



# Administrative Reform in Jordan: Urgency for Reforming the Bureaucracy Structure

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## ABSTRACT

This study aimed to provide a diagnostic-analytic study of the characteristics of administrative reform experience in Jordan with a view to identify the pitfalls and shortcomings that accompanied it, based on assumptions in conducting reform. During the last 20 years, Jordan has witnessed a considerable effort in administrative reform. The result of such reform programs have fallen short of expectations and were rather limited in impact. Therefore, the analysis focused on the conditioned, under which the governing structure works efficiently, and how Jordan can direct its resources toward the achievement of efficiency in the public service with special emphasis on the bureaucracy structure. The study revealed that the private sector itself is unable to participate significantly in absorbing the labor force into the economy as a result of the monopoly problems existing in the public sector. Moreover, the lower share of spending on the capital category is vital in classifying the merits of government economic policies. Therefore adaptability is key to any reform and reorganization plan in which contingencies must be embedded in the process of organizational change and administrative action.

**Keywords:** Jordanian Bureaucracy, Good Governance, Administrative Reform, State

**JEL Classifications:** D71, D73, D78, H11

## 1. INTRODUCTION

Public administration in Jordan faces immense challenges. These include the need to maintain peace and harmony, to alleviate deep poverty, to sustain a healthy and inclusive economic growth, to ensure social justice and to achieve ethical, efficient, transparent and participative governance (UN Human development Report, 2008). The sort of public administration needed to escalate the growth rate may not necessarily be the one that tackles poverty problems, seeks to remove inequality, tackles corruption to ensure speedy justice.

According to Amster (2012, p. 33), the New Public Management - has been called market based public administration sought to bring management professionalism to the public sector without necessarily discarding the active role and welfare goals of the state, and offered the possibility of a more cost-effective and citizen-friendly state, and the possibility of substantially enhancing the governance capacity of the State for tackling the highly complex challenges of our time. The patterns of governing structure are changing in ways that have been captured as the

“shift from government to governance” (Aron, 2014). This shift involves the focus of administrative practice moving outside the walls of government-away from the bureaucratic state and direct government provision of services and toward what has been called third party government (Wachhaus, 2010). In other words, the ways in which we govern are moving beyond governmental boundaries - The traditional mechanisms and institutions of government are becoming less involved with, and less central to, the ways that we govern ourselves (Noveck, 2009).

The overwhelming challenge of the changing times, however, has recently given birth to soul-searching among scholars and practitioners in this field. This rethinking ran along the following lines: is the traditional bureaucracy adequate to cope with social, economic, and political changes? Is it geared to national development, which is the expressed goal of practically all governments? Should not the focus be turned from mere system maintenance to active pursuit of development? Should not more attention be paid to the innovative aspect of government administration?

Scholars in public administration, political science, economics, and other related disciplines are not lacking in ideas for bridging transitional stages from a state of scarcity to one of abundance. The obvious question, which arises, however, is in what way would one type of administrative reform directly result in national development? Had there been satisfactory analysis to this question, there would be no problems in achieving the required growth that was expected in the last decade.

## 2. RESEARCH METHODOLOGY

The study focused on providing a diagnostic-analytic study of the Jordanian public administration in order to identify the pitfalls and shortcomings that accompanied them. In this analytical process the study examined and presented the important characteristics of rival explanations in administrative reform. Pattern-matching is a well-known mechanism in this kind of studies, where several cases may be known to have a certain type of outcome, and the investigation focused on how and why this outcome occurred in each case. A common policy problem is to understand the conditions under which research and development can be made useful to society.

This model is useful in explaining and understanding the approaches and motives of reforms and reorganizations undertaken by modern governments. They also provide conceptual frameworks for analysis of organization and reorganization of modern governance and public administration.

In doing so, the analysis and explanation focused on the conditions under which the governing structure works effectively, and how Jordan can orient its human and material resources towards the achievement of efficiency in public service. Therefore this study was undertaken to verify some aspects of the means-ends relationships by focusing on economy and efficiency in government by means of administrative reform to the development of responsive administration.

