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An Analysis of the Political Economy on Introducing the Sales Tax in Jordan.

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ABSTRACT

The introduction of the General Sales Tax (GST) has been crucial element in the economic adjustment program that was adopted after the 1989 economic crisis. Several studies have investigated the advantages and disadvantages of the adjustment program in general, however few studies focused on the process of introducing reform measures or the direct implications of certain policies as this study does.

The introduction of some policies has implicity meant changing the traditional social contract between the sate and society in favor of new contract under which taxes will be imposed and in return tax payers must participate in the decision making process. Moreover, the state could no longer introduce economic policies without adequate involvement of the concerned stakeholders.

The impact analysis reveals that the GST is more or less evenly distributed. However there are few sectors that enjoy some preferential treatment, which reflects the power game and how few stakeholders managed to delay the imposition of taxes on a number of activities.

Keywords: Sales Tax, Adjustment Program, Political Economy, Social Contract.

1. INTRODUCTION

Jordan began its economic reform in 1989 as a result of both internal and external factors**.** The reform process initiated a shift from a semi-rentier state[1] to an arguably more efficient state thereby changing the practices and perceptions of economic policy that have prevailed in the past. This study analyzes the effects of the political economy on the introduction and evolution of the sales tax in Jordan. Our main interest is on the interaction of various stakeholders and their behavior during the introduction and implementation process of the General Sales Tax (GST). In addition, the study will assess the impact of the GST on various sectors and income groups in Jordan.

While earlier studies focused on the fiscal and economic aspects of introducing the sales tax in Jordan, this study will address issues related to the process of introducing the sales tax and evaluate its impact. Furthermore, this study will investigate the sales tax in its political context and draw some conclusions concerning the evolution of the political decision making process in Jordan.

The layout of this study is as follows: section two provides a political background on the introduction of the GST. Section three provides the government rationale for introducing the GST and will allude to the issue of policy ownership. This section will also describe the process of adopting the GST and how interest and power groups**,** i.e. stakeholders**,** react to the new proposed law and its amendments. Section four will provide assessment of the impact on the various stakeholders, economic sectors, and income levels. This section will reveal how the sources of government revenue shifted overtime from the customs taxation to other sources of domestic taxation. Section five will be an outlined conclusion drawing out some analytical remarks.

2. BACKGROUND OF THE ANALYSIS AND THE PRE-REFORM PERIOD .

In Jordan, for several years state revenues were dependent not on domestic production but rather on the

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international market. Therefore, state decision-makers were less constrained by the interest of domestic actors. This semi-rentier state structure allowed the government to distribute benefits at the elite level including tribal leaders who often received direct rewards from the government. They in turn played a significant role mediating with the government for the allocation and provision of local services to their home areas or constituencies. This patrimonial pattern of subsidizing allied tribal elites reinforces their social status while rendering them increasingly dependent on the state's resources (Brynen, 1992). In the 1970's and early 80's, Jordan was financially dependent on external sources for funding, whether workers' remittances from the Gulf countries or foreign grants. However, by the mid-eighties the Gulf countries began to witness an economic slowdown, and the impact on the Jordanian economy was significant. Workers' remittances declined from a level of 475 million JD in 1984 to 335 million JD in 1988, and Arab grants declined from about JD 1077 million in 1980 to 159 million JD in 1989.

The government's response to the deteriorating external environment only exacerbated the situation. The government implemented an expansionary policy based on running down reserves and increasing foreign borrowing. Said (1995) states that pressure for expansionary policies came mainly from the business community, whose interests and profits were adversely affected by the regional recession. The business community, therefore, lobbied for more concessions and public expenditures.

According to Brand (1992), this expansionary policy was necessary to maintain the loyalty of the society elites and patrimonial-style rent. However, the outcome of the government's policies was devastating; external and internal debt accumulated to nearly 200% of the GDP from 1985-1995. No longer was Jordan able to successfully continue previous economic policies of international reliance.

The Departure of Rentierism and the New Social Contract

The reform process can be observed from two different perspectives. The first reflects the position of the multilateral institutions, which focus on eliminating market distortions when viewing the reform process. The second perspective is socio-political and is exemplified by Kan'an (1995). With modern precepts of institutional economics in mind, he outlines clearly that the economic role of the state should be defined with regard to the fundamental link of society. Another proclamation by Kan'an is interaction between the market and the social, political and economic institutions in place. In this context, Piro (1992) argues that in economies based more on imports and services than exports and products, public sector bureaucrats have strong incentives to continue the import cycle. The bureaucrats and the private sector would stand to lose the most, if real public sector reform was implemented.

The transformation of an import based economy to one based more on export promotion, requires the support of the public sector managers as well as elements of the private sector. Unfortunately, they have resisted moves to implement more far reaching liberal economic measures partly due to their heavy reliance on government funded projects. Political economists attribute resistance to reform mainly to the uncertain result that accompanies such a shift in economic policy.

In addition, those with the potential to benefit from the reform process tend to be poorly organized and possess little political clout. This group includes unemployed workers, new entrants to the labor market, educated youth, and existing or new, small manufacturers in the new export-oriented industries and services (WB, 2003). Generally, the potential losers in this process are more vocal and organized than those who stand to gain.

