



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

A Look into His Majesty's Designation Letter to Dr. Omar Razzaz

July 2018



Background

It has become common knowledge that the Jordanian economy at large, as well as the average citizen, face a multitude of socio-economic challenges. These include consistently high unemployment rates, rapidly expanding labor force, relatively low economic participation rates, especially among females, existing poverty and income inequality levels, and deteriorating human and physical infrastructure.

One can argue that while the reasons behind the recent (June 2018) demonstrations on the streets of Amman and other cities are complex, these challenges, must be important. The 2018, already withdrawn, Tax Law that was submitted by the government of His Excellency Hani al-Mulki was only the “straw that broke the camel’s back”.

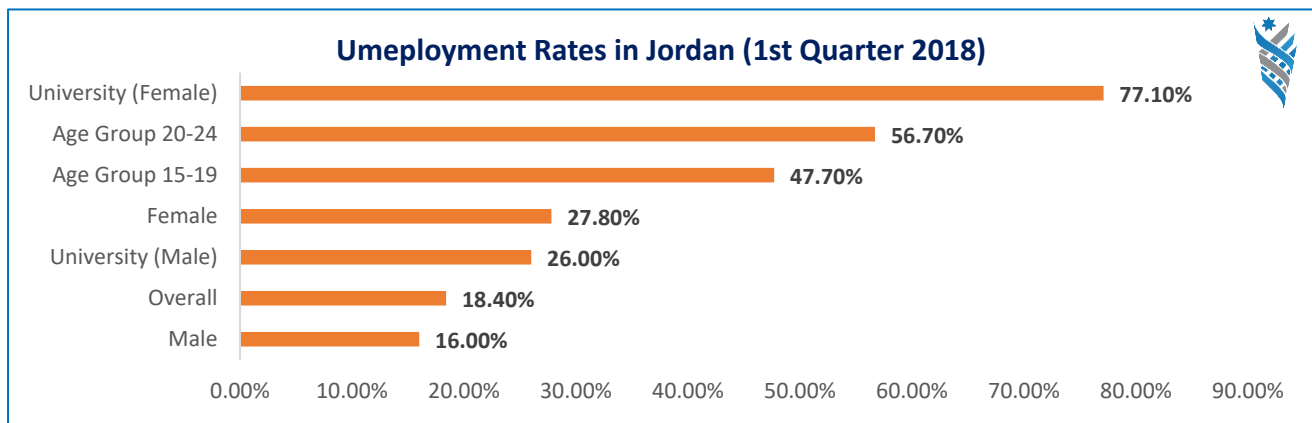
In response to the demonstrations, His Majesty King Abdullah II entrusted Dr. Omar al-Razzaz to form a new government. In the designation letter,

His Majesty has tasked the government with a myriad of objectives. To name but a few, these include stimulating real economic growth, generating sufficient employment opportunities, launching a national dialogue whose objective is to deliver a new tax law that achieves growth and justice, and enhancing the quality of public goods and services (school and university education, healthcare, and public transport).

The Socio-Economic Context

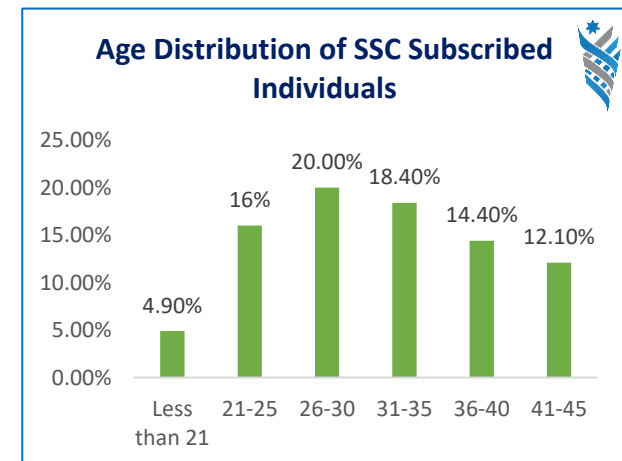
Within the context of Jordan’s socio-economic challenges, and His Majesty’s letter of designation, it is critical to point out a number of relevant observations.

