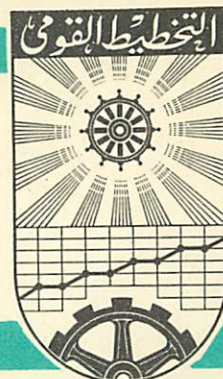


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NATIONAL INCOME ACCOUNTS

by

(Mr. Said Dajani)

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3. MOHAMED MAZHAR - ZAMALEK

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National Income Accounts

Prepared by

The National Income Section
Department of Statistics
Jordan

(Mr. Said Dajani)

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National Income Accounts

In Jordan

Introduction

The Jordan Government Statistical Department has recently decided to undertake a study of the national income for the year 1959 and for earlier years if it proves possible to obtain sufficiently reliable data.

An attempt was made in 1955 to calculate the national income of Jordan for the years 1952 to 1954 by the Statistics Department. Unfortunately for a variety of reasons, it was later decided not to publish the results of this enquiry, though a great deal of useful pioneer work had been accomplished in the course of it.

The calculation of national income involves bringing together a wide variety of statistical data some of which, inevitably, will be the subject to considerable margins of error. Moreover some components of the national income cannot be measured directly and have to be estimated by roundabout means. So it would be wrong to suppose that it will be possible to arrive at some precise estimates of the national income which will not later be modified as more and better statistical data become available. It is important that these considerations be kept in mind when the results of the current investigation are discussed for otherwise there is a danger that standards of accuracy will be demanded which will be inapplicable to this type of calculation. This shouldn't however, be regarded as a final word on the subjects it covers. As the enquiry develops it may well be found that more accurate or more simple ways of obtaining various types of data can be used.

CONCEPTS AND DEFINITIONS

1 - The national income is a measure of the money value of the goods and services becoming available to the nation from economic activity. It can be regarded from three points of view and measured in three ways. It can be regarded as a total of incomes derived from economic activity, as the value of goods and services produced by the country and as the total value of expenditure on goods and services produced by the country. These three ways of looking at national

income lead to three methods of computing it, by the aggregation of incomes, the aggregation of products and the aggregation of expenditures. We will consider briefly each of these concepts in turn.

THE INCOME APPROACH

2 - The value of the national output of goods and services is clearly identical with the incomes of the factors of production which produce them. These can be divided broadly into incomes arising from employment, wages, and salaries, and incomes arising from the ownership of property which can be called profit. Traditionally property income has been divided into income arising from the ownership of land and buildings, called rent, and income arising from the ownerships of other forms of productive assets. These two forms of income are not the only ones which accrue to the residents of a country. Retirement pensions, family allowances and private gifts, for example are not included in the national income because they can be regarded as being paid from the incomes of factors of production. This may take place through taxation, contributions to national insurance schemes and simply by means of private gifts, incomes of this type are called transfer incomes and they may be defined as all incomes which can't be regarded as payments for current services to production. These incomes are excluded from the national income because they are paid out of factor incomes so that if they were included an element of double counting would be introduced .

THE PRODUCT APPROACH

3 - The sum of incomes arising from the production of goods and services within the country is called the domestic product. This is, as we have seen, identical with the value of the output of goods and services produced by the various industries within the country. It is important to realise, however, that this means simply the value added at each stage of the productive process. In order to obtain the value added, the value of commodities used up in the process of production must be deducted from the final sales value of the goods otherwise double counting will occur.

The domestic product includes only the factor incomes arising within the nation. It does not include the value of the imported goods and services which are, of course, part of the domestic products of other nation.

In some cases, however, factor incomes accrue through the ownership of the property abroad and through economic activity abroad, similarly foreigners may earn factor incomes through economic activity or the ownership of property in Jordan. The national income comprises domestic income or product plus net income from abroad.

THE EXPENDITURE APPROACH

4 - The national income is the value of the goods and services becoming available to the nation, and it can, therefore be measured by adding together expenditures on those goods and services. It is usual to divide expenditure into the broad groups, consumption and adding to wealth or investments. Consumption comprises all kinds of current expenditure on goods and services, whether made by consumers or collective bodies, including the government, Adding to wealth comprises expenditure increasing the stock of capital assets which comprises both physical assets in the form of factories, buildings, etc., and net additions to the foreign assets of the country which are, in effect, claims upon the production of the other countries.