Powerful trade and investment gateway points are directly influenced by new economic policies. Public sector agencies (customs, taxation, standards, and certification); public sector enterprises in manufacturing, services and utilities; their workers and unions; and private sector endeavors in protected import substitution activities have stood to lose from trade and investment environment reforms. As a consequence, for many years, there were no strong incentives for the incumbent Jordanian government to adopt genuine reforms, while having such vested interest in the status quo.

From a government perspective, the growing budget deficit rendered it necessary to replace lost external revenue with taxation on the anticipated increased private sector activity. Any plan to boost domestic revenue requires creating new laws, altering institutions to carry out previously neglected government tasks, and determining which activities to tax and at what level. This initiative was balanced by another-the specific maintenance of positive economic growth and the return to stability as envisaged in the first Stand By Arrangement (SBA) of the IMF (Moore, 2004).

In a semi-rentier state such as Jordan the social contract is based on the premise, that the state will provide a certain level of economic security, in exchange for which society will grant state leaders considerable political autonomy and legitimacy. The new social contract, however, meant to rearrange priorities and increase dependence on domestic taxation. Table (1) shows how domestic taxes in proportion to GDP in the aftermath of the 1989 economic crisis soared and reached their peak in 1993 before starting to decline, when the economy stabilized and the GDP growth turned positive. Meanwhile, government expenditures during the nineties declined from 47% of the GDP to an average of 35%. While the government began to increase domestic taxes, it launched its own austerity measures in order to cut down public spending. This new pattern of taxation and spending was in complete contrast to what the government had been accustomed to before the 1989 economic crisis. The new arrangement meant that the state had to adhere to the new 'rules of the game' in the political arena.

It is axiomatic that when governments increase their previously neglected tax base, new societal forces emerge and expect to assume a new role. Therefore, the concept of "no taxation, no representation" simply shifts to "no taxation without representation." Within this context, the Jordanian government began the process of economic reform.

Table 1. Sources of Central Government Revenue

Year	Gov. Expenditures % of GDP	Total Gov. Revenue % of GDP	Domestic Revenue as % of GDP	External Borrowings % of GDP *	Grants and Aids % of GDP
1988	47	42.9	24.54	4.3	7.0
1990	42.8	47.7	28.4	7.5	6.2
1993	36.3	36.2	32.0	6.7	4.2
1996	35.9	35.1	30.1	--	5.0
1998	37.2	30.9	27.3	--	3.6
2001	34.6	31.0	27.1	--	3.9
2002	34.3	30.2	26.2	--	4.0
2003	36.0	33.7	24.1		9.7

Source: 1) from the 1988-1993 data were adapted from Yearly Statistical Series (1964-93) Central Bank of Jordan Oct. 1994 p20-21

2) from 1994 onwards data was taken from the Government Finance Bulletin, Ministry of Finance (Jordan) 2002.

*External borrowing stop appears as a source of revenue after 1993.

3. THE REFORM PROCESS AND THE INTRODUCTION OF THE SALES TAX [2]

The Jordanian government was unable to uphold the policies it implemented in 1989 in a SBA in accordance to the IMF. The two key thrusts of Jordan's structural reform have been to promote the role of the private sector and to increase export. These two objectives ran contrary to the policy the government previously pursued, which encouraged import substitution industries and the expansion of the state's role. Meanwhile, the key objectives of the first SBA were to achieve: 1) steady recovery of economic growth to about 4% by 1991 2) a lower inflation rate 3) elimination of the external current account deficit (including foreign grants) by 1993. Introducing a new form of taxation was one of the most important conduits of achieving these stated objectives. A sales tax, argues Moore (2004), while not as direct as an income tax, nevertheless parallels quite strongly the type of state intervention that rentier literature envisions after rents decline. The semi-rentier state literature gives great significance to this connection. External rent reductions force domestic taxation which is attached to the strings of increased political liberalization and, potentially, democratization.

Discussions concerning the sales tax law began in the aftermath of the economic crisis of 1989. The crisis was manifested in the depreciation of the JD by about 50 percent over the years 1989-1990. As a result, inflation soared and the overall economic growth was negative.

Upon the request of the Jordanian Government, an emissary from the WB and the IMF arrived in Jordan in order to assess the severity of the situation and to draw up several scenarios concerning how the country could overcome the crisis. Uncertainty about the future of the Jordanian economy prevailed and credibility was low with the private sector reluctant to undertake new investments. As a result, the government decided to embark on the first of a series of SBAs. In support of these arrangements, the IMF would help to secure the rescheduling of Jordanian external debt, and the World Bank lent its financial support in the form, initially, of a quick disbursing “Industry and Trade Adjustment Loan.” The amount of this loan was JD 30 million and was crucial to Jordan at that critical juncture in time. Furthermore, the loan was a display of good will by the IMF towards the government in its endeavor to restructure the economy.

The loan was conditional in the sense that the disbursement was subject to the government undertaking specific reforms in the trade and tax system. The main recommendations embodied in this loan were:

1- Gradual reduction of the maximum custom’s tariff to 60%.
2- Reform of the tax system starting with the introduction of a “general sales tax”-the first step towards the ultimate objective of adopting a full scale value added tax.
3- Abolishment of imports licensing and removal of all non-tariff barriers facing imports in order to create a more competitive trade and industrial sector.

In accordance with the SBA, the government pledged to reduce its budget deficit from 24% of the GDP in 1989 to a level of 10% by 1990. This implied a sharp reduction in its state expenditures. Despite IMF pressure, the government was hesitant to cut subsidies on bread, sugar, rice and milk. However, in April 1989 the government did decree price increases for a range of other subsidized products. Soon after the new measures were adopted riots erupted in and around the southern cities of the kingdom.