First, while the overall of unemployment rate is equal to 18.4%, the age, gender and education distribution of unemployment rates are even more challenging.

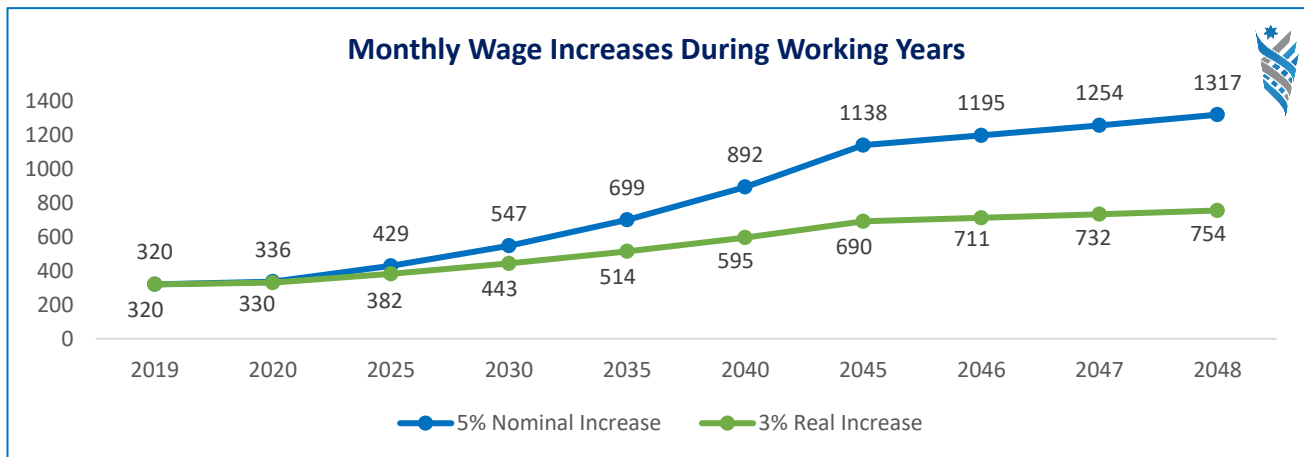
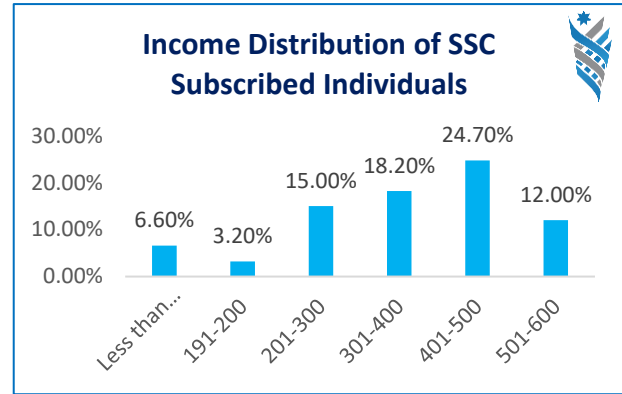


Second, based on the 2016 figures, published by the Social Security Corporation, 85.8% of the subscribed Jordanian individuals (1,079,672 persons) belong to the age group less than 21 to 45 years. Similarly, the monthly income of 79.7% of those individuals falls between less than JD 190 and JD 600.