## 3. RAISED PROBLEMS

The dramatic political and socio-economic changes that have taken place in the authoritarian regimes in the last 10 years have called into question the usefulness and validity of many conventionally held views regarding the role and functions of both the state and the major actors in policy-making processes (Jorge and Vedila, 1994).

Examining the government transition efforts to the democracy phenomenon one can observe that these efforts has focused on either broad questions of constitutional reform at the systemic level or the role played by, or assigned to, traditional institutions and actors such as the executives, legislatures, political parties, or international factors. Little if any attention is given, however, to the public bureaucracy and their potential for effectively influencing the content and direction of processes of change and innovation in the policy-making process. Good Governance needs to rest in the system's ability to manage the conflicting goals of economic efficiency and rationality with the goal of legitimacy based on

broad participation in public policy-making processes and equity in the distribution of and access to public services (Leftwich, 1994).

The challenge is how to reach a balance between the demands for improving the operations of a free market in the neoliberal tradition of capitalism and the need to reinstate and improve some of the traditional institutions and processes associated with the workings of a democratic welfare state (World Bank Ministerial Seminar, 1996).

According to Abu Shair (1997, p. 129), the analysis of the transitional experience suggest that the role played by the public bureaucracy in the process of societal change needs to be closely examined whether one is interested in emphasizing the key values and practices associated with neoliberalism-free market, deregulation, privatization, and so on. Or whether one is interested in developing an administrative state that plays a key role as regulator and promoter of an equitable pattern of socioeconomic development. Clearly public bureaucracy plays a central role as influential political actor in each and all phases of policy-making processes-formation, implementation, and evaluation.

In its attempts to respond to the urbanization issues through national economic policies, the state became the instrument for achieving a wide variety of new conflicting goals ranging from regulating and promoting economic and social activities to ensuring social integration and equality.

The state is characterized by institutional development with long-lasting consequences for the public administration. First, organizationally, the state expands the scope of its functions to include industrial, commercial, economic, financial, public health, social security, education, and welfare activities.

The pattern of growth in the public sector is one of incremental aggregation. No integrated master plan existed before the launching of ambitious developmental policies and programs. Neither was there growth in the scope of the state functions, size, cost, nor relative power and influences based on rationality. Second, the fragmented evolution of the public sector became an obstacle to attempts at tackling questions of development from a technical perspective. The uneasy coexistence of public policies and institutions established to respond to conflicting goals, uncertain legitimacy, and considerable variations in resource availability. The potential for exercising some degree of effective planning, control, and coordination by policy-makers in general and through public participation in particular, became minimal.

The adoption of modern rational approaches to decision-making processes was to reinforce conceptions about the instrumental nature of both the organization and the management of the state. A technocratic ethos was set in place and with the legitimization of the bureaucratic arena as the proper place for settling conflict of interest.

The degree of legitimacy ascribed to both the state and its administrative apparatus is clearly the major factor that can either impede or promote effective levels of accountability and

responsiveness. Most recent efforts in Jordan to elicit a consensus on what constitute the proper role, functions, and power of the state have opened the door to conflicts that threaten the stability of the regime. A similar situation occurs in areas that concern the rules or values that should govern relationships among the state, civil society, individuals, groups, and institutional relations.

In summary, to enhance the Jordanian public administration in the era of new “governance,” post development or global competitiveness, it seems essentially necessary to manage well the limitations and barriers of the current government institutions and the inadequate government practices to be able to meet present and future demands in recognition of the fact that a responsive and efficient government is essential to sustainable development (Yaser & Azzam, 1986).

#### 4. PREVIOUS STUDIES

Farazmand (2002, p. 38) emphasized that several perspectives may be identified to explain administrative reform. These perspectives reflect a body of knowledge in organization theory with various schools of thought for collective action. They range from classical, formal theories of organizations, reorganization, and change and development to contemporary market theory, as well as the newest organizational elite theory that calls for fundamental change and reform in the structure and process of administrative systems.