In addition, a consumption tax on a range of imported and locally-produced items was introduced in the 1990 budget. Thereafter, a GST was to be introduced before a VAT was fully implemented. The aftermath of the Gulf War allowed for little progress during 1989-91. By June 1992, in Jordan’s Letter of Intent, the government promised to implement a GST by January 1993.

3.1 The Government’s Rationale and Justification for Introducing the GST [3]

Before 1989, the tax system was characterized by its cumbersome procedures with customs being the main source of domestic revenue. In order to enhance domestic sources of income the government had to restructure the tax system.

In its official letter to Parliament, the government justified adopting the sales tax as an integral part of the structural adjustment program and the re-structuring of the tax system in Jordan. The aim of the tax structure was to increase reliance on domestic tax sources and reduce dependence on "conditional" external sources of finance to support the budget. To be effective, the introduction of the sales tax, should be part of the government endeavor to undertake comprehensive tax restructuring, including laws and by-laws that regulate the public finance of the government.

Stipulation of the procedures and rationale involved in the introduction of the GST was primarily for rehabilitating the deficient consumption tax. As part of the adjustment program to integrate the consumption tax into the GST, tax exemptions for exports and other domestic items were implemented to encourage domestic production, industrial activities and trade. The sales tax was set at 10% across the board and a tax ceiling of 20% was confined to the Council of Ministries. The former consumption tax on 28 items was reduced for all consumers as well as sales tax exemption on basic goods and services in order to achieve a higher level of social equality. This law would replace the consumption tax and ameliorate its shortcomings, including excessive penalties, by adopting more flexible penalties based on the nature of specific violations.

It is worth noting that neither the IMF nor the WB was mentioned explicitly in the official justification for introducing the GST. The issue of conditionality was utilized but not emphasized as part of the official justification for the GST. The focus of the government rationale was instead increasing the domestic tax base and reducing reliance on external sources of finance. Even so, it was clear for some observers that the government was introducing the GST as part of its commitment to multilateral institutions, especially the IMF.

Furthermore, the draft law had granted the government great latitude with which to intervene when deemed necessary. This implied that even though the government was committed to increasing domestic revenue, an interventionist mentality was prevalent in drafting the law and the principles of the new social contract had not matured to the point of adopting a more participatory approach in the decision making process.

3.2 Deliberations Regarding the Introduction of the Sales Tax

The process of introducing the sales tax in Jordan went through several phases. The first was the preparation of the draft law (1989-1991) while the second entailed promoting the tax and convincing skeptical stakeholders and parliament of its long term merits. The government prepared the first draft of the law with almost no formal consultation with various stakeholders. Therefore, the initial reaction both to the draft and the manner in which it was prepared was negative, especially from members of the private sector who claimed that the Jordanian economy was not ready for such a tax. In addition, the shifting taxation from an import based to a broader consumption based system was a significant change which demanded both institutional capacity and a clear vision as to what kind of tax system the country needed to adopt. Apparently this vision was not yet mature, which partly explained the delay in drafting the law. The political ramifications of the new tax should not have been overlooked at this juncture. The 1989 demonstrations loomed large whenever incumbent governments envisioned increasing domestic taxes. Aware of these political realities, the private sector and parliament in turn resisted the proposed new tax in turn.

In 1992, the government of Prime Minister *Sharif Zaid bin Shaker* announced that a draft of the sales tax law was near completion and would be enacted as a temporary law based on the rationale discussed above.[4] Previously, the period between 1989 and 1991 can be perceived either as “lost years” or years that were integral to develop the idea of the GST and to introduce a new concept aimed at skeptical constituencies. The initial public reaction to Prime Minister Shaker’s announcement was again negative. Opposition in parliament protested this move, and the leftists and Islamists saw the government as simply enacting a mandate from the IMF and the West.

In the business community the Amman Chamber of Commerce (ACC) and other business associations were frustrated by their lack of representation during the process of drafting the law. Although the initial idea of the tax dated back to 1989, the business community had not been consulted in the state’s deliberations over drafting the law. In hopes of diffusing some of the frustration, both in the parliament and within the business community, the Economic Consultative Council (ECC)[5] and the Ministry of Finance began holding meetings late in 1992 with ACC and Amman Chamber of Industry (ACI) representatives and other representatives of non-government organizations.

On the other issue, parliamentary elections were scheduled for November 1993 with some government ministers up for reelection and Islamist/leftist opposition running strong. The government decided in May 1993 to postpone the introduction of the GST until after the parliamentary elections. The IMF tacitly accepted this delay based on a pledge from the government that it would advance the law to parliament after the reconvention of parliament.

The delay in the introduction of the GST was attributed to the election, but the amount of opposition was considerable and the government realized how difficult it would be to pass the new law without further consultation with key stakeholders in order to gain support from the private sector in particular.

From the point of view of the opposition, Parliament and the private sector in this case, the delay in introducing the draft law to Parliament allowed for more coordination between various stakeholders giving them time to strengthen their position and improve their negotiating power vis-à-vis the government. On the eve of the election there were two major camps: the government advocating the law on one side and Parliament and the private sector on the other side opposing it. It was clear that in order to pass the draft law the government would be forced to employ different techniques and compromise with some stakeholders in order to splinter and weaken the opposition.

