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## INEFFICIENCY OF MACROECONOMIC STABILIZATION AND STRUCTURAL REFORMS IN MOROCCO: THE NEED FOR A SECOND GENERATION OF REFORMS

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### ***INEFFICIENCY OF MACROECONOMIC STABILIZATION AND STRUCTURAL REFORMS IN MOROCCO: THE NEED FOR A SECOND GENERATION OF REFORMS***

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What is more important in the Moroccan reform process is that how reforms were designed and implemented substantially determined how they performed. The present paper is dealing with this issue, focusing on the inefficiency of macroeconomic stabilization, obstacles to successful outcomes in structural reforms as well as on the need for second generation of reforms, especially, political, institutional, social and cultural reforms. This second generation of reforms, if they have been accompanied with macroeconomic stabilization and structural reforms, would have resulted in best economic reform outcomes.

The paper is organized as follows. Section 1 centers on the inefficiency of macroeconomic stabilization. Section 2 outlines reform outcomes on the structural front. Finally, section 3 highlights the urgent need for a second generation of reforms.

#### **1. Inefficiency of Macroeconomic Stabilization**

Macroeconomic stabilization concerns domestic macroeconomic stabilization, that is fiscal adjustment and monetary restriction, as well as external adjustment, that is mainly adjustment of current account balance of payments. In what follows, we will first address issues related to the inefficiency of domestic macroeconomic stabilization before tackling the issue related to external adjustments.

## **1.1. Inefficiency of Domestic Macroeconomic Adjustment**

Empirical works have shown in the Moroccan case that there is a convergence between the fiscal and monetary approaches to the balance of payments (see Mansouri, 2001a, 2003a; Mansouri et al., 2003). This means that fiscal policy in Morocco finally played a major role in macroeconomic stabilization, especially because even monetary restriction aimed at reducing fiscal deficits through further controls on the high-powered money, which is itself devoted to finance fiscal deficits. As we will see in what follows, economic and political economy analyses show that fiscal austerity in Morocco was biased against public investment, and, following the external indebtedness crisis of early eighties, Moroccan decision-makers resorted to domestic borrowing, endangering therefore the crowding-out effect on public investment.

### **1.1.1. A Fiscal Austerity Biased Against Public Investment**

Fiscal austerity in Morocco consisted of reducing public expenditures in a way that was politically feasible (Mansouri, 2003b; Mansouri et al., 2003). While the Moroccan economy should be subjected to appropriate adjustments because of multiple disequilibria it suffered from, reforms, especially on the fiscal front, were conducted in a way that was incompatible with sustainable growth and optimization of the social welfare. Indeed, instead of centering fiscal adjustment on current public consumption and other wasting expenditures prevailing in the public sector, Moroccan policy-makers resorted to cutting public investment spending.

Using multiple analytical and empirical approaches, previous studies have revealed how fiscal reforms in Morocco were manifestly inefficient (see Mansouri, 2000, 2001a, 2003a, 2003b). While current public investment is seen to crowd out private consumption and investment, and to hinder economic growth, this kind of public spending was maintained and even sustained. By contrast, whereas public investment is seen to crowd in private consumption and investment, and to foster economic growth, it was dramatically reduced in proportion to GDP. The problem is that when current public consumption is maintained, private consumption and investment, which are the components of aggregate private spending, will dramatically fall, and this will hinder the development opportunities of the country.

Formally, let us use the following econometric model developed by Mansouri (2003a), where  $RPC$ ,  $Yr$ ,  $CGr$ ,  $Tr$  and  $DUM$  refer respectively to real private consumption, Real GNP, real current public consumption, real public revenue and a dummy variable constructed to capture impact of drought cycles on private consumption:

$$\text{Log}(RPC_t) = 2,33 + 0,853\text{Log}(Y_{t-1}) - 0,14\text{Log}(CGr_{t-1}) + 0,11\text{Log}(Tr_{t-1}) - 0,009DUM$$

(6,44) (9,66)                      (-2,75)                      (1,40)                      (-3,27)

$R^2 = 0.987$ ; adjusted  $R^2 = 0.984$ ; F-statistic = 442.58 (prob. = 0,000); Durbin-Watson = 1.90;

Residual Normality Test : Jarque-Bera = 0.848 (prob. = 0.655); White Heteroskedasticity

Test: F - statistic=0.402 (prob. =0.906), number of observations X  $R^2 = 4.015$  (prob.=0.856).

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The equation above, estimated over the period 1967-1997, indicates that real public consumption crowds-out real private consumption while impact of public revenue, even positive, turns to be statistically non significant<sup>1</sup>. According to our estimates, 1 percent increase in real public consumption would result in 0.14 percent decrease in real private consumption. We argue that this empirical result is not an indication that Moroccan consumers are Ricardian. The most plausible explanation is that public consumption crowds-out private consumption because the public sector exerts a puncture on available financial resources forcing private consumers to save rather than to consume (in a different simple model, Faini, 1994, estimated the same effect for the Moroccan case). Since impact of private credit is positive but statistically non significant, we have eliminated it from the final equation.

As expected, impact of drought on real private consumption is negative and statistically very significant, suggesting that climatic conditions reduce private spending on consumption. Beginning in an excellent agricultural year ( $DUM = 0$ ), an extreme drought during the subsequent year ( $DUM = 8$ ) would result in about 7 percent decrease in real private consumption. Beginning in a medium agricultural year ( $DUM = 4$ ), an extreme drought during the subsequent year would result in about 4 percent decrease in real private consumption. These empirical results reveal robustness of the drought impact on private consumption (for details on the construction of the dummy variable, see Mansouri, 2002). Thus, in an environment where real private consumption (and other variables) is still dependent on rain falls, it is very difficult to sustain that fiscal adjustment brought about some changes to enhance long-run economic growth.

