INTRODUCTION

Development is capital-formation for the sake of maximisation of national output. In order to enhance the growth rate of per capita income, quantum of capital per man is to be increased so that the productive capacity per man gets a boost up. Here the term "capital" is to be understood in a very wide sense of the term so as to include human capital also and other infrastructural facilities which are man-created means for enhancement of national output. Capital formation may require the fulfilment of certain pre-conditions which are of economic and non-economic nature. As for example, it requires peace and maintenance of law and order in the society and also change in the approach of the people towards solution of the problems facing the society.

It is also necessary that the capital-output ratio comes down rather than increase due to the efforts for development so that the growth rate of national income reaches a higher level crossing a certain critical minimum.

It should also be clarified that ultimately production of those goods must be maximised which are actually required and demanded by the people. Strategy of development should also help in enhancement of saving-income ratio and investment-income ratio. It should also help in boosting up exports so that imports can be increased so as to help maximisation of national output.
Role of public debt in the development of a country is a very controversial issue and the debt-trap from which many countries like India, Jordan and other Asian, African and Latin American countries suffer, compels us to examine this issue more deeply theoretically and also empirically.

If we take into account the Classical-Keynesian or Buchanan-Lerner controversy, we have to judge:

(a) Whether private debt and public debt are basically different or the same.

(b) Whether the direct real burden of public debt is borne by the present generation or it is shifted to the future generation which is taxed to repay the principal amounts with interest.

(c) And whether internal public debt is basically different from external public debt.

We have come to the conclusion that there is basically no difference between private debt and public debt, between internal public debt and external public debt and the direct real burden of public debt is shifted to future generation through imposition of taxes so as to make service-payments. Thus we submit that the classical school was more correct than the so-called unorthodox school represented mostly by Keynesians.

When we discuss the subject of public debt and its role in development, we should make a distinction between internal public debt and external public debt and even with regard to internal (domestic) debt, a distinction should be made between borrowing...
from the people and borrowing from the banking system. Borrowing from the banking system i.e. from the Central Bank of the country and the commercial banks by the government is called deficit financing which results into inflation if it crosses a certain limit. So, borrowing from the banking system should be stopped. Borrowing from the people by the government has the crowding effects which result into increase in the rates of interest which become a drag on private investment. Borrowing by the government from foreign countries also becomes a drag on development in the long-run, as service-payments become more and more difficult and the net amount of foreign aid becomes smaller despite its larger gross amounts. This increases the dependence of the government on deficit financing and their doses become larger.

In Jordan in 1988, public expenditure constituted 56 per cent of its national income which is a very high figure. This high percentage of public expenditure requires more tax revenue, more loan revenue, more borrowing from the banking system and incurring of huge amounts of external debt.

In the case of Jordan, current public expenditure constituted 63.2 per cent of total public expenditure which was 35.4 per cent of gross national product in 1988. Tax revenue constituted about 18.2 per cent of GNP of Jordan in 1988. Total domestic revenue was 81.8 per cent of current public expenditure and hence the government had to resort to more deficit financing and more incurring of external debts in order to meet its capital expenditure. External total outstanding debt for Jordan increased
from being 989.3 million JDs in 1984 to 1726.6 million JDs in 1988 which was 97.5 per cent of national income. The debt service ratio was 22.7 per cent in 1988. Deficit financing by the government of Jordan, which was merely about 3 millions of JDs in 1986 increased to 568.2 millions of JDs in 1987. Large scale foreign aid sometimes plays a negative role of hiding the bad effects of wrong economic policies and hence the maladjustment in the structure of the economy goes on worsening. Repayment along with interest becomes more and more difficult with the passage of time, and the amount of net aid goes on diminishing which compels the government to resort to more deficit financing leading to inflation and then to stagflation.

Just as Marxist socialist theory failed to ensure rapid economic growth and to do justice to the down-trodden people, in the same way, the theory of increasing public expenditure (as a percentage of GNP) for ensuring the realization of the same goals has also failed to deliver the goods in many countries of Asia, Africa and Latin America and Jordan is a recent example in the series. In Jordan, at present, the rate of inflation is more than 15 per cent and the Jordanian currency (Dinar) had to be devalued considerably. Within the period of last 2 to 3 years, the value of the Jordanian Dinar has been reduced to 60 per cent of its previous value in terms of SDR or gold and the internal fall in the real value of Jordanian Dinar due to inflation has led to external fall in its value. The growth rate of national income is very low and has become negative also, growth rate of GDP diminished from being 1.9 per cent in 1984 to the negative
growth rate of income -6.1 per cent in 1988. Per capita annual real income diminished from being 735.6 JDs in 1984 to 584.3 JDs in 1988.

We believe that the strategy of financing development through public borrowing is not a correct strategy. Instead of incurring external debt, private foreign capital should be invited to invest in the different sectors of the economy. There should not be any stigma against the entry of the multinationals of the capitalist countries into Jordan, of course if the foreign loans are with low rates of interest and with good grace period and used for specific projects for creation of infrastructural facilities, then alone, they can be resorted to.