After the parliamentary election the new government pursued a different strategy with regards to two main issues: policy ownership and who would dictate the introduction of the sales tax; and dealing with the opposition which was almost united in its rejection of the draft law in its original format.

To tackle the first issue, the new government started to vigorously promote the introduction of the sales tax as part of the national agenda and not as a mandate dictated by the IMF. The government emphasized that the importance of the law was to re-gain stability and credibility in the Jordanian economy. Towards this goal a media campaign was conducted and several interviews with advocates of the law were broadcasted on national television.

On the second issue, the government, aware of the opposition, planned to weaken the coalition between the business community and the parliament in order to get its draft law passed. For their part, businesses and the parliament realized how powerful they could be in altering government decisions on important issues like the introduction of new taxes. The government strategy was to secure the support of a few segments of the opposition to the draft law. Given the conservative structure of the parliament and the unpopularity of the concept of taxes before their (MP's) constituencies, it was difficult to penetrate the parliament. However, as many business elites were aware of the difficulties facing the Jordanian economy, it was much easier for the government to secure the support of an important segment of the business community than to fight the new law with Parliament.

3.3 Marking the Differences between Private Sector Leaders

In early 1994, the prime minister created a special subcommittee under the umbrella of the ECC (with ACC and ACI representation) to study business concerns about the tax. Consultants from the Ministry of Finance and the Customs Department began to study the IMF recommendations, which were presented in a number of studies. Another internal committee was formed within the Customs Department in order to study similar tax laws in Egypt and Morocco and the UK. The committee, after reviewing other countries' sales tax laws, selected the Egyptian law, due to its easy wording and compatible legal idiom, and decided that of all candidate legislations it was the most appropriate and suitable for Jordan.[6]

Within the committee, the ACC and ACI representative began to clash views on the implementation of the sales tax and list of exemptions. The debate between the two associations was centered around who was going to benefit or to lose and the parliament was caught in the middle. Simply put, there was no more concerted coalition of opposition. Associational differences erupted and the government started to play a mediating role between the different parties trying to balance between its own interest and various other stakeholders.

Many other stakeholders expressed their opinions privately and in the media about the new sales tax law. Prominent intellectuals wrote articles expressing their views in the media which followed the debate that associated the draft law. Their support for the law came as a result of the 1989 crisis and their firm belief that old policies should be abandoned in order to move towards a more market oriented regime. On the other hand articles that were not in favor of the law were driven mainly by skepticism towards the IMF's and the WB's role and the perception of this tax as an external imposition. In addition, political parties such as socialist pan Arab nationalist or communist parties opposed the law because it contradicted their ideological beliefs. Professional Unions as well, were represented in parliament by a few members who emerged as political leaders while assuming responsibilities in these unions. However, prominent intellectuals, political parties and professional unions were mainly overshadowed by the parliament or the private sector.

Overall debate and deliberations concerning the GST which almost went public was a new experience for Jordan. In the past the decision making process at the national level was restricted to the state's elite with little or no formal consultation with various stakeholders.[7] It was evident that the government can no more ignore domestic players in its decision making process. A more participatory dynamic in the decision making was emerging. After deliberation and intense discussion the GST Law was eventually enacted on the 1st of June 1994. The IMF had initially sought a rate of 12% and the government 10% but parliament diluted the rate further, to only 7%.

The sales tax as it was introduced was a product of compromise more than a permanent law that represents a tax overhaul as mentioned in the government rationale of the draft law. Jordan's already complex import/export regime was given another layer of interpretation with the addition of the sales tax. Since over half of Jordan's imports at that time enjoyed some form of duty-free status argues Moore (2004). As a result the business community started to complain about the behavior of the customs officer. Apparently the institutional capacity to enforce the new law was neglected as numerous problems arose during the initial implementation of the law. In response, the following year the government was quick to amend it.

3.4 Amendments to the GST [8]

Soon after the implementation of the tax law, the Ministry of Finance decided that it had become necessary to have another look at the various issues surrounding Jordan's tax law. The nature of the proposed amendments revealed that several shortcomings in the GST were discovered when it was practically enforced. Little attention was paid to technicalities which allowed for different interpretations of some important articles of the law, especially those concerning manufacturers. The list of the exemptions attached to the law also proved extremely problematic. The Prime Minister could make additions to the exempted list which provided a means to secure rent, subjecting decisions pertaining to exemptions to the discretion of the incumbent Prime Minister. Thus, most of the proposed changes were aimed at facilitating the work of manufacturers who suffered from the different interpretations that the 1994 GST Law inspired. Only sixteen months after the introduction of the sales tax the parliament amended the law raising the sales tax from 7% to 10% in September of 1995.

In order to complete the reconstruction of the tax laws the government initiated its obligations vis-à-vis the World Trade Organization (WTO) and prepared a second amendment of the 1994 GST law in 2000. The reasons for the amendments included separating the sales tax department from the customs department; equating the sales tax on imported and domestically produced goods; reducing tax overlapping through exemptions on intermediate goods and abolishing excess taxes; unifying all tax collection institutions into the GST department; enforce penalties on tax violations and smuggling; and replacing the special tax on electrical appliances with the GST. The most significant achievement from the amendment, according to the government, involved the creation of a special institution to handle the sales tax. The business community as well expressed satisfaction with the disassociation of the GST from the customs department. Besides these accomplishments, passing the second amendment through Parliament proved much easier than the initial introduction of the sales tax.