In measuring the national income by means of the expenditure method we must be careful to include only final purchases of goods and services, that is to say we must include the value of purchase of goods used to produce other goods. We must, therefore, distinguish between intermediate and final purchase of goods and services. While this distinction is clear enough in principle, difficult problems arise in practice with respect to government expenditure and capital formation.

FOREIGN AID

5 - International transfers either by governments or private individuals increase the supply of goods and services becoming available to the receiving country. These goods and services add to national expenditure either by increasing consumption or national wealth or both at the same time, they might, for example, lead to increase consumption expenditure, an increase in domestic assets and an increase

in foreign exchange services. The identity of national income and expenditure is preserved by the subtraction of imports from national expenditure and the addition of exports. If imports exceeded exports the difference comprises net foreign gifts together with net changes in foreign assets.

DEPRECIATION

Depreciation is as much part of the costs of production as the costs of raw materials and fuels consumed and we should take account of it. We thus have a gross and a net concept for each of the three aggregates discussed above. The gross figures include depreciation and the net figures exclude it. Unfortunately, the calculation of depreciation presents extremely difficult statistical problems.

In the case of Jordan where the number of enterprises which keep accounts which could be expected to show amounts set aside for depreciation is in any case limited, the attempt to calculate depreciation was extremely arbitrary proceeding which can have little meaning.

So in calculating depreciation in Jordan we are obliged first of all, to calculate the current value of the national capital assets. As many firms do not keep detailed records it is quite clear that in their conditions it would be extremely difficult, if not impossible, to obtain a value for the national capital which would be anything but an arbitrary figure having little real meaning. This is only the beginning of the problem, however, for once having arrived at a figure for the national capital it would be necessary to decide the period over which it should be depreciated. This would involve working out the average life of each different type of capital equipment and once again this would necessarily, be a highly arbitrary procedure. For these reasons all the national income estimates contained (in the 1959 national income report) are gross of depreciation for it is believed that the inclusion of depreciation provisions in tables of the report mentioned above would introduce an unnecessarily

arbitrary and misleading element.

MEASUREMENT OF THE NATIONAL INCOME JORDAN

Calculation of the national income in Jordan are greatly handicapped by the fact that there has never been a comprehensive census of population (The first population census has been taken in the end of 1961 and the Department of Statistics has not yet accomplished the tables needed) which would provide the basis for estimates of the working population and its distribution by occupation. No comprehensive estimates have ever been attempted of the employed labour force, while the only statistics of wages available are those made on the basis of irregular enquiries which were only partially complete. Estimation of other forms of income is handicapped by the absence of reliable information based on income tax returns.

It is evident, therefore , that we are likely to make the most progress in calculating the national income by adopting the product approach. So we divided the economy into industrial sectors and estimated the value added in each sector. In some sectors it was possible to do this by estimating the value of the final products and deducting the value of the goods consumed in production, thus arriving at value added , in other sectors it was necessary to obtain information directly on wages and other forms of factor income .

Thus in computing national income for 1959 we proceeded first of all to build up the gross national product industry and in the course of this we showed the distribution of the various types of factor income.

INDUSTRIAL SECTORS USED FOR THE CALCULATION OF THE GROSS NATIONAL PRODUCT

It was convenient to follow the industrial breakdown of the gross national product recommended in the united nations report "A system of National Account and Supporting Tables".

The sectors recommended in this report are as follows:

- 1) Agriculture, forestry and fishing
- 2) Mining and quarrying
- 3) Manufacturing
- 4) Construction
- 5) Electricity supply
- 6) Transport
- 7) Wholesale and retail sale
- 8) Banking
- 9) Ownership of dwellings
- 10) Public administration and defence
- 11) Services
- 12) Net factor income from abroad

The national income originating in any sector is measured by the total value produced less the value of raw materials, fuels, etc., required to produce them plus or minus the change in stocks in the sector. This is equal to wages and salaries, rents and profits including provision for depreciation. The sum of rents and profits is the operation surplus of the enterprises in each sector.