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<sup>1</sup>- Estimation of the original model where public expenditures are aggregated shows that the coefficient associated with public expenditures is negative and statistically very significant. By contrast, impact of public revenue is positive but statistically non significant. Therefore, a simplistic reasoning would conclude that Moroccan consumers are Ricardian. In fact, stringent hypotheses of Barro's equivalence theorem are widely violated in Morocco, especially because credit markets are imperfect, the public sector is advantaged in financial markets and liquidity constraints on consumers still exist. Therefore, the most plausible explanation in the Moroccan case is that real private consumption is *directly* crowded-out because of an institutional environment whereby the public sector exerts a puncture on available financial resources forcing consumers to save rather than to consume. Replacing total public revenue by tax revenues does not change much our empirical results. In the original model with aggregate public expenditures, the long-run elasticity of real private consumption with respect to public expenditures is estimated to be about -0.20, suggesting that 1 percent increase of real public expenditures would result in 0.20 percent decreasing in real private consumption.

Mansouri (2003a, 2003c) also estimated the following error correction model where spending variables in the precedent equation were replaced by the ratio (*fs*) of fiscal surplus to GDP<sup>2</sup> :

$$\begin{aligned} \Delta \text{Log} (RPC_t) = & 1.646 + 0.65 \Delta \text{Log} (Y_{t-1}) + 0.508 \text{Log} (Y_{t-2}) + 0.42 fs_{t-1} - 0.006 DUM_t \\ & (2,195) \quad (2,45) \quad (2,15) \quad (2,043) \quad (-2,18) \\ & -1.162 \text{Log} (RPC_{t-1}) + 0.535 \text{Log} (RPC_{t-2}) \\ & (-3,257) \quad (1,96) \end{aligned}$$

$R^2 = 0.597$ ; adjusted  $R^2 = 0.483$ ; F-statistic = 5.195 (prob. = 0.002); Durbin-Watson = 2.14;  
Residual Normality Test : Jarque-Bera = 0.023 (prob. = 0.988); White Heteroskedasticity  
Test : F - statistic = 0.85 (prob. = 0.60), number of observations X  $R^2 = 10.324$  (prob. = 0.50).

The equation above shows that the short-term elasticity of real private consumption with respect to lagged real GNP is about 0.65. In the long run, income elasticity is about 0.80, suggesting that 1 percent increase in real income would result in 0.80 percent increase in real private consumption. The short term semi-elasticity of real private consumption with respect to fiscal surplus (in proportion to GDP) is estimated to be around 0.42. In the long run, the semi-elasticity is about 0.67, suggesting that 1 percentage point of GDP increase in fiscal surplus would induce 0.67 percent increase in real private consumption. Therefore, our error correction model indicates that real private consumption in Morocco is crowded-out by increasing fiscal deficits<sup>3</sup>. Replacing overall fiscal surplus by primary fiscal surplus does not change much our empirical results even if the semi-elasticity of real private (with a value of 0.59, statistically very significant) decreases somewhat. A simplistic rationale would conclude that because fiscal deficits are seen to crowd-out private consumption, it would be reasonable to reduce accountably public financial imbalances to boost private consumption. Following Mansouri's (2003a) empirical findings, this is not the case because, simply, private consumption is seen to be crowded out by public consumption, not by other components of public expenditures. Hence, the component of public spending that should be reduced is really current public consumption. Therefore, it is not a question of aggregate spending, but an issue belonging to the realm of public spending *structure*.

As expected, drought, as estimated by our constructed dummy variable (*DUM*), is seen to significantly depress real private consumption. Beginning in an excellent

<sup>2</sup>- Estimates show that the coefficient associated with  $\Delta fs_t$  is not statistically significant (t-statistic = 1.013; probability = 0.323). Therefore, this variable has been eliminated and the model has been re-estimated.

<sup>3</sup>- A simplistic analysis would conclude that because fiscal deficits do not affect private consumption in nominal terms and reduces it in real terms, Moroccan private consumers are Ricardian. Indeed, according to our estimates, fiscal deficits have no impact on nominal private consumption while they affect it in real terms. Regressing nominal private consumption on lagged nominal income, fiscal surplus and the constructed dummy variable (*DUM*), we have found a statistically non significant coefficient for fiscal surplus expressed in proportion to GDP. In fact, the most appropriate explanation of this empirical result would be that real private consumption is *directly* crowded-out by fiscal deficits because of the puncture the public sector exerts on available financial resources (see Mansouri, 2000, 2001a, 2003a).

agricultural year ( $DUM = 0$ ), an extreme drought during the subsequent year ( $DUM = 8$ ) would result in about 5 percentage points decrease in the rate of growth of real private consumption. Beginning in a medium agricultural year ( $DUM = 4$ ), an extreme drought during the subsequent year would result in about 2.5 percentage points decrease in the rate of growth of real private consumption. As already noted, persistent effects of drought on private consumption (and other variables) mean that fiscal adjustment was undertaken in a way that was incompatible with the diversification of the Moroccan economy.

Mansouri (2003a) also used capital stock approaches and modern time series to estimate impact of fiscal policy on private investment. Accordingly, he estimated the following error correction model where  $Ip$ ,  $Y$ ,  $Kpub$ ,  $Kpp$ ,  $CT$ ,  $\lambda_I$  and  $DUM$  refer respectively to Private investment, public capital stock, permanent private capital stock, corporate tax, investment-based real exchange rate, and a dummy variable constructed to capture effects of drought cycles on private investment:

$$\Delta\left(\frac{Ip_t}{Y_t}\right) = 0.078 + 0.07\left(\frac{Kpub_{t-2}}{Y_{t-2}}\right) + 0.06\left(\frac{KPP_{t-1}}{Y_{t-1}}\right) - 1.16\Delta\left(\frac{CT_{t-1}}{Y_{t-1}}\right) - 1.72\left(\frac{CT_{t-2}}{Y_{t-2}}\right) - 0.05\text{Log}(\lambda_{I_t}) - 0.0025DUM_t - 0.87\left(\frac{Ip_{t-1}}{Y_{t-1}}\right)$$

(3.12)    (1.80)                      (2.51)                      (-2.62)  
(-2.49)                      (-2.32)                      (-1.84)                      (-4.62)

$R^2 = 0.675$ ; adjusted  $R^2 = 0.562$ ; F-statistic = 5.93 (prob. = 0.0008); Durbin-Watson = 2.01;  
Residual Normality Test : Jarque-Bera = 1.88 (prob. = 0.39); White Heteroskedasticity  
Test : F - statistic = 0.752 (prob. = 0.70), Number of Observations X  $R^2 = 12.53$  (prob. = 0.564);  
Chow Forecast Test (for 1995) : F-statistic = 0.03 (prob. = 0.864); Log Likelihood  
Ratio = 0.044 (prob. = 0.833).