Borrowing from the Central Bank and the commercial banks (which means deficit financing) should be completely stopped.

Borrowing from the public may be resorted to, but not beyond a certain limit, because in that case, the rates of interest will increase and private investment will suffer to that much extent.

Reduction of government expenditure must take place and it should be done so by pruning the plans and making the economy freer.

Foreign exchange rate also should be allowed to be determined freely by the working of the market forces. All the foreign exchange controls and import controls should be removed. Forward markets in foreign currency and agricultural commodities should be allowed to operate and all subsidies and controls should be completely removed.
Custom duties and excise duties also should be reduced considerably, because the government expenditure also would have been reduced due to the lessening of government role in running economic enterprises and also on account of reduction of government controls and subsidies which will minimize the distortions in the production-structure of the economy.

This will maximize growth and improve the standard of living of the people considerably and will ensure a high level of employment without being dependent on the aid of the foreign countries.

In the first chapter, we have given a brief history of Jordan and have described the geographical features of the country and have laid bare certain characteristics of the Jordanian economy.

In the second chapter, we have discussed the main theories of economic development and have endeavoured to lay bare the basic meaning and also requirements of economic development.

In the third chapter, various theories of public debt have been analysed, specially the controversy between the Classical School now led by Prof. James Buchanan and the so-called unorthodox Keynesian School in this respect. This was necessary in order to understand the role of public debt in economic development.

In the fourth chapter, a difficult task of analysing the theories of relationship between public debt and development has been undertaken in order to gauge the role of public debt in the economic development of any country.
In the fifth chapter, the most important task of analysing the problems of debt and development in Jordan has been undertaken with the full empirical data to diagnose the economic ills of Jordan.

In the sixth chapter, efforts have been made for the empirical verification of our hypotheses pertaining to debt and development with the help of linear regression equations put on the computer.

In the seventh chapter, we have given our conclusions indicating the required changes in the economic policies of Jordan so that economic development of Jordan can be enhanced, problems like inflation and chronic trade deficits and unemployment are solved and the standard of living of the people is improved and dependence of development on debt is lessened considerably or removed altogether ultimately.
METHODOLOGY

In this thesis, the help of the library method is taken and the data contained in the report of the Central Bank of Jordan and in the International Financial Statistics published by the International Monetary Fund, Washington D.C. have been used.

After studying the various theories of development, of public expenditure and those of public debt and after examining the various economic trends of the Jordanian Economy we came to certain theoretical conclusions. After arriving at these theories pertaining to the relationship between debt and development we deemed it with to verify these theories in the light of the relevant economic facts of the Jordanian Economy. Both the stages are incorporated in the thesis.

We resorted to linear regression analysis and tested the hypothesis for finding out correlation coefficient and coefficients of determination at one per cent and five per cent significance level for verifying the relationship among variables considered in the theories. The results are found to be encouraging which support the validity of our hypothesis.
CHAPTER I

JORDAN AT A GLANCE

Jordan is a developing Arab Country. It is bounded in the North by Syria, East by Iraq, West by Israel, and South by Saudi Arabia and the Gulf of Aqaba.
It is constituted by the East and West Bank of river Jordan. The Eastern part was previously known as the "Emirate of Trans Jordan" and it was established in 1921. It became independent in 1946 and then it was declared to be "The Hashemite Kingdom of Jordan". After the Arab-Israeli war of 1948, Arabs were able to retain that part of Palestine which is known as the West Bank (excluding Gaza Strip). The Unity between the East Bank and the West Bank as part of Jordan was realized in 1950. But Israel occupied the West Bank in 1967 and since then, it has been under Israel's control.

Jordan is situated between longitudes 34° and 39° East and latitudes 29° and 33° North and off the south eastern shores of the Mediterranean sea and leans eastwards into the Arabian Desert. The total area of the State of Jordan is 96,188 square kilometers including the 6633 square kilometers of the West Bank.

People of Jordan belong to the Arab Nation. The official religion of the State is Islam and the official language is Arabic. In 1976, the population of Jordan was 2,900,000 which included the 800,000 population of the West Bank. The average annual growth rate of population is found to be 3.4 per cent. The capital of Jordan is Amman and in 1976, its population was 750,000 but in the mid-eighties, it was found to be 1160,000.

Jordan is a centralized system state which is governed by the parliamentary system and a constitutional hereditary monarchy. In 1921, the State of Jordan was established by King Abdullah Ibn Al-Houssain, the grandfather of the present monarch, King Hussein.
Ibn Talal. There is a written constitution of Jordan which gives wide powers to the King and he exercises those powers through the Prime Minister and the Council of Ministers which he appoints. The National Assembly possesses the legislative powers and it consists of the Senate and the House of Deputies.

