	3.3	6.6	8.4	6.8	3.5	3.5	3.5
23. Sales of short and long term bonds to private sector	-	-	-	-	-	0.2	0.5	0.9	1.5	2.0
24. Foreign borrowings (row 20-21-22-23)	0.5	2.0	0.3	1.7	4.3	12.9	24.6	24.2	18.4	14.3

Source: JDB, The Seven Year Program for Economic Development of Jordan, 1964-1970 (Jerusalem: Commercial Press, n.d.),

p. 35.

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Note: Tables referred to in rows 13, 17, 18 and 22/in the source of this table.



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