Third, let us assume that the monthly salary of a fresh university graduate (or even a high-school graduate) is equal to JD 320 a month. If this starting salary increases by a nominal (real) rate of 5% (3%), this individual’s income will be equal to JD 1,317 (JD 754) after a 30-year working experience! During those 30 years, this individual

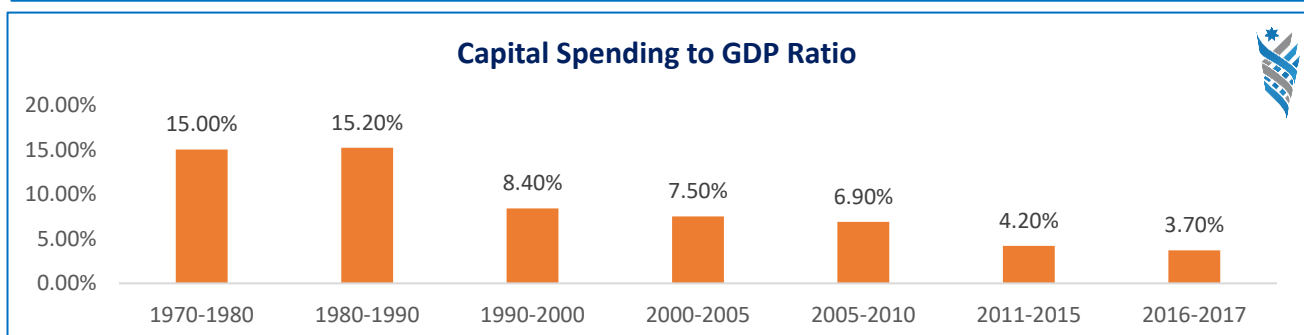
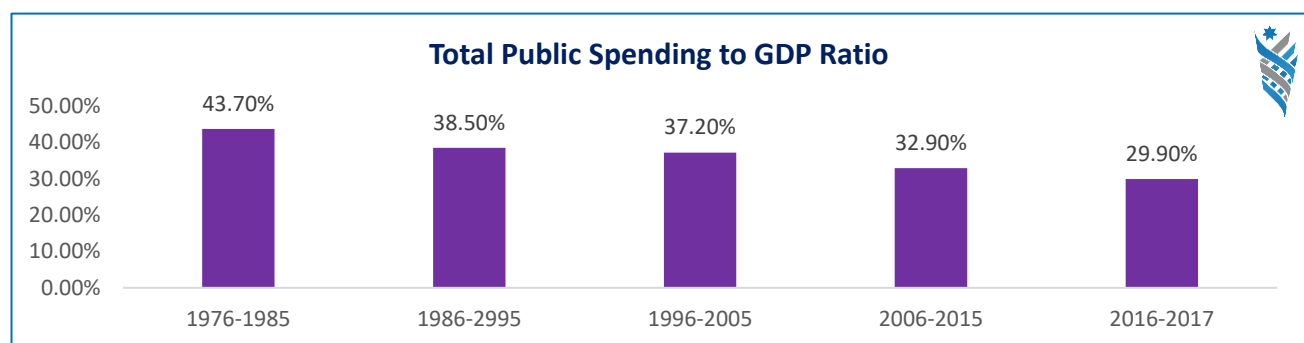


is expected to (1) use public transport on a daily basis or purchase a car, (2) rent or buy a flat, (3) get married, (4) raise kids, and (5) look after the kids (transport, health, education, and many other cost items)!