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The equation above shows that the coefficient associated with the variable ( $Kpub_{t-2}/Y_{t-2}$ ) is positive and statistically significant at 8 percent level. In the long run, 2 percentage points of GDP increase in public capital stock would result in 0.16 percentage point of GDP increase in private investment, suggesting that public capital exerts significant crowding-in effects on private investment. As expected, private capital stock also positively affects private investment. In the long run, 2 percentage points of GDP increase in permanent private capital stock would result in 0.14 percentage point of GDP increase in private investment. By contrast, as shown by the negative signs and the high t-statistics for the coefficients associated with the variables  $\Delta(CT_{t-1}/Y_{t-1})$  and  $(CT_{t-1}/Y_{t-1})$ , corporate tax is seen to crowd-out private investment in the short as well as long run. In the short run, 1 percentage point of GDP increase in corporate tax would depress private investment by a proportion around 1.16 percentage point of GDP. In the long run, the portion is about 1.98 percentage point of GDP, suggesting that corporate tax crowds-out private investment, supporting perhaps the point of view of supply-side economists predicting that increasing taxes discourage economic activity. This is a channel through which fiscal policy may

negatively affect capital accumulation in the private sector. Effects of real devaluation and drought remain negative and statistically significant. 1 percent devaluation of the real exchange rate would result in 5 percentage points decrease in the rate of growth of the ratio to GDP of private investment. Beginning in an excellent agricultural year ( $DUM = 0$ ), an extreme drought during the subsequent year ( $DUM = 8$ ) would depress the rate of growth of the ratio to GDP of private investment by a proportion around 2 percentage points. Beginning in a medium agricultural year ( $DUM = 4$ ), an extreme drought during the subsequent year ( $DUM = 8$ ) would result in 1 percentage points decrease in the rate of growth of the ratio to GDP of private investment (for details on the construction of the dummy variable, see Mansouri, 2002).

Fiscal adjustment in Morocco is also detrimental for economic growth. This confirms what we have said about the fact that the crowding-out effect of fiscal policy on private consumption and investment may indirectly hinder real economic growth.. To empirically estimate effects of public investment on per capita economic growth in Morocco, Mansouri (2003a) examined and estimated an econometric model over the period 1967-1997. Using data from the World Bank (*World Development Indicators*, CD-ROM), our ADF tests indicate, as expected, that the constructed dummy variable ( $DUM$ ), as constructed by Mansouri (2002), is strongly stationary in level and that natural logarithms of per capita real GDP ( $Yr$ ) and public investment ( $Ipub$ ) are integrated of order 1 (for details on ADF test methodology, see, Dickey and Fuller, 1981). However, Engle-Granger and Johansen cointegration tests show that the two nonstationary variables are not cointegrated (for details on Johansen test methodology, see Johansen, 1988, 1991; Johansen and Juselius, 1990; Gonzalo, 1994). So, the correct relationship is to regress the first difference of natural logarithm of per capita real GDP on the first difference of natural logarithm of public investment and the constructed dummy variable ( $DUM$ ) in level. Therefore, the estimated model may be written as follows :

$$dLog(Yr_t) = 0.08 + 0.06.dLog(Ipub_{t-1}) - 0.015.DUM_t$$

(7.50) (2.60) (-7.10)

$R^2 = 0.68$ ; adjusted  $R^2 = 0.65$ ; F-statistic = 28.85 (prob. = 0.0000); Durbin-Watson = 2.38;

Residual Normality Test : Jarque-Bera = 0.15 (prob. = 0.93); White Heteroskedasticity

Test : F - statistic = 0.59 (prob. = 0.67), Number of Observations X  $R^2 = 2.58$  (prob. = 0.63);

Chow Forecast Test (for 1997) : F-statistic = 0.04 (prob. = 0.84); Log Likelihood

Ratio = 0.05 (prob. = 0.82).

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Our estimates reveal that public investment positively affects per capita real economic growth. 3 percentage points increase in the rate of growth of public investment in period  $t-1$  would result in 0.18 percentage point increase in per capita real economic growth rate. As expected, agricultural shocks, as estimated by the dummy variable ( $DUM$ ), negatively and dramatically affect per capita economic growth. According to our estimates, beginning in an excellent agricultural year ( $DUM$

= 0), an extreme drought during the subsequent year would depress the rate of growth of per capita real GDP by about 12 percentage points!. Even if impact of public investment is statistically very significant, its size is relatively small in comparison with impact of agricultural shocks.

An other model specification consists of estimating impact of public capital on economic growth on the basis of a Cobb-Douglas function. Using data from the World Bank (*World Development Indicators*, CD-ROM), over the period 1966-1997<sup>4</sup>, our ADF tests indicate that the natural logarithm of  $K_{pub}/LF$  and  $K_{pr}/LF$  are integrated of order 1 ( $K_{pub}$  is public capital stock,  $K_{pr}$  is private capital stock, and  $LF$  is the volume of the labor force). Our Johansen cointegration tests indicate that  $\text{Log}(Yr)$ ,  $\text{Log}(K_{pub}/LF)$  and  $\text{log}(K_{pr}/LF)$  are cointegrated and the cointegration vector is unique, where  $Yr$  is per capita Real GDP. Our error correction model may be written as follows :

$$d\text{Log}(Yr_t) = 0.87 - 0.02.t + 0.19d\text{Log}(k_{pub}_t/LF_t) + 0.05\text{Log}(K_{pub}_{t-1}/LF_{t-1}) \\ (1.54) \quad (-2.58) \quad (2.72) \quad (1.57) \\ + 0.26\text{Log}(K_{pr}_{t-2}/LF_{t-2}) - 0.009DUM_t - 0.75\text{Log}(Yr_t) \\ (3.00) \quad (-3.35) \quad (-3.47)$$