Kamarack (2001) indicated four major driving forces in the global waves of public administration reform: global economic competition, democratization, the information revolution, and the performance deficit. It takes into account the role of the modern administrative state to shape and reshape society and to guide, regulate, and control economic and social developments. Doubts about capacity to govern are not based just on the limited financial capacity of the state. They result from deep-seated ideological disputes about the nature of the state and its purposes and shifting balances of opinion over what the state should or should not do.

In his argument of reform strategies, Chenng (2005) explained that public administration reform is influenced by a combination of factors, such as the innate influence of national administrative traditions, political evolutions arising from decolonization, democratization and nation-building, and global trends in administrative reform and government reinvention. While Stolk and Wergrich (2008) in his article convergence without diffusion? Claimed that, the domestic-international perspective is also often used by scholars to explain public administration reform, focusing on the relative significance of domestic political and institutional forces on the one hand and international exchange and diffusion on the other. Reforms in the machinery of government are needed to adapt government to the constantly changing needs of society and to enable public administration to reshape society. Today many countries can draw upon a variety of approaches and experiences in government reform and administrative revitalization. For over two decades, most have successfully conceived and implemented reforms at different levels of government and in different sectors of public administration.

The UNDP report (2010) on public administration argues that structural adjustment reforms-in the mid 1980s, efforts at reforming the public administration in developing countries, focused on reducing overall costs of the government, mainly through privatization of state owned enterprises and reduction of the wage bill to bring government spending down to sustainable levels and free resources for other uses more beneficial to the overall economy. However, most of public sector reforms supported through have met with considerable resistance (not at least because in many countries the public sector is the principal source of formal employment), and their implementation has rarely been successful.

Rao (2013) suggested the quest for efficiency, effectiveness and economy has been dominated impetus to the current administrative reforms and re-engineering in many countries. The reforms offered management practices and advocated smaller and less intrusive government in place of larger and more interventionist government.

For some time administrative reform has attempted to increase government and administrative productivity; that is, to improve the ratio between expenditures and output in public agencies.

While Angranoff and Yildis (2006, p. 319) emphasized that the smooth functioning, simplicity, and suitability of internal administrative processes are no longer the prime objectives. Reform has become more than the arrangement of the machinery of government and the operation of public agencies according to the principles and methods of scientific management as applied in the public sector.

Bakunin (2004, p. 229) claimed that, the structurally dominant approach to organization does not work particularly well in the conditions that have increasingly come to describe modern governance: high levels of complexity and uncertainty, and collaboration among interdependent actors working in relatively flat and decentralized relationships characterized by fluid participation.

The historic challenges to administrative reformers have been to change the nature of the existing structures of capacity and control while at the same time maintaining a proper balance between them.

Guy Peters (1996, p. 2) argued that bureaucrats frequently maximize the size of their agency budgets as a means of enhancing their own personal power and income. Once organizations created and granted mandate to regulate a certain area of policy, an organization may become difficult to control. Bureaucratic drift may occur, in which the organization tends to move increasingly further from original legislative intentions toward its own definition of good policy. Therefore the fundamental intellectual root of the market approach to changing the public sector is the belief in the efficiency of markets as the mechanism for allocating resources within a society.

This means reform in the public sector signifies a change in culture from one of routine bureaucratic response to public demands to that of an enterprise culture based on incentives and performance.

## 5. FINDINGS OF THE STUDY

The government of the Hashemite Kingdom of Jordan is composed of three kinds of organizations: 28 ministries, 23 government departments, and 62 public enterprises (PEs). The services and activities of these government organizations covers the whole areas in the kingdom, and their performance is governed by a large group of laws, regulations and instructions, organizational structures, procedures and models that determine how government organizations provide services to citizens throughout the kingdom.

The changes in the size of the public sector may be identified on the basis of two indicators. First, is the ratio of government revenues and expenditure of gross domestic product (GDP), and the other is the ratio of government employees to total labor.