While the first amendment focused on rectifying the technicalities of the tax law, the second round of amendments built institutional capacity in order to effectively enforce it. The uncertainty surrounding the initial GST law dissipated as those stakeholders benefiting and losing from the law were more easily identifiable. This phenomenon is consistent with other findings and models concerning interest groups. For example, Dewatripont et al. (1995) shows that in the presence of aggregate uncertainty, a gradual, piecemeal reform has an advantage over a comprehensive reform. The implementation of each reform step reveals partial information about the final outcome. Indeed, the experience of the passage of the final amendments to the sales tax further substantiate the argument that once a new law is introduced and stakeholders' uncertainties surrounding it are revealed, amendments desired by the government are much easier to push through.

In 2004 the government decided to increase the sales tax further, from 13 to 16 percent. The government publicly announced its intentions and challenged various stakeholders to provide an alternative to the proposed 3 percent increase to the GST. Articles and TV interviews at the national level were broadcasted between opponents and proponents of the new increase in the GST. The government managed to pass a tax increase through the parliament smoothly with minimal public outcry. Obviously, the decision making process had changed significantly between 1989-90, when the government almost covertly drafted the first GST, and 2003, when the government challenged stakeholders to find an alternative to their proposal. By 2003, the new "social contract" seemed to be manifested in the decision making process. In addition, it disarmed the rent circuits and irritated the informal connections to lobby for special treatments. This is not to say that informal lobbying is no longer effective, but rather to argue that informal channels became more constrained and limited compared to the early 1990s. Deliberations concerning the third amendments to the GST were focused on how to protect low income groups in order to maintain the social fabric and not on whether the amendment should be implemented or not.

4. GST BY LEVEL OF ACTIVITIES

The tax burden, which is estimated as the percentage of domestic revenue to the GDP at basic prices, witnessed a decline between 1992 and 2003. The percentage of domestic tax revenue - estimated as tax revenue plus licensing and land fees- to the GDP at basic prices declined from 26 percent in 1992 to a level of 24.4 percent in 2003. Similarly, total domestic revenue to GDP declined from a level of 39.02 percent in 1992 to 27 percent in 2003. Hence, the argument that sales tax has increased the tax burden as a percentage of GDP does not withstand the actual figures. However, it should be mentioned that this decline has resulted from the achieved growth in GDP and not as a result of the decline in the amount of taxes collected. The remaining question concerns how the tax burden, and specifically the GST, is distributed. Are there sectors which bear a heavier tax burden than others or is the tax evenly distributed?

In order to answer the above question we disaggregated the GST data on the various economic sectors at the fourth level of the International Standard Classification of Industries (ISIC).

As Table (2) shows, the proportion of the GST to total sales and value added tax varies across the numerous sub-sectors. Tobacco, alcohol and soft drinks, all are classified under the manufacturing sector, were highly taxed consequently requiring a special tax. Within the manufacturing sector there is narrow disparity in the applied rates when measured in proportion to either the value added tax or the total sales.

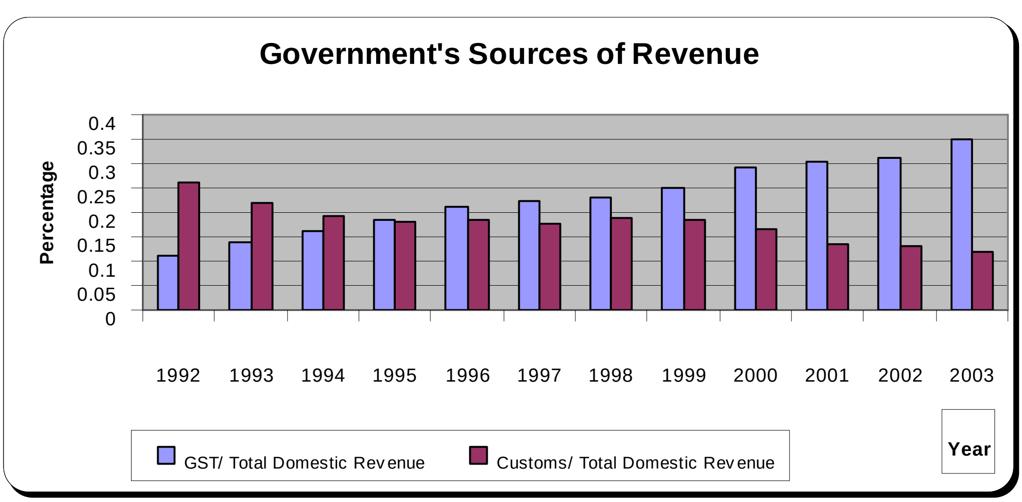
In the services sectors, which could be considered a different stakeholder group, and the agricultural sector (farmers) on average are less taxed than the manufacturing sector. This might be the case since levels of tax evasion in the services sector, especially among small enterprises, are higher than in other sectors. In addition, stakeholders within the services sectors managed more than once to secure concessions from the government and to postpone the imposition of the sales tax on the services sectors.[9] While the agricultural sector is not efficient and relies heavily on rain fall and government subsidies, interested stakeholders on several occasions convinced the authorities to waive not only taxes but also farmers' debt.

The other two sectors that apparently enjoy a low level of GST are medical services and education. Low taxes on these two sub-sectors are justified on a social basis and as part of overall incentives for expansion in these sectors. [10]

The table below presents the sales tax as a percentage of the total sales of selected activities in order to reflect the general trend of the imposed tax over the last five years.