$R^2 = 0.80$ ; adjusted  $R^2 = 0.74$ ; F-statistic = 14.15 (prob. = 0.00000); Durbin-Watson = 2.40;  
Residual Normality Test : Jarque-Bera = 0.70 (prob. = 0.70); White Heteroskedasticity  
Test : F - statistic = 0.65 (prob. = 0.77), Number of Observations X  $R^2 = 9.52$  (prob. = 0.66);  
Chow Forecast Test (for 1995) : F-statistic = 1.40 (prob. = 0.27); Log Likelihood  
Ratio = 3.79 (prob. = 0.16).

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Our estimates, based on an error correction model, reveal that public and private capital stocks positively affect per capita real GDP in the particular case of Morocco. Our causality tests indicate that there is causality going from capital stocks and agricultural shocks towards per capita real GDP and that the causality holds in the short as well as long run (see details on the short and long run causality in Engle and Granger, 1991, Gonzalo, 1994). As expected, the impact of drought, as captured by the constructed dummy variable ( $DUM$ ) is negative and statistically very significant, suggesting that agricultural shocks play a major role in per capita real GDP fluctuations in Morocco during the period. Following our primary estimates, beginning in an excellent agricultural year ( $DUM = 0$ ), an extreme drought during the subsequent

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<sup>4</sup> - In fact, all data are from the World Bank (*World Development Indicators*, CD-ROM, 1999) except for public and private investment series that are necessary for us to estimate private and public capital stocks. The series for public and private investment are estimated from the World Bank over the period 1970-1997 and from the "*Annuaire Statistique du Maroc*" (various issues) for the remaining of the period. Private investment is computed as the difference between aggregate investment (*World Development Indicators*, CD-ROM, 1999) and public investment (*World Development Indicators*, CD-ROM, 1999, and "*Annuaire Statistique du Maroc*", various issues) and public investment.

year, would depress the growth rate of per capita real GDP by about 10 percentage points!.

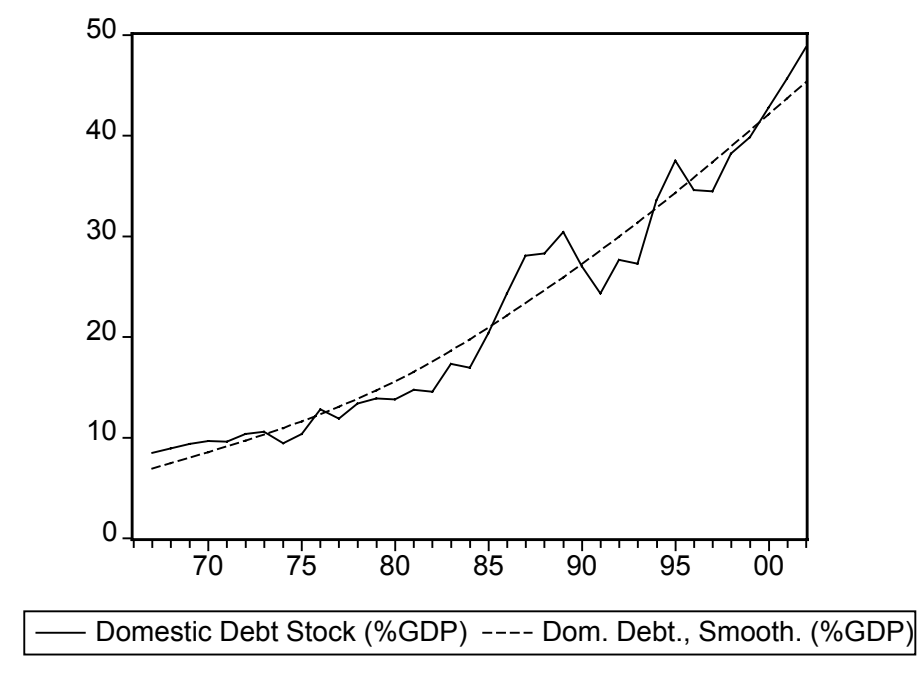
All our estimates reported above for private consumption and investment as well as for overall per capita real GDP indicate that fiscal adjustment in Morocco has exerted dramatic effects on the domestic economy. This reveals that fiscal policy reform in Morocco is inefficient in terms of its impact on main macroeconomic variables (see Mansouri, 2003b). In a political economy perspective, this means that Moroccan decision-makers, when they feared popular and political dissatisfaction, were finally in a situation where they were forced to cut public capital expenditures, mainly spending on physical and social infrastructure, and consequently to confiscate the government finality to foster long-run economic growth through macroeconomic stabilization. Such dissatisfaction among the population included displeasures from labor unions in the public sector as well as from opposition political parties. Especially in the public sector, labor unions tend to consider fiscal adjustment as a *null-sum game*. In this sense, even though labor unions in the public sector may agree on the necessity of fiscal adjustment, they cannot accept that their gains or rents, in terms of real wages, can be lost in favor of fiscal adjustment.

### **1.1.2. Exploding Domestic Public Debt Stocks Undermining Economic Growth**

As shown in graph 1, domestic public debt stocks in Morocco are exploding, especially since the second part of eighties. From stables ratios to GDP until 1985, with an annual average of about 12 percent of GDP over the subperiod, domestic public debt stocks jumped to more than 24 percent of GDP in 1986, and continued to increase afterward to reach 40, 43, 46 and about 50 percent of GDP in 1999, 2000, 2001 and 2002 respectively, with an annual average over the period 1986-2002 of about 34 percent of GDP.