### 5.1. Government Revenues and Expenditure

It is often argued that the government-spending ratio (or public expenditure ratio) can reveal the level of allocative role of the government, in particular when the expenditure is divided between current and capital.

Tables 1 and 2 provide statistics on the composition of government spending in Jordan (current and capital) as well as its share of GDP. The first impression is that the ratio of public expenditure during the period 2008-2012 was high; on average it constituted about 28% of GDP. To draw a comparison with South-East Asian countries, the average annual government spending ratio in South Korea was only 16.6% while in Malaysia it was about 25% of GDP during the same period.

### 5.2. Government Employees

Table 3 shows trends in size of the government employees. As a percent of the country's total civilian employment, the ratio of civil servants increased from 11.93% in 2005 to 17.36% and 21.4% in 2012 and 2008 respectively. The rise of this ratio indicates that the civil service has grown more than the total labor force.

Negative economic growth and rising unemployment pressured the government to employ much more than it actually needed.

For the purposes of the study, the analysis will be based on the importance of government role in development relative to the private sector and nature of activities.

### 5.3. Government Role in Development

Table 4 provides the statistics for government as well as private investment and its share of gross fixed capital formation. A number

of observations can be made: firstly, private investment constituted an important share of total investment. On average its share was 45.2% during 2005-2012. Yet, as short-term profit is a feature of private activity or the economy in general, investment was mainly in the construction sector and transport rather than capital equipment for industry. Secondly, most government investment is concentrated on two sectors, namely infrastructure (construction, transportation, telecommunications, energy and irrigation) and the social and services sectors (health, education, housing, etc.).

The Table 4 shows that the share of the public sector to total gross capital formation over 2005-2012 was, on average, higher than that of the private sector, 54.8% versus 45.2%. However, since 2010, the share of the private sector increased steadily from 38.1% to 56.6% and reached 61.0 in 2012. Privatization and shortage of funds explain the upward trend of the private sector. During the second half of the 2010s, in response to the challenge of the budget deficit, the government allowed current expenditure to increase, but the share took a downward trend beginning in 2011.

### 5.4. Domain of Activity

Table 5 shows that the share of government spending on social security and welfare was limited, <12% of total governmental spending 2008-2012. Such figures reflect the absence of state welfare schemes to provide the poor with effective help parallel to those existing in the welfare states of Western countries.

Nevertheless, the Jordanian government spent a good proportion of its total expenditure on education. For example in education it spent on average 11.4% during 2008-2012. Although no one can argue against such human investment, government policies in education never addressed the real need or the Jordanian economy (middle-level practical skills) but concentrated more on professional academic skills. As a result the highly educated people in the country suffer from unemployment. In health, the proportion of expenditure was about 4.4% of total government expenditure during the same period.

The problem in health, however, is not the spending but the quality of spending. The health system is hospital-oriented. Expenditure on hospitals accounted on average for 70% of total annual health expenditure over the period 2008-2010, while expenditure on primary health care constituted only 12.5%. About 70% of total health expenditure in Jordan (including that by the military medical services, university hospitals and the private sector) was directed towards the non-primary health services. Further worry is the uneven distribution of such services among the rural and urban areas. Such evidence demonstrates the inability of a centralized

**Table 1: Government expenditure as % of GDP**

Year	Government expenditure (MJJDs)	Current expenditure	Capital expenditure	GDP (MJJDs)	Government expenditure percentage of GDP
2008	5431.9	4473.4	958.5	13971.2	28.7
2009	6030.5	4586.0	1444.5	15044.5	27.1
2010	5708.0	4746.6	961.4	16417.2	25.3
2011	6796.6	5739.5	1057.1	17987.7	28.0
2012	6878.2	6202.8	675.4	19298.2	28.2

Source: Central Bank of Jordan (2013). GDP: Gross domestic product

policy to match the needs of people desperate to enhance their range of choices and entitlements. This implies that health services should be directed towards primary services and to a more even distribution among the regions.