According to the famous Heckscher-Ohlin theory of Factor-Endowments, a country generally specializes in the production of those goods in which, its abundant factors are intensively utilized and these goods are exported to other countries. But Jordan's main resource is its human capital. Second in importance is the resource of land of which only a small portion is arable. Thus the natural endowments of Jordan are very limited.

NATURAL RESOURCES:
As far as natural resources are concerned, Jordan is found to be poor. Minerals like phosphates, sulphur, limestone, cement rock, gypsum and marble are found to be in good quantities in Jordan. In the Dead Sea area, table salt and potash have been found to be in abundance. But despite exploratin surveys, no oil is traced until now in Jordan.

AGRICULTURE:
Traditionally, Jordan has been an agricultural country. The contribution of agriculture to total gross domestic product was about 20 percent in 1976 but it was only 9.6 per cent in 1988, though the absolute amount of agricultural production had increased. The important crops are wheat, barley, melons,
Like India, agriculture is mainly dependent on the rainfall. It is true that some dams and irrigation projects particularly in the Jordan Valley have been constructed, the remaining significant portion of the arable land remains dependent on rainfall and dry farming has become the rule.

**INDUSTRY:**

The contribution of Mining and Industry to GDP was 16 per cent in 1976 but it had increased to only 16.8 percent in 1988. Quota limitations and tariff protection on similar goods have played a role in the development of some domestic industries. Products like paper, soap and detergents, fodder, refined petroleum, confectioneries and plastics are sold in the home market. But the phosphates, textiles, cigarettes, dry batteries, pharmaceutical drugs and cement are exported.

**SERVICES:**

The importance of the service sector becomes clear when we take into account its share of 64 per cent to GDP in 1975, and in 1988, it was found to be 73.6% though the Government service sector contributed only 22.1 percent. In 1988 the total workforce in Jordan was estimated by the department of Statistics of the Government of Jordan to be 535444. While 276000 non-resident Jordanians were working in other Arab Countries, and some 52000 Jordanians were working in non-Arab countries.

Banking and insurance, civil and military services of the Government, trade, tourism belong to the service sector.
EXPORTS:

During the period from 1954 to 1976, phosphates, agricultural products and manufactured goods were exported. Tomatoes have been the largest item in the export of the agricultural goods. Among the manufactured goods, cigarettes and cement contributed 30 percent of total exports in 1976. 70 percent of the total exports of Jordan are sent to neighbouring Arab Countries. About 50 percent of the total exports of Jordan are constituted by phosphates. Exports provide foreign exchange resources to import only about 37 percent of its total imports. Exports and re-exports constituted 20.4 percent of GNP in 1988.

IMPORTS:

In 1976, imports constituted about 50 percent of GNP but in 1987, it increased to 54.8%. There are more than 55 countries with which Jordan is having trade relations. 50 percent of the imports is that of consumer goods while raw materials constitute 20 percent and capital equipment constitutes about 22 percent of the total imports.

TRADE BALANCE:

When we take into account the data about imports and exports of Jordan, it becomes clear that Jordan suffers from chronic trade deficit which is enormous. 37.4 percent of the imports were financed through other sources than export earnings and consequently deficit rose from JDs 596.9 million in 1987 to JD 6385 million in 1988. Jordan's huge trade deficits are met by expatriate remittances, foreign borrowing and tourism besides its exports and reexports. In the beginning, U.K. was the main source
of foreign aid to Jordan, but in the sixties, U.S.A. was the main source. Then since 1976, the Arab-oil exporting countries have assumed a very significant position in providing aid to Jordan. But the most important source of foreign loans has been the foreign banks for the last few years.

Foreign aid not only lessens balance of payments deficit, but its credit is also taken in the Government Budget and hence its revenue also increases to that extent. Defence burden is mainly shouldered by the Arab countries.

GOVERNMENT FINANCE:
Indirect taxes constituted 35.07 per cent of total Government revenue while direct taxes were about 8.1 per cent of the total Government revenue and the fees and profits of Government enterprizes contributed about 27.37 per cent of it. Custom charges contributed more than 41 per cent of the total indirect taxes. In 1976, 60 per cent of Government expenditure was financed by foreign aid. 70 per cent of Government expenditure were utilized to meet the wages and salaries of military and civil personnel.

Here we observe that the greater part of the Government expenditure being dependent on foreign loans and trade balance being in huge chronic deficit, the servicing of foreign debt was bound to be very burdensome with the passage of time and despite huge amounts of gross foreign aid, the net amount of foreign aid was bound to shrink. But it being difficult to reduce the soaring of Government expenditure when net amount of foreign aid
is reduced, the Government is tempted to resort to larger and larger doses of deficit financing which leads to inflation which again makes trade deficit worse. Thus the country gets encircled in a complete debt trap and certain vicious circles which retard growth emerge and endanger monetary stability and give rise to rapid inflation and chronic trade deficits and bring out other social and economic ills in the society which may prove to be a volcano politically and socially. If the U-turn is not given to the economic policies.

Now it is high time that we start our discussion with the analysis of various theories of economic development which we do in the next chapter.