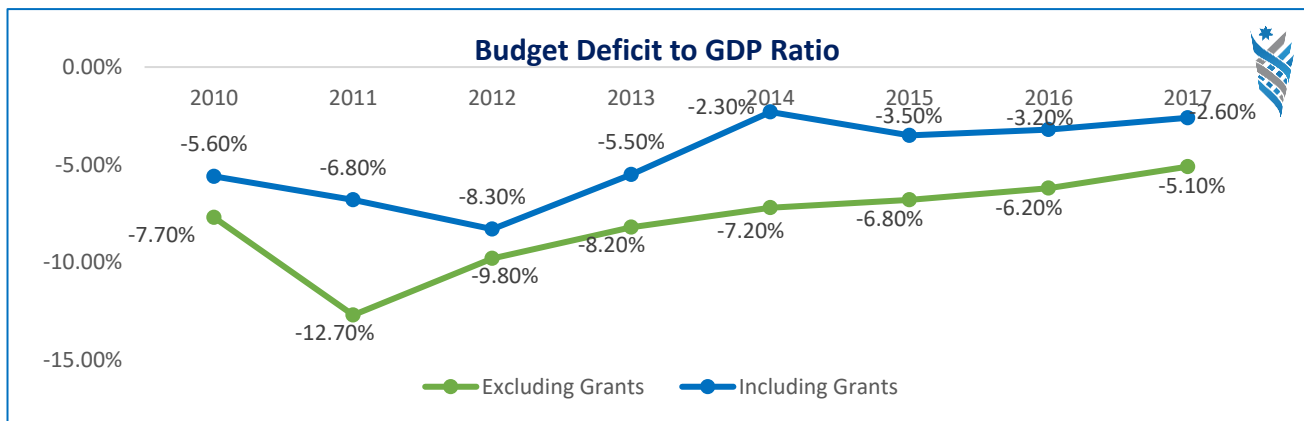


Fourth, total public spending to GDP ratio has fallen from 43.7% (1976-1985) to 29.9% (2016-2017). The 2016-2017 ratio is lower than that in, to name but a few countries, Chile (33.5%), Turkey (37.0%), USA 40.4%), Estonia (42.3%), Poland (42.6%), and France (56.8%)!

Fifth, the decrease in total public spending was largely due to capital spending. Relative to GDP, capital spending decreased from 15.0% (1970-1980), to **3.7% in 2016-2017! Over a long time period (1970-2017), this decrease must have had negative implications to the human and physical infrastructure of Jordan!**



Sixth, the state of public finance is weak. With or without foreign aid, consistent budget deficit is the norm.



The Extracted Vision:

Should our vision be guided by economic growth, or the provision of sufficient and efficient public goods and services?

The task in front of the government is to **“prioritize” and “quantify”** Jordan’s needs for public goods and services (human and physical infrastructure) **in a comprehensive manner**.

If such an announcement is to translate into short-term confidence, medium-term jobs and long-term competitiveness, and growth, and development, this **“comprehensive” and “large”** commitment must be translated into action on the ground and quickly.

The JSF emphasizes the following issues:

First, the crucial importance of starting this process by investing in a comprehensive transport network (system) that connects all Jordanian governorates (urban and rural). Naturally, this decision must be well-explained to the public in terms of its type(s) size, geographical coverage, and execution time. Within this context, the role of Public-Private Partnership (PPP) in financing must be instrumental.

Second, the crucial importance of realizing greater efficiency levels in the hitherto provided public health and education services.

Third, the crucial importance of delivering a good tax system, which is guided by a number of principles: **(1)** Appropriate government revenues. The system should yield adequate financial resources for the government. **(2)** Equity and fairness. The tax burden as a percentage of income should rise as income rises. **(3)** Simplicity. Simple