It is customary to confine national income estimated to goods and services which can be given a value which is not completely arbitrary. In practice this means goods and services which are customarily exchanged for money. Thus, in addition to the production of physical commodities, the activities of transport and communication services, wholesale and retail trade, other services and the work of civil servants, local government employees and the armed forces were included. The boundary of production was extended to include the value of the services of houses which are occupied by their owners. This was done by assuming that the rental value of such houses would be the same as similar houses for which rent is paid. So the income arising from the ownership of dwellings, represents the net value of all dwellings whether or not they are owned by their occupiers. In the case of owner occupied dwellings a rent was imputed. If this procedure was not followed, and only actual rents paid for dwellings included, an increase in the pro-

portion of owner occupied dwellings would have resulted in a fall in the national income which clearly be unrealistic.

As it was clearly explained (in the concepts and definitions page 1) the measurement of national income can be imputed from three points of view:

- 1) National income by type of organization or (The total income derived from economic activity)
- 2) Industrial origin of Gross Domestic Product at factor Cost or (The value of goods and services produced by the country)
- 3) Gross Domestic and Gross National Income or (The total value of expenditure on goods and services produced by the country).

The types of organization in which income originates are divided into three groups private enterprises, households and non-profit institution, and general government . Income originating in private enterprises is divided into wages and salaries, operating surpluses of corporations , or limited liability companies, and the operating surpluses of unincorporated enterprises, farms, professions and sole traders and partnerships.

Income originating in households and non-profit institution comprises actual and imputed rents of all dwellings, wages of domestic servants and the wages, salaries and rents paid by such non-profit institutions as schools, hospitals, etc.

Income originating in general government comprises all wages, salaries and rents paid by central and local government.

As for the gross domestic and gross national income, expenditure is divided into two groups consumption and investment, or capital formation. These are in turn sub-divided into consumption expenditure of households, government current expenditure in goods and services , fixed capital formation of private enterprises and final capital formation in the government.

We will go briefly over the various sectors of national income.

A. Agriculture forestry and fishing: This is the most important single sector in the Jordanian economy. The contribution of this sector to gross national product was obtained by deducting from total revenue all expenses other than labour, rent and interest.

The revenue item includes the total value of all agricultural and livestock products, the value of sales of fish and the value of forest products. The expenses include wages of labour which included the value of wages paid in kind as well as those paid in cash). Machinery expenses, seeds, fertilisers, insecticides and irrigation costs.

B. Mining and quarrying and Manufacturing: These two sectors are concerned with the production of physical commodities. Income arising in these sectors is equal to the value of sales at market price, plus the value of any increase of stocks, less the market value of all current purchases from other enterprises.

The Department of Statistics carries out an enquiry every year, it collects information on the number of industrial and mining establishments.

C. Construction: This sector covers the construction and repair of buildings, highways, streets, culverts, harbours, waterways etc.; it does not include construction, repaired demolition work undertaken as an ancillary activity by the staff and for the use of an enterprise classified elsewhere. The income arising in this sector includes the value of work carried out during the year less payments for commodities bought from other enterprises.

D. Electricity supply: The information to this sector was obtained by means of direct enquiries covering all the undertakings. These services are provided either by Municipalities or by private establishments.

E. Transport: Transport includes rail road and air transport undertakings together with establishments provided services ancillary to transport such as travel agents, brokers etc.

F. Wholesale and retail sale: Receipts from sales plus the value of any increase in stocks; minus purchase of goods and other expenses such as fuel and light, maintenance of premises. The difference is equal to wages and salaries rents and profits.

The great difficulty which arises in estimating income originating in this sector comes from the very large number of retail establishments most of which are on a very small scale and most of which probably do not keep proper records.

G. Services: The income arising in this sector was provided by a sample survey carried out of establishments rendering personal services such as hotels, cafes, and restaurants, barbers' shops, etc., information also was obtained in respect of all private educational institutions and from private hospitals,

Expenditure by the Government on wages, salaries and rents for education and health has been included.

Income of professional services, lawyers, doctors, midwives, etc. was estimated on the basis of the number of persons registered as being engaged in those services with the respective professional organization or with the government.

H. Public administration and defence: The income arising in Government services comprises the wages and salaries paid to all gov. employees together with the rent paid for buildings rented by the gov. The figures are based on the records of gov. actual expenditure for the year needed.