Furthermore, if we were to regard wholesale activities in various sectors as representatives of traders, then we could argue that these sectors, as the table below indicates, are less taxed than the rest of the sectors' stakeholders. This may be the case because the GST was not imposed on these sectors when it was first introduced. It is also clear that the GST was zero over the period 1996-98 and is on an upward swing that can be witnessed during the period 1999-2000. Table (3) shows the GST on several activities according to the ISIC classification.

Graph 1



Source: Central Bank of Jordan and Government Financial Bulletins , Several Monthly Reports. (1990-2004)

Table 2

isic	Sales Tax as a percentage of the Total Sales by Activities	1996	1997	1998	1999	2000	2001	2002	Average
							Percentage		
1410	Quarrying of stone, sand and clay	0.0%	0.0%	0.3%	0.0%	1.2%	0.9%	1.0%	0.5%
1421	Mining of chemical and fertilizer minerals	0.2%	0.1%	2.8%	30.7%	38.6%	17.0%	15.9%	15.0%
1511	Production, processing and preserving of meat and meat products	1.3%	2.4%	0.0%	0.5%	0.0%	0.0%	1.4%	0.8%
1520	Manufacture of dairy products	1.9%	3.0%	0.7%	1.6%	2.3%	2.5%	3.9%	2.3%
1541	Manufacture of bakery products	0.4%	0.8%	0.7%	0.5%	0.6%	0.9%	0.9%	0.7%
1551	Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented material	31.4%	27.6%	29.2%	28.1%	34.5%	38.6%	39.4%	32.7%
1554	Manufacture of soft drinks; production of mineral waters	29.0%	27.7%	32.1%	29.6%	23.7%	17.1%	24.2%	26.2%
1600	Manufacture of tobacco products	68.3%	68.3%	65.5%	56.6%	66.4%	68.5%	72.6%	66.6%
1711	Preparation and spinning of textile fibers; weaving of textiles	0.9%	8.7%	1.8%	3.9%	3.4%	3.9%	4.3%	3.9%
1722	Manufacture of carpets and rugs	8.8%	8.9%	8.4%	11.0%	8.8%	10.7%	11.1%	9.7%
2101	Manufacture of pulp, paper and paperboard	3.7%	5.7%	2.2%	6.0%	8.4%	6.4%	7.5%	5.7%
2212	Publishing of newspapers, journals and periodicals	0.0%	16.7%	10.5%	1.2%	7.8%	8.2%	7.5%	7.4%
2221	Printing	1.0%	4.5%	1.5%	1.8%	2.2%	6.1%	5.5%	3.2%
2320	Manufacture of refined petroleum products	0.0%	0.9%	0.0%	0.3%	0.6%	0.5%	0.4%	0.4%
2411	Manufacture of basic chemicals, except fertilizers and nitrogen compounds	5.0%	6.4%	3.5%	5.4%	11.0%	11.7%	10.9%	7.7%
2423	Manufacture of pharmaceuticals, medicinal chemicals and botanical products	0.2%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.1%
2520	Manufacture of plastics products	3.5%	6.1%	5.3%	3.8%	7.0%	7.6%	8.7%	6.0%
2610	Manufacture of glass and glass products	2.9%	5.1%	2.4%	5.3%	8.1%	10.1%	9.9%	6.3%
2694	Manufacture of cement, lime and plaster	24.1%	20.9%	19.2%	19.9%	19.9%	19.2%	21.7%	20.7%
2710	Manufacture of basic iron and steel	11.1%	12.2%	12.0%	12.8%	16.3%	14.9%	15.6%	13.6%
2921	Manufacture of agricultural and forestry machinery	0.0%	0.0%	0.0%	0.0%	3.9%	0.0%	0.1%	0.6%
3150	Manufacture of electric lamps and lighting equipment	3.7%	na	na	18.0%	9.4%	10.7%	10.7%	10.5%
4010	Production, collection and distribution of electricity	0.0%	0.0%	0.0%	3.5%	3.2%	2.8%	1.6%	1.6%
7220	Software consultancy and supply	0.0%	0.0%	2.8%	2.3%	0.0%	7.4%	5.2%	2.5%
7411	Legal activities	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	1.0%	0.2%
7412	Accounting, book-keeping and auditing activities	1.9%	2.1%	3.8%	5.4%	4.2%	7.2%	8.2%	4.7%
7414	Business and management consultancy activities	0.0%	1.5%	0.0%	2.4%	2.4%	2.8%	5.4%	2.1%
7430	Advertising	0.0%	0.5%	1.2%	4.9%	5.8%	5.6%	7.2%	3.6%
7492	Investigation and security activities	0.0%	0.0%	2.1%	3.6%	10.5%	3.0%	10.5%	4.2%
7493	Building-cleaning activities	3.0%	2.9%	4.3%	9.1%	4.1%	8.1%	8.4%	5.7%
8030	Higher education	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%
8090	Adult and other education	0.0%	0.0%	0.0%	0.0%	0.2%	1.0%	0.5%	0.2%
8512	Medical and dental practice activities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Industrial Surveys (1996-2002) and Household Expenditures and Income Survey (1996 and 2002/2003). Department of Statistics (DOS), Amman-Jordan.

Note: it should be mentioned that according to the Department of Statistics (DOS), the original source of this table, other special taxes such that imposed on tobacco and Alcohol are treated as revenue and hence were classified as sales tax. This explains why the estimated rates on some activities are higher than the official GST rate. The DOS and the sales tax are currently cooperating together in order to produce consistent data set.