The problem is that, even in a context of fiscal adjustment, domestic debt stocks become increasingly unsustainable in terms of the capacity of the government to honor its debt commitments vis-à-vis holders of debt assets. This confirms what we have already said about the inefficiency of fiscal adjustment in the Moroccan case. It is now well established, as indicated in the above-outlined empirical results, that Moroccan policy-makers have not been able to stop the exploding domestic public debt stocks because of their inability to reduce current public consumption, especially through fostering state capacity, commitment, good governance and deeper institutional reforms. We will come back to these issues when analyzing the emergency of second generation of reforms in the Moroccan case.

**Graph 1: Evolution of the Domestic Public Debt in Morocco, 1967-2002 (% of GDP)**



The problem is that exploding domestic public debt stocks may also exacerbate the crowding-out of private investment, and, consequently, may hinder long-run economic growth. The channel through which such crowding-out may operate is the increase in real interest rates, due to increasing domestic public debt stocks in a context of relatively liberalized interest rates (on the theoretical foundations of such financial or indirect crowding-out, see Smithin, 1994; Correia-Nunes and Stemitsiotis, 1995; Passet, 1997; Lindé, 1998; see also a survey of the literature on this issue in Mansouri, 2001a, 2003a).

Following estimates and simulations of the World Bank (see Easterly, and Schmidt-Hebbel, 1994, Faini, 1991, 1994), 1 percentage point of GDP increase in the fiscal deficit, with financing through public domestic debt, would result, in the Moroccan case, in 0.2 percentage point increase in the real interest rate. As Faini (1994: 403, quoted in Mansouri, 2003a: 172) argued, "*increasing reliance on domestic financial markets is likely to lead to a steep increase in interest costs for the treasury, with a destabilizing effect on the evolution of the main public debt indicators*"<sup>5</sup>. As

<sup>5</sup>- Faini (1991,1994) also estimated a function of investment for Morocco over the period 1972-1988. Faini (1994 : 392, quoted in Mansouri, 2003a: 172) supported that the estimation "yields two interesting results. First, investment is significantly affected by the real cost of capital. Fiscal policy can therefore affect the investment decision through its impact on interest rates or, more directly, by changing the set of fiscal and financial incentives available to investors. Second, the level of investment in the economy also depends on the availability of credit"

It seems that interest rate liberalization and financial system deregulation in the Moroccan case may, in a context of increasing domestic public debt stocks, increase the real cost of money, thus negatively affecting

estimates and simulations have shown (see Mansouri, 2003a: 172), “*such impact may be generalized through increases in the real cost of money within the domestic economy, depressing investment and hindering the process of economic growth*”.

The hypothesis of unpleasant Monetarist arithmetic (Sargent and Wallace, 1995) may also support the idea that exploding domestic public debt stocks may have detrimental effects on the economy, especially through increasing inflationary pressures in the medium and long run. This may be the case, especially because it may be impossible for government to continue to borrow in the medium and long run to repay its debt. In this situation, policy-makers would resort to money creation to repay its debt and deficits, and this would result in increasing inflation. This may be specifically the case in Morocco where less productive public expenditures are maintained or even sustained while long-run productive spending is dramatically cut.

## **1.2. Inefficiency of External Adjustments**

While the proposition according to which fiscal and external disequilibria may be considered as twin deficits seems to be plausible in the Moroccan case, the strategy adopted to restore domestic and external imbalances is manifestly unreasonable. In what follows, we center on the plausibility of relationships between fiscal and external surpluses before dealing with some paradoxes of external adjustments in Morocco.

### **1.2.1. On the Plausibility of the Relationships Between Fiscal and External Surpluses**

In the particular case of Morocco, our current bibliographical research reveals that no serious empirical analysis has been devoted to estimate effects of fiscal policy on external deficits. For instance, Boussetta (1992, 1995) used very simplistic graphical observations to show that the twin deficits hypothesis is confirmed in the Moroccan case. In Boussetta's work, nothing may demonstrate that the twin deficits phenomenon exists in the short and long run and that no bidirectional causality exists between the two deficits. Thus, studies like those of Boussetta cannot be plausible and no strong policy implications can be derived from them (Mansouri, 2003d).

Estimates of relationships between fiscal and external surpluses rely heavily here on Mansouri (2003d) who used multiple varieties of specifications. We center here on the simplest ones. Mansouri (2003d) argued that when the external surplus is expressed as the *trade surplus* in proportion to GDP and the fiscal surplus is measured by the ratio to GDP of (revenues minus expenditures), 1 percentage point increase of

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accumulation of capital and overall economic growth (Mansouri, 2001). Nevertheless, El Morchid and Mansouri (forthcoming) constructed a series for the user cost of capital, and their preliminary estimates of private investment indicate, in a first analysis, that the user cost of capital does not exert very statistically significant effects on private investment.

the ratio to GDP of fiscal deficit would deteriorate the trade balance by 1.29 percentage point of GDP. Trade surpluses in proportion to GDP also have positive and statistically significant impact on fiscal surpluses. When the trade surplus rises by 1 percentage point of GDP, the fiscal surplus will improve by 0.67 percentage point of GDP. When the external surplus is estimated by the current account surplus and the fiscal surplus is approximated by (revenues minus expenditures plus lending minus repayment), in conformity with the IMF's measurement methodology, the fiscal surplus as a ratio to GDP still has a positive and statistically significant effect on the external surplus : when the fiscal deficit increases by 1 percentage point of GDP, the current account surplus deteriorates by a proportion around 1.13 percentage point of GDP. The current account surplus also still has a positive and statistically significant impact on the fiscal surplus : when the current account surplus rises by 1 percentage point of GDP, the fiscal deficit would fall by a proportion around 0.73 percentage point of GDP.

Nevertheless, as Mansouri (2003d) argued, since variables are seen to be cointegrated, causality tests must be conducted on the basis of error correction models. Accordingly, he concluded that there is a bi-directional causality between external and fiscal surpluses. Moreover, *Long run positive bidirectional* causality exists between external surpluses and fiscal balances, independently of the methodology adopted to measure external and fiscal surpluses as ratios to GDP. Therefore, Mansouri's empirical results contradict those found by other studies, especially those using conventional and simplistic statistical analyses, mainly Boussetta's statistical work (see Boussetta, 1992, 1995), whereby simplistic graphs show only an ambiguous unidirectional causality going from fiscal to external surpluses.