Inefficient allocation and use of resources are at the heart of Jordan's current structural problem. The rate of return on investment sharply declined in the first half of the 1990s as shown in Table 6.

**Table 2: Government revenues and expenditures as percentage of GDP (MJD)**

Year	Domestic revenues	Total expenditures	GDP M	Budget deficit
2008	4375.4	5431.9	13.971.2	-1056.5
2009	4187.8	6030.5	15.044.5	-1842.7
2010	4261.1	5708.0	16.417.2	-1446.9
2011	4198.9	6796.6	17.987.7	-2597.7
2012	4726.9	6878.2	19.298.2	-2151.3
Average	-9.5			

Source: Central Bank of Jordan (2013), GDP: Gross domestic product

**Table 3: Trends in relative size of employment in government**

Indicator	2005	2008	2012
Total labor force (000)	1387	1486	1616
Employed	1207	1293	1406
Unemployed	180	193	210
Total government employees (000)	144	162	244
Employees as percentage of			
Total labor force	10.38	10.90	15.10
Employed	11.93	12.53	17.36

Source: Based on Civil Service Bureau, Annual Statistical Reports of 2005-2012

**Table 4: Sectorial distribution of GFCF (%)**

Year	Public sector				Private sector
	Central government	Local units	PEs	Total	
2005	24.4	0.31	19.5	44.2	55.8
2006	24.9	0.50	24.4	49.8	50.2
2007	30.3	1.90	30.3	62.2	37.8
2008	38.2	3.5	27.8	69.5	30.5
2009	42.6	3.0	22.1	67.7	32.3
2010	39.5	3.96	18.5	61.9	38.1
2011	27.7	2.4	13.7	43.8	56.2
2012	26.4	1.9	10.7	39.0	61.0
Average	31.7	2.2	20.69	54.8	45.2

Source: World Bank Reports 2005-2012, PE: Public enterprises, GFCF: Gross fixed capital formation

**Table 5: Distribution of government expenditure by category for the years 2008, 2010 and 2012**

Sector	Percentage of total expenditure		
	2008	2010	2012
Defense	35.5	25.6	23.1
Education	9.4	11.5	14.2
Health	3.8	3.6	5.8
Welfare economic services	10.5	13.7	11.7
Economic services	26.6	33.2	12.9
Others	16.2	12.3	32.3
Total	100	100	100

Source: World Bank Development Report 2012

While the fall in the rate of the 90s might not be of much concern, the negative rate in the last 10 years should be very alarming. A negative rate of return on investment in a developing country should question efficiency of the whole system.

Until recently, the adjustment program has focused on macro-economic reforms. However, progress has also been made in the areas directly affecting private sector development. Several laws and procedures are being revised with a view to liberalizing the regulatory framework in such areas as investment licensing, investment incentives, foreign investment, company formation, customs procedures, and labor regulations.

These reforms need to be extended and deepened to provide a truly attractive environment for private sector activity, focusing on the reduction of various types of licensing for business entry and operations, simplifying taxation and customs procedures, reducing restrictions on foreign investments, and developing the financial sector.

In addition to this the government will need also to reduce its direct role in economic activities. While Jordan is better off in few areas of service provision compared to other countries in the region.

Increasing overall efficiency in the economy would have to start with rationalizing the public sector and determining the activities it is best suited to undertake. Experience in other countries has shown that the competitive activities should be left to private sector initiative, with the government ensuring the existence of competitive markets. By leaving competitive activities to the private sector, the government can focus on its core functions, and invest only in those activities that have the characteristics of public goods. Figure 1 explains the serious problem of the government participation and investment in the public shareholding companies.

There are 62 PEs, each established by specific legislation. The major PEs is providers of infrastructure and financial services. Many of this PEs operates at low level of efficiency due to political pressures, rigid bureaucratic procedures, uncompetitive pay scales, and poor structure of incentives.