Table 3

GST on Trade Related Activities

ISIC	Activity	1996	1997	1998	1999	2000	2001	2002	Average
5110	Wholesale on a fee or contract basis	0.0%	0.0%	0.0%	18.1%	0.0%	2.1%	2.1%	3.2%
5121	Wholesale of agricultural raw materials and live animals	0.1%	0.0%	0.0%	0.0%	0.0%	0.4%	1.1%	0.2%
5122	Wholesale of food, beverages and tobacco	0.6%	0.0%	0.0%	0.0%	0.5%	1.0%	7.8%	1.4%
5131	Wholesale of textiles, clothing and footwear	0.1%	0.1%	0.0%	0.3%	0.0%	6.9%	6.2%	2.0%
5139	Wholesale of other household goods	0.1%	0.0%	0.0%	0.0%	0.1%	5.3%	4.8%	1.5%
5141	Wholesale of solid, liquid and gaseous fuels and related products	0.0%	0.0%	0.0%	11.4%	0.0%	0.0%	0.0%	1.6%
5142	Wholesale of metals and metal ores	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.9%	1.1%
5143	Wholesale of construction materials, hardware, plumbing and heating equipment and supplies	0.2%	0.2%	0.0%	0.0%	0.9%	5.8%	7.1%	2.0%
5149	Wholesale of other intermediate products, waste and scrap	0.0%	0.0%	0.0%	0.5%	0.0%	1.6%	2.4%	0.6%
5150	Wholesale of machinery, equipment and supplies	0.0%	0.0%	0.0%	0.0%	0.0%	4.1%	4.7%	1.3%
5190	Other wholesale	0.2%	0.0%	0.0%	0.0%	0.0%	5.8%	5.0%	1.6%

Source: Industrial Surveys (1996-2002) and Household Expenditures and Income and Survey (1996 and 2002/2003). Department of Statistics (DOS), Amman-Jordan.

1.1 GST by Income Group

The second part of the impact assessment will focus on how various income groups have been affected by the GST. In order to conduct this assessment we compiled data from the latest Household Expenditures and Income Survey (2003), in order to estimate the GST in proportion to the overall level of expenditure. Our findings suggest that members of the lowest expenditure group (less than 1200 JD a year) paid the highest share of their expenditures in terms of sales tax, which registered in 2003 at about 6 percent. Members of the highest expenditure group (more than 12000 JD) spent 4.7 percent of their total expenditures as sales tax. Middle-income groups paid roughly 5 percent of their total expenditures in sales tax, similar to the total average sales tax to total expenditures for all groups. Graph (2) exhibits the percentage paid as sales tax in proportion to the total household expenditures. [11]

5. CONCLUSION

The imposition of the sales tax in Jordan was a double-edged sword. Declining levels of rent necessitated new sources of revenue if the state was to maintain its public expenditure policy. We argue that this change has created a new social contract between the state and citizens.

The process of adhering to the new realties took time. Political elites in power resisted the introduction of the GST at the beginning, because they feared they would be the losers politically and economically. The dynamics of introducing the sales tax revealed the ability of dominating stakeholders of the status quo to use the threat of instability to impede the GST as well as to reduce its rate at inception.

In the beginning, the government failed to communicate its message regarding the economic rationale behind the GST to stakeholders and the public at large. This is particularly true for the period 1989-1992. Instead of preparing a detailed study addressing different scenarios of the impact of the GST, the government proceeded to appease a few stakeholders in order to secure the passage of the new law.

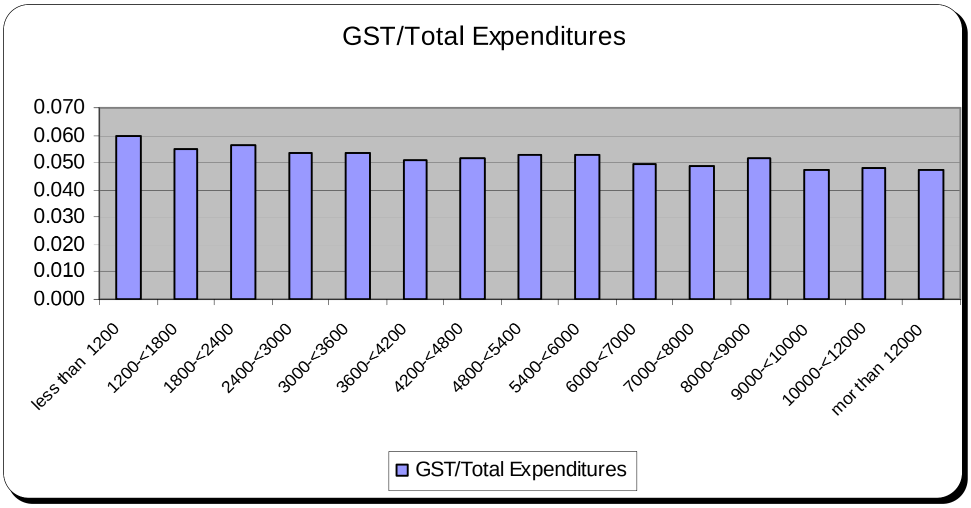
Deliberations on the GST revealed the institutional capacity of the private sector representatives and the NGO's. In general, these institutions lacked the necessary capacity to adopt a coherent stand vis-à-vis the GST law. This lack resulted in the weakening of their negotiation power with the government.

