

IS GROWTH IN THE JORDANIAN ECONOMY WAGE-LED OR PROFIT-LED?

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Farah Omet¹, Ahmet Ozcam²

¹Yeditepe University, Department of Economics, Kadikoy, Istanbul, Turkiye.

farahomet@hotmail.com, ORCID:0000-0003-1302-5613

²Yeditepe University, Department of Economics, Kadikoy, Istanbul, Turkiye.

aozcam@yeditepe.edu.tr, ORCID: 0000-0002-4145-6296

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ABSTRACT

Purpose- For too long, the performance of the Jordanian economy has been disappointing. During the period 2010-2020, the mean annual growth rate in real Gross Domestic product (GDP) was equal to 2.0 percent. In addition, the overall unemployment rate increased from 12.5 percent in 2010 to 23.2 percent in 2020. To decrease the double-digit unemployment, any growth strategy requires a good understanding of the characteristics of the Jordanian economy. In other words, increasing the profit share in a wage-led economy, and increasing the wage share in a profit-led economy will both have negative consequences to economic growth. Therefore, it is important to identify whether the Jordanian economic regime is wage-led or profit-led.

Methodology- This paper investigates the effect of changes in the functional income distribution on economic growth in Jordan during the period 1990-2020. An autoregressive distributed lag (ARDL) approach is used to assess the presence of the long-run relationship between changes in income distribution and aggregate demand.

Findings- Based on the estimated results, it is argued that the demand regime in the Jordanian economy is wage-led. In other words, an increase in the wage-share leads to higher economic growth.

Conclusion- Given the challenge of unemployment, the Jordanian government and the leaders of the private sector should not allow the supply and demand sides of the labor market to determine wages. The economy needs pro-labor institutional reforms to realize strong and sustainable economic growth rates.

Keywords: Jordan, growth, unemployment, wage-led, profit-led, net exports, ARDL, cointegration.

JEL Codes: B50, E11, E12

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