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COMMENTARY

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Jordan's Tough Economic Choices

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Up until two weeks ago, fuel commodities in Jordan—including diesel—were sold at prices close to their actual cost. Cooking gas was even priced below market rates. This made it difficult for the Jordanian treasury to generate revenues from the sale of fuel commodities (with the exception of premium gasoline).

But in mid-November, the country's budget deficit reached alarming levels. According to the Jordanian Ministry of Finance, in the first nine months of 2012, the country's loan-financed deficit stood at around US$3.5 billion, roughly 16 per cent of GDP. The government of Prime Minister Abdullah Nsour was forced to raise prices by reducing subsidies in order to preserve the stability of the economy and hence the Jordanian dinar. The price hike was pushed through despite the concerns of the security services about the threat of violent protest.

These fears were well founded. Recent protests in Jordan have resembled reactions to previous experiments in subsidy reduction, all of which were eventually withdrawn under intense public pressure. The reaction to earlier reform attempts took Jordan by storm, with various regions of the country rocked by spontaneous protest. Two months ago, for instance, the interim government of Fayez al-Tarawneh attempted to make good on its pledge to raise fuel prices. Public backlash led Jordan's King Abdullah II to intervene, and the government withdrew the price hike just one day after its announcement.

Jordanians took to the streets even before the prime minister finished his announced and justifications for increasing the prices. Political tension, corruption, and injustice all exacerbated the crisis, especially because subsidy reduction was not tied to a comprehensive economic policy or blueprint for serious political reform. Many Jordanians also complained about mismanaged public spending and the absence of government transparency.

But the problem is more severe this time as Jordan has fewer financial alternatives and offers of aid to fall back on. Promises of aid and facilitated loans from some Arab states have already fallen through. Worse, an agreement with the IMF constrains the government's ability to manoeuvre, leaving little room for compromise.

The prime minister has vowed to push through the price increase and the lifting of subsidies, claiming that backing down would amount to a "political crime."

The government's decision to proceed with the price hike indicates that it has chosen to follow through with measures to remove economic distortions in order to secure a US$ two billion loan from the IMF. The price hikes also represent a change in the domestic political order. The fact that the system is no longer sustainable indicates that the government is no longer able to maintain a paternalistic political system.

The government appears to have succeeded in passing the subsidy reforms and restoring stability while proving its ability to make difficult decisions in order to secure the country's economic future. The downside is that the government will soon be forced to make other tough choices, including raising electricity prices and removing other types of subsidies, which together cost Jordan about US$1.8 billion annually. In light of ongoing political tensions and the legacy of the Arab Spring, it will be difficult to enact these subsidy reforms before legislative elections that are scheduled for January 2013.

Jordanians will closely scrutinize the government's handling of public spending, seeking to limit the state's extravagance and improve transparency regarding defence and security expenditures—which, while not subject to audit, now account for about 30 percent of the budget.

But there are promising developments, too. The king's annulment of the Civil Retirement Law has been well received by the public. This unpopular law gave members of parliament lifetime pensions, and its removal has been viewed as a positive first step toward reforming public expenditure.

Jordan will continue to face economic challenges and must take steps to restore the momentum of economic growth, mobilize private sector resources, and attract foreign investments—all of which have served to benefit foreign currency reserves and job creation in the past. Accomplishing these goals will require drafting a new economic vision that can form the basis of lasting economic stability while still taking into account Jordan's changing political climate. It calls for addressing the current decline in the quality of Jordan's public administration by including more voices in the decision-making process and transitioning toward a merit-based system of government in which administrative positions are awarded based on an official's qualifications, not his or her political malleability.

The government must involve all key political actors in policymaking in order to foster an environment of cooperation and responsibility rather than blame and accusations. All of these measures are necessary because, at the end of the day, overcoming Jordan's current economic impasse is a collective responsibility.

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