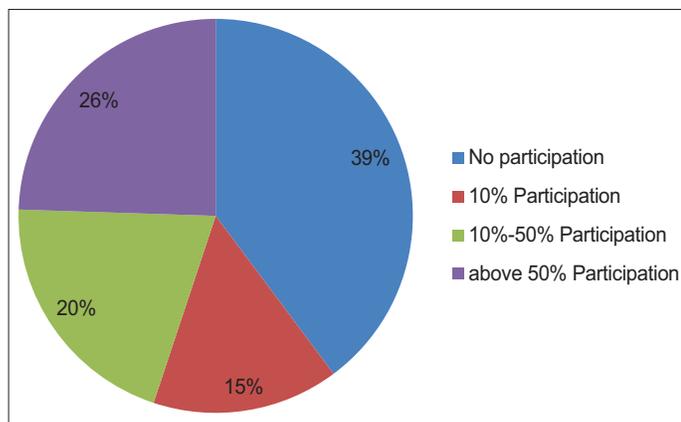
A comparative study of industrial companies during the 90s showed that those with <15% government ownership had higher productivity, greater sales growth, and profitability than those with more than 15% government ownership. The large size of government ownership has also tended to reduce competition. Many of the government-controlled companies are in monopoly positions; this has meant that the number of business opportunities effectively available to the private sector is curtailed.

**Table 6: Rate of return on investment**

Period	Rate of return
1980-1989	23.3
1990-1999	10.6
2000-2009	-3.4

Public Administration and Development Management, United Nations (2012)

**Figure 1:** Participation of the government investment in public shareholding companies



Source: Good Governance for Private Sector Development and Investment, a Regional Ministerial Seminar (2012)

## 6. ASSESSMENT OF FINDINGS

The role of government in economic management has grown over the past two decades. The public sector emerged as a competing and restraining force *vis a vis* the private sector. Increased government involvement in development efforts was accompanied by an expansion in the public sector at a time of considerable economic growth and relative abundance of financial resources. This expansion in the public sector entailed enlargement of its administrative units, staff increases, and absolute and relative increases in public expenditures. As a result, the public sector came to comprise 28 ministries with 23 central departments and 62 PEs affiliated with them. The total number of staff rose from 144,000 in 2005 to 244,000 in 2012.

Total expenditures of the central government budget amounted 28.2% of GDP in 2012. The beginning of the 2012 showed an increased dependence on the public sector for new job opportunities in the light of the inability of the private sector to absorb more labor, and owing to the decrease demand in foreign markets for Jordanian labor. Table 3 shows trends in size of the government employees as a percentage of the country's total civilian employment. Civil servants ratio increased from 10.38% in 2005 to 10.90% and 15.10% in 2008 and 2012 respectively. The rise of this ratio indicates that the civil service has grown more than the total labor force.

The test of efficient public sector management lies in the proper allocation and use of available resources, hence the considerable attention given to public sector development. The government shouldered the greater burden of the economic and social development efforts in the past two decades and it did not confine its role to providing basic social services, establishing infrastructures, or ensuring the availability of investment and production incentives. Rather it went beyond that to engage directly in economic production endeavors. The expanding role of the government, however, was not matched by a parallel expansion in the administrative capacity of the public sector, thus limiting its productive efficiency. The economic and social development plans

had reflected the government control over economic life as well as the dominant role of the public sector in investment. While the present plan 2013, however, aims at providing a greater role to the private sector in investment, direct production and employment, the productive base remained small, impeding the attainment of higher levels of self-sufficiency in the production of goods and services. Consequently, a significant portion of both public and private expenditure was directed to imports of consumer and capital goods, resulting in a chronic deficit in the general budget and an increasing deficit in the trade balance.

The central government budget suffered a deficit between domestic revenues and total expenditures during the period 2008-2012, -9% on average (Table 2). The government expenditure as a percentage of GDP rose from 27.1% in 2009 to 28.2% in 2012 (Table 1). As a result, the government resorted to external and domestic borrowing, resulting in a large external debt and a heavier debt service burden.