When the application of the sales tax began, several of its inconsistencies and shortcomings were exposed. The government, 16 months after passing the law, presented a long list of amendments to Parliament in addition to increasing the base rate. Exemptions in particular sectors proved very problematic with the law allowing for different interpretations between government officials and the business community, thus creating dissatisfaction especially among manufacturers.

As the process went on, it became easier in a more participatory fashion with various stakeholders to amend the GST law in the direction initially desired by the government. This, we argue, deals with uncertainty surrounding the initial law and the fact that its implementation did not prove to be as detrimental as Parliament and the business community had anticipated.

As far as the impact of the GST is concerned, several sectors are still subject to high taxes; particularly, alcohol, tobacco and cement. However, these sectors are the exception and not the norm. The services and agricultural sectors are still enjoying a low rate. As far as various income groups are concerned, our findings suggest that discrepancy between high and low income groups exist but on a limited basis. This fairness in the GST distribution may be consistent with the principle of such a tax. However, this is not necessarily true from a social perspective. Policy makers should pay more attention to the social implications of any increase in the GST. Finally, the most significant anomaly resulting from the GST was the political decision making process in Jordan, transforming a semi-rentier state towards a participatory government.

Graph 2



Source: Compiled from the Household Expenditures and Income Survey 2002/2003, DOS. Amman-Jordan.

* Data from this graph was obtained by first; estimating the sales tax on different goods and services in the HHS survey which constitutes the total expenditures. In the second step we multiply the rate of the sales tax by the expenditures in order to estimate the sales tax according to the various expenditure groups. In the third step we aggregated the data for each expenditure group and estimated how much each group spends on sales tax in proportion to its total consumption.

NOTES

(1) The literature distinguishes between the rentier state and the semi-rentier state based on how rent is being generated. In a rentier state, such as most of the Arab Gulf Countries, rent accrues as a result of direct involvement of the state in the extraction of the mineral resources. While in a semi-rentier state, the state is primarily active in receiving external rent without being involved in generating that rent. In a semi-rentier state there is a private rent such as worker's remittances. A semi-rentier economy is more diversified and therefore, can generate foreign income from other sources unlike the rentier economy. For more details see (Beblawi, H. and Luciani, G. (1987), *The Rentier State,* London: Croom Helm. Ch. 1). See also Krueger, 1974.

(2) Reforms defined as movements towards more market–oriented economics system, usually but not necessarily in the context of more open political system. (Fanelli et al., 2003)

(3) This section is based on the 20th session o minutes of meetings of the Jordanian parliament which was held on the 16th of February 1994: 85-100

(4) Under the constitution, when parliament is not in session the government can enact temporary laws to be approved once parliament reconvenes.

(5) The ECC is a consultative body that has been created in 1986 to function as a forum where private representatives can communicate their concerns to the government. The ECC has no constitutional or legal role but acts under the patronage of HM the King.

(6) Personal interview with Mr. *Iyad Qodah,* General Director of the Sales and Income Tax Department. Dec. 2004.

(7) This is not to say that "no" consultation what so ever has taken place before. It is most likely that the framework within the consultation was not institutionalized and informal networks were more prevalent.

(8) This section is based on the parliament's minutes of the meeting held on September 3rd, 1995: 67-75.

(9) When the sales tax was first introduced the services sector representatives managed to postpone applying the GST from six months to 36 months.

(10) With regard to the medical sector, a recent study reveals that while hospitals are exempted from the GST, small clinics are not thereby creating a distortion in medical sector incentives. Apparently, hospital owners are better organized and can lobby more efficiently than the scattered clinic owners.

(11) This graph is based on very detailed data made available from the DOS for the purpose of this study. The details of which are available upon request.

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تحليل للاقتصاد السياسي الذي يقوم بتعريف ضريبة المبيعات في الأردن

ابراهيم سيف*

ملخـــص

شكل بدء العمل باعتماد الضريبة العامة على المبيعات مكونا رئيسيا في برنامج الإصلاح الاقتصادي الذي طبقه الأردن عقب الأزمة الاقتصادية في العام 1989. ولقد قامت العديد من الدراسات ببحث محاسن ومساوئ برامج الإصلاح الاقتصادي، إلا أن قلة من الدراسات تناولت الآليات التي اعتمدت لإدخال تلك الإصلاحات أو الآثار المباشرة لبعض السياسات المعينة على غرار هذه الدرسة.

ولقد عنى إدخال الضريبة تغييرا في العقد الاجتماعي بين الدولة والمجتمع، وبموجب العقد الجديد فإن الدولة باتت تفرض ضرائب على الأنشطة الاقتصادية المختلفة، مقابل ذلك أصبح من حق دافعي الضرائب مساءلة الحكومة والمشاركة في صنع السياسات وتنفيذها.

فما هي الآثار والتحولات الاقتصادية والسياسية التي رافقت إدخال الضريبة العامة على المبيعات؟ وكيف توزع العبء الضريبي على شرائح الدخل والقطاعات الاقتصادية المختلفة؟ كذلك تبحث الدراسة في آليات صنع القرارات الاقتصادية وكيف تغيرت على مدى العقد الماضي.

الكلمات الدالة: ضريبة المبيعات، برنامج الإصلاح الاقتصادي، الاقتصاد السياسي، العقد الاجتماعي.

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