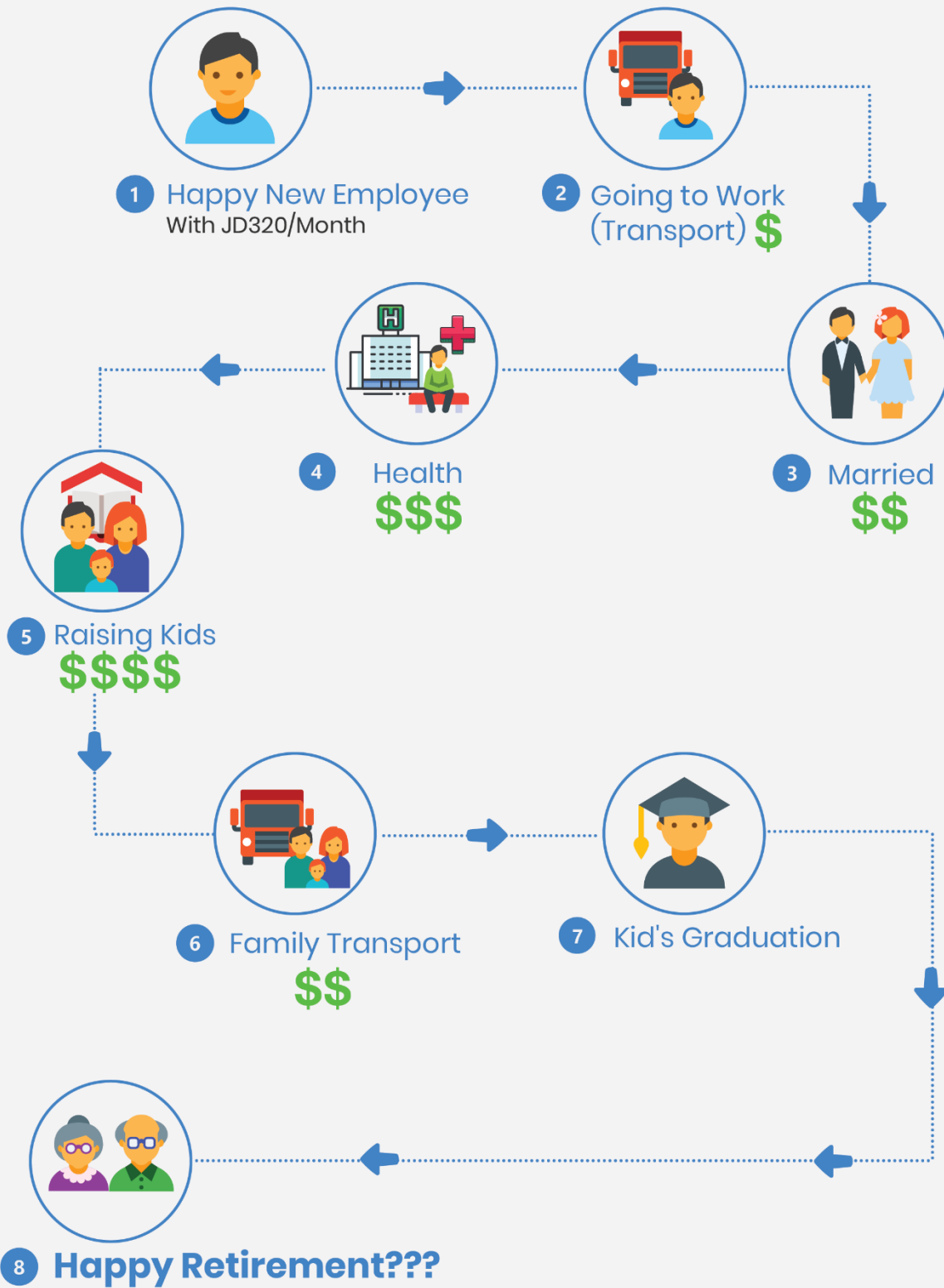
tax laws are necessary to enable taxpayers understand the rules and comply with them in a cost-efficient manner. **(4)** Diversity. A good tax system should be diversified in its sources. **(5)** Tax-elasticity. An elastic tax system causes a rise in revenues proportionately faster than income as income increases.

If the government succeeds in really making a difference in the sufficiency and efficiency of public goods and services, it will have “killed two birds with one stone”. During his / her working years and retirement, the average Jordanian young and fresh employee would:

1. Enjoy the uses of the much improved quality of public goods and services.
2. Enjoy the benefits of future strong economic growth (real income) that is the result of the much improved human and physical infrastructure.

Based on the above-mentioned observations and arguments, all stakeholders, including the average citizen, must understand and appreciate the context of His Majesty King Abdullah’s designation letter, to His Excellency Dr. Omar al-Razzaz. Indeed, in the letter, some specific objectives are outlined including enhancing the quality of public goods and services (school and university education, healthcare, and public transport) and launching a national dialogue whose objective is to deliver a new tax law that achieves growth and justice.

Life Cycle of the Jordanian Employee



Date : June 2018

Source: Jordan Strategy Forum

www.jsf.org /JordanStrategyForumJSF @JSFJordan



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Tel: +962 6566 6476

Fax: +962 6566 6376

info@jsf.org

www.jsf.org

 /JordanStrategyForumJSF  @JSFJordan