These developments made it necessary to contain public expenditure and reduce the budget deficit; achieve self-reliance through balanced development; and spur higher investment levels, increased productivity of factors of production, expand exports, and the penetration of new markets.

## 7. EXPLANATION

Examining Tables 1 and 2 one can find the following explanations. The problem of Jordan is not the level of government expenditure but the limited capacity of the economy to finance it. Another important indicator for the presence or absence of a sound economic policy is the share of current and capital expenditure in total government spending. Where current expenditure is large, there is less of a commitment to development and vice versa. Government current expenditure was excessive for two main reasons: a high level of military expenditure, 23% on average (Table 5), and an enormous government wage bill. The latter is so large not because per capita wages are high but because the government employees represent a large number of the Jordanian workforce in its service sector. This is an example of deficient centralization, as more central units of government need more government spending although the economy itself is market oriented.

Further conclusion is that the private sector itself is unable to participate significantly in absorbing the labor force into the economy as a result of the monopoly problems existing in the public sector. Moreover, the lower share of spending on the capital category is vital in classifying the merits of government economic policies. One of the challenges for the policy-maker in Jordan is to choose policies, which suit the needs of the people, particularly the one third of the population who are poor. The upward trend of both domestic revenues and expenditure has led to an increase in the size of the government as Table 2 shows. The difference between the size based on revenues and the size based on expenditure results in a budget deficit. The average deficit over the period was -9.5.

Another explanation also can be drawn from Table 4, that the share of the public sector to gross capital formation over the period

2005-2012 was, on average, higher than that of the private sector, 54.8% versus 45.2%. However, since 1998, the share of the private sector increased steadily from 38.1% to 56.6% and reached 61.0 in 2012. Privatization and shortage of funds explains the upward trend of the private sector share.

Growth of the public sector as we have seen meant the use of increasing resources, both human and financial. Efficiency is the most important single criterion for judging economic management. Efficiency of the public sector does not affect only the resources used by the public sector itself but also determines, to a large extent, efficiency of the private sector through its policies. Inefficient allocation and use of resources are at the heart of Jordan's current structural problem. The rate of return on investment sharply declined in the first half of the 1990s as shown in Table 6. While the fall in the rate of the first half of the decade might not be of much concern, the negative rate during the period (2000-2009) should be very alarming. A negative rate of return on investment in a developing country should question efficiency of the whole system.

## 8. RECOMMENDATIONS

The economic conditions that prevailed during the past two decades have indeed changed. The previous conditions have led to a new dynamism in the economy with a new outlook on planning methods, strategies and mechanisms. The climate is propitious for a review of the relationship between the public and private sectors and for a definition of the role of each in the management of the economy and its resources and in sharing burdens in the fields of employment, investment and social services. Based on the findings, it is recommended that, in order to achieve its development strategy, the government needs to reexamine the respective roles of the public and private sectors. Although the private sector is still unduly constrained by the extensive presence of the public sector in the economy and by a restrictive regulatory framework. The government also needs to focus on providing those public goods and services that can only be provided on a collective basis, and leave competitive activities to the private sector, which can perform them much more efficiently.

Such a change in government's role would require: (a) Privatization of PEs over time; (b) the provision of adequate public goods and services (such as public administration and legal machinery); and (c) regulatory reform. This will have several benefits: (a) Improved concentration of scarce public financial and human resources on the core functions of the government; (b) release of some of the resources for the private sector; and (c) increased efficiency in producing goods and services.

Against the backdrop of heavy indebtedness and the need to generate public savings, the size and structure of the public sector will need significant changes. Government expenditure is expected to decline from 53% of GDP in 1997 to 35% in 2003. This decline will require containing the wage bill and reducing other recurrent expenditures. In addition public investments will have to be very selective. Restructuring PEs would reduce the need for fiscal transfer. With the advent of peace in the region, there is now greater scope for further containing military expenditures as well. On

the other hand, the need for more and better social services and infrastructure may well entail additional fiscal expenditures that were not previously envisaged.

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