### **1.2.2. External Adjustments: Some Paradoxes of the Moroccan Macroeconomic Policy**

Since empirical results reveal that bidirectional positive causality exists between external and fiscal surpluses in the particular case of Morocco, it is important to know what kind of public absorption determines external surpluses and how external surpluses affect public absorption components themselves (Mansouri, 2003d). In spite of the interest of the decomposition of public spending into public investment and current public consumption, many previous studies have neglected it.

As Mansouri (2003d) pointed it out, external adjustments in Morocco have heavily fallen on public investment. According to Mansouri's estimates, using modern time series analysis, cointegrating equations reveal that 1 percent increase in the ratio to GDP of public consumption would deteriorate the current account surplus by a proportion around 1.64 percentage point of GDP against only 1.12 percentage point of GDP for public investment. This is a real paradox in the Moroccan adjustment process. While public consumption is seen to deteriorate more heavily the current account surplus, an improvement of the latter affects negatively and more substantially public investment than public consumption. Indeed, Mansouri (2003d) argued that estimated cointegrating equations reveal that 1 percentage point improvement in the ratio to GDP

of current account surplus would reduce public investment by a proportion around 0.67 percentage point of GDP against only 0.46 percentage point for public consumption. This empirical result reveals that import restrictions fall more heavily on public sector imports of investment goods than on public sector imports of consumption goods.

Our cointegrating equations have shown interesting results in relationship with interactions between public absorption components and external surpluses (see Mansouri, 2003d). However, since all couples of variables (in proportion to GDP) introduced in the cointegrating equations are seen to be cointegrated, Mansouri (2003d) argued that Granger causality tests must be conducted on the basis of error correction models. Mansouri's empirical results have revealed that all estimates and tests are in conformity with cointegration implications, and therefore, there is a bidirectional causality between public absorption components and trade surpluses as ratios to GDP, independently of the methodology adopted to measure external surpluses. Hence, estimated cointegrating equations may be considered as long-run relationships between public spending components and external surpluses. Given the sign, the magnitude and the statistical significance of the estimated coefficients, the paradox of the Moroccan macroeconomic policy really exists.

The mentioned real paradox exists because *“while public consumption is seen to drive more significantly the external deficit, fiscal adjustment seems to fall more heavily on public investment as shown by the estimated effect of the external surplus improvement on public investment. Since public investment is seen to have a crowding-in effect on private investment and growth (...), we think that the strategy of fiscal and external adjustment in Morocco would be bad for long run economic growth. This confirms that Moroccan policy-makers finally conducted inefficient fiscal and external adjustment”*. This is also a serious support for the proposition that economists should pay attention to political economy implications of economic reforms, especially for fiscal policy reform. It seems that Moroccan policy-makers were finally forced to cut public investment either directly or through external current account adjustment, in favor of current public consumption; which is politically difficult to cut, mainly because of the resistance of interest groups, bad governance and lacking political, institutional and governance-based reforms. This confirms the fact that second generation of reforms should have accompanied macroeconomic stabilization and structural reforms. We will come back to this issue below.

## **2. Outcomes of Structural Reforms in Morocco**

To better apprehend outcomes of reforms on the structural front, we center in what follows on domestic sector-based structural reforms as well as on external sector-based structural reforms.

## **2.1. Outcomes of Domestic Sector-Based Structural Reforms**

While domestic sector-based reforms concern price liberalization and privatization, financial sector liberalization and tax reforms, external sector-based reforms consist of exchange rate policy and trade reforms.

### **2.1.1. Outcomes of Price Liberalization and Privatization**

Whereas price liberalization was conducted early in a context of relatively high inflation, gradual efforts in this reform area resulted in a liberalized, although partially, price system. The relatively partial price liberalization may be explained by the need for subsidizing prices of basic goods and services widely consumed by the poor and relatively less favored people.

In spite of the relative success of Moroccan policy-makers in the price liberalization area, it is important to stress that multiple obstacles remain in the realm of the functioning of markets in the context of an unachieved market-oriented economy. It seems that the theoretical foundations of the market-oriented price system in Morocco rely heavily upon the reformulation of original neoclassical models of liberal economists like Walras, Pareto and Marshall. Even though such models have been reformulated through the introduction of relatively restrictive hypotheses, the overall coherence of the model seems to be safeguarded. While such restrictive hypotheses concern mainly the behavior of economic agents, the market-oriented price system is theoretically seen to function relatively well, even in a context of imperfect competition. Then, the market-oriented price system may be considered as a theoretical reference aimed at denouncing the heavy role of the state in economic activity and neo-patrimonial management of economic sectors. Moreover, the market-oriented price system serves as a theoretical reference to design programs for reduction of wasting resources. In this way, the market-oriented price system aims at enhancing the optimal allocation of resources.

Well-functioning markets for goods and services in a situation of price liberalization obviously require an active competition policy (voir Mansouri, 1992: 115). Such a competition policy has to reduce the degree of economic concentration and therefore, to curb the tendency of the productive system to yield higher costs and prices and the tendency of large-size enterprises to exert considerable political influence<sup>6</sup>. Following these considerations, Moroccan policy-makers adopted a competition policy in order to ensure existence,

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<sup>6</sup>- As Mansouri (1992: 115) argued, “an active competition policy destined to permit to the market price system to play its full role has something to do with what can be done to control concentration. Thanks to pressures on costs, competition permits to increase production and to generate decreases in and flexibility of prices. Well, certain factors such as monopolies, excessive trade protection and inappropriate government interventions, hinder the functioning of competition, therefore generating biases against resource allocation”.

freedom and loyalty of competition, which are indispensable conditions for price liberalization. Well, the law on competition in Morocco seems to be insufficient to observe and identify anti-competitive practices. Since the design of price liberalization programs in 1982, Moroccan policy makers started to adopt a competition policy. In spite of price liberalization, firms have remained linked to fix their prices. Such inter-firm agreements concerning levels and periods of increase in prices have hindered competitive practices.

A true competitive policy in the Moroccan case has to find solutions for problems which may arise when seeking and condemning collective agreements on prices. However, we think that agreements on prices are not always detrimental for the domestic economy. Indeed, certain agreements may aim at protecting certain 'in-difficulty economic sectors' or those suffering from disloyal foreign competition. What has to be sanctioned is what can be termed 'anti-competitive predator practices' (Mansouri, 1992: 116), which aspire to ruining competitors and to avoiding access to market of new firms. Even in this case, it seems that the competition law in Morocco cannot accurately identify and apprehend really predator anti-competitive practices. In practice, policy-makers and their collaborators should systematically conduct an economic analysis of price agreements in terms of their forms, subjects and effects, before legally condemning them. In fact, some inter-firm coalitions may permit to improve aggregate efficiency of the economy through modernization, compression of production and redistribution costs as well as through increasing aggregate supply. Some coalitions and merging practices, such as holdings, seem to have advantaged economic growth in many developing countries, such as in South-Eastern Asia and Latin America. In the case of Morocco, some holdings, like the *Omnium Nord-Africain* (ONA), operating in complementary sectors like industry, services, mining and banking, have created synergy effects and contributed to economic and social development.

In general, what matters more is not the price liberalization itself or the institution of a competition law, but how well price liberalization and low competition have been implemented. In this framework, as we will see later, multiple institutional and cultural obstacles are there and continue to hinder efficient implementation of price liberalization.

Concerning privatization, as already noted, only relatively profitable public sector enterprises have been transferred to the private sector right now. This may contradict the fact that the rationale that is behind privatization is that the private sector is more rational than the public sector. Normally, according to such a rationale, Moroccan decision-makers must resort to the privatization of less profitable public sector enterprises. Since they have preferred the adverse solution, it seems that they aimed at maximizing exceptional public revenue

from privatization not at improving productive and allocative efficiency. While such extra-revenue from privatization allowed Moroccan decision-makers to eradicate the brunt of fiscal adjustment on public investment, it is expected that subsequent privatizations would be accelerated to complete liberalization of the economy.

While privatization of less profitable public sector enterprises is extremely urgent in the case of Morocco, it is very important to know why the privatization process resulted in poor outcomes in terms of delaying the process over time. In this framework, we rely on Campos and Esfahani's framework according to which *"policy reform can be interpreted as a renegotiation of contracts that entail direct government involvement in production toward more efficient, market-oriented ones. But to consent to a reform package, interest groups that currently support or could support the ruling coalition must know what they will gain from the reform, how the gains will be distributed, and whether the distribution, and whether the distribution of rewards will indeed be honored by the government. Thus, the reform decision is hampered by the usual contracting problems- that is, problems of information and opportunism"* (Campos and Esfahani, 1996: 452). Retaining power while embarking on privatization requires establishing sufficient political support from the polity. Analytical and empirical works have shown that government interventions have often been used for redistribution.

As pointed out by Campos and Esfahani (1996: 254), *"government interventions cannot be divorced from issues of redistribution, because it is partly through redistribution that a regime sustains itself"*. Well, in the real world of politics, redistribution does not necessarily mean a transfer of wealth from rich to poor: it really means transfer of wealth from less powerful to more influential groups. In Morocco, for instance, when the Moroccanization process was conducted in early 1970s, firms previously owned by foreigners were attributed to powerful groups and individuals in the private as well as public sector, therefore creating quasi-feudalities operating around the political regime. No vigorous efforts from Moroccan decision-makers had been devoted to promote and enhance 'people's share ownership' within the Moroccanization process. When decision-makers decided to privatize public sector enterprises, multiple interest groups, such as highly concentrated industries, landlords and trade unions, resisted reforms. What is perhaps more important in the privatization process is that the Moroccan political regime can be considered as the most powerful "interest group" in the sense that the regime would have likely resisted early efficient privatizations because of the importance of public sector enterprises in ensuring political support. In addition to resistance from trade unions and other interest groups, it seems that the public sector as a source of political support for government may explain why privatizations are delayed,

and consequently, why performances in this reform area are relatively poor in terms of the number and the nature of privatized enterprises.

It is also interesting to stress that efficiency and rationality through privatization are closely linked to the notion of “enterprise spirit”. Furthermore, official discourses in Morocco highlighted the role of privatization in promoting and generalizing ‘people’s share ownership’ among young managers and future entrepreneurs. Can privatization be considered as a factor for promoting enterprise spirit and generalizing people’s share ownership? This is the question we try to answer in what follows.

A true ‘enterprise turn of mind’ may have at least three characteristics: i) perception of profitable and exploitable productive niches; ii) willingness to exploit what is perceived; iii) organizational competences permitting to efficiently manage a project (Mansouri, 1992). Do Moroccan entrepreneurs have such qualities allowing them to efficiently manage ‘limping ducks’ which subsisted only through the ‘generous manna’ of the state? In fact, in Morocco, in various situations, one can observe the manifest shortage of a true ‘entrepreneur’s culture’ as well as of ‘taste and liking for business’. Moroccan entrepreneurs usually prefer investment in immediately profitable activities such as tertiary transactions, landed property, and real estates where they can be advantaged through protection against foreign competition, allowing them to get higher annual returns (on this issue, see Berrada, 1992)<sup>7</sup>. Thus, we think that, within the framework of future privatizations, in addition to complementary measures like sector-based incentives and training activities in favor of future managers of privatizable enterprises, deeper ‘cultural and institutional reforms’ should be undertaken to change mentalities. Without such reform efforts, privatization cannot be considered as the magic panacea to productive and allocative efficiency of the domestic economy.

Turn now back to the people’s share ownership as a main objective of privatization. Based on the principle of ‘property rights’, the people’s share ownership aims at avoiding economic power concentration among a minority of owners and facilitating the emergence of a new dynamic capitalist social class. In fact, such argumentation seems to neglect multiple structural blockages of the Moroccan under-developed capitalist economy, rendering the people’s share ownership a real utopia (such an argumentation may have an ideological connotation. On this issue, see Mansouri, 1992: 99). The people’s share ownership ideology experienced a manifest failure even in the developed world where share ownership remains limited even with existing adequate institutional

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<sup>7</sup>- As an expert of the World Bank argued, “ *more successes in the developing world have been observed not in the industrial sector, but in real estates and extensive agriculture*” (see Elkan, 1988: 41; quoted in Mansouri, 1992: 98).

and legal frameworks<sup>8</sup>. Furthermore, in spite of financial sector reforms, the people's share ownership remains hindered through the narrowness and weak impact of financial markets. In Morocco, the role of the stock market remains weak especially because of the familial structure of the Moroccan capitalism. Hence, even though most of the privatization process transited through the stock market and some shares were sold to some small savers and investors, the 'cake of privatization' seems to be mainly profitable for the bigger local and foreign capital.

### **2.1.2. Outcomes of Tax and Financial Sector Reforms**

As Loayza and Soto (2003: 22) argued, "*market-oriented reform in the tax system seeks to minimize the distortionary effect of taxation on private activity while generating sufficient revenue to finance government operations*". Three outcome indicators are taken into consideration in our study of tax reform outcomes, namely the ratio to GDP of total taxes, the ratio to total taxes of taxes on international transactions and the ratio of direct taxes to total taxes. While the first outcome indicator measures the success in raising revenues through non-inflationary means, the second outcome indicator measures the degree of reliance on a common type of distortionary taxation (Loayza and Soto, 2003: 25). As for the third indicator, it represents efforts of decision-makers in raising income taxes for purposes of income redistribution (see Mansouri, forthcoming).

As Mansouri et al. (2003) argued, following timing and sequencing of reforms in Morocco, one can observe that following tax reform measures beginning in 1986, tax revenues did not improve well until 1991. Over the subperiod, tax revenues were generally stationary, with an annual average of about 21 percent of GDP. However, tax revenues slightly improved since 1992, corresponding to the end of the debt rescheduling, with an annual average of about 25 percent of GDP over the period 1992-2000. Whereas tax reforms yield successful results only in the medium and long run, other factors such as inflationary pressures and the fall in import duties following trade liberalization may also explain the slow rise in tax revenues.

Data investigations show that the ratio to total taxes of taxes on international taxes remains relatively high in the Moroccan case. While this observation also holds in other developing countries, heavy taxation of international transactions may be considered as typically distortionary. Over the period 1970-1985, taxes on international transactions are estimated to be around 17,5 percent of total taxes and 4.4 percent of GDP. Following implementation of

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<sup>8</sup>- According to the former British Prime Minister, Margaret Thatcher, privatization in Great-Britain aims at "rendering the industry to the people". In spite of the relative success of privatization in Great-Britain, performances in terms of people's share ownership have been only slightly achieved.

tax reforms in 1986, taxes on international transactions amount to 16.15 percent of total taxes and 3.7 percent of GDP in annual averages over the period 1986-2000. Following these estimates, it seems that tax reforms failed in eradicating reliance on trade taxes to improve tax revenue.

Since direct taxation has stronger redistributive intensity, reliance on this kind of taxes to increase tax revenue is urgently needed. According to our calculations, direct taxes are estimated to be about 12.6 percent of total taxes and 2.6 percent of GDP from 1970 through 1985 in annual averages. Following implementation of tax reforms since 1986, direct taxation slightly improved with values of about 15.6 percent of total taxes and 3.8 percent of GDP in annual averages over the period 1986-2000. In spite of these improvements, direct taxes remain below what is expected from tax reforms, especially in terms of redistributive intensity. Weak values for direct taxation also reflect shortcomings in tax administration as well as the predominance of tax evasion and fraud.

Let us now move to outcomes of financial sector reforms in the Moroccan case. In this reform area, one can observe how much efforts from decision-makers have yield relatively better performances in comparison with neighboring countries like Algeria and Tunisia. Indeed, monetary policy becomes increasingly liberalized and multiple controls on banks as well as on stock and exchange markets have been removed, although sometimes partially. While such liberalization-based financial reform indicators indicate positive outcomes, we think that outcome indicators matter more in this reform area (on this important distinction between policy and outcome indicators, see Loayza and Soto, 2003). As highlighted by Loayza and Soto, we consider the ratio to GDP of a broad monetary aggregate (like M2) as a relevant outcome indicator for depth and activity of financial markets in the case of the banking sector. From 1960 through the end of 1983, the date where financial reforms were started to be gradually implemented, the sum of money and quasi-money is estimated to be around 40 percent of GDP in annual average, with 36 percent for money and only 4 percent of GDP for quasi-money. Over the period 1984-2000, the sum of money and quasi-money is estimated to be around 64 percent of GDP in annual average, with 48 percent for money and 16 percent of GDP for quasi-money. We think that this distinction between money and quasi-money is very interesting, especially in developing countries. Like in many developing countries, Monetary aggregates in Morocco are characterized by the predominance of money, which is more liquid, in comparison with quasi-money, which constitutes the main determinant of long-term savings in the banking sector. While relatively liquid money heavily dominated monetary aggregates in Morocco before initiation of incremental financial sector reforms in early eighties, quasi-money experienced more relatively substantial growth afterward, suggesting that financial reforms contributed to enhancing, even though not

strongly, financial depth. Another outcome indicator concerns the size and liquidity of Casablanca stock exchange. Even though the number of listed companies remains relatively stable from early eighties until the beginning of 1990s, the stock market capitalization experienced a real *big bang*, passing from an annual average of 5 percent of GDP during the period 1986-1993 (see Mansouri, 1997a) to nearly 25 percent of GDP in 2003 (see Bourse des Valeurs de Casablanca, Stock Market Statistics, 2003). However, most of the boom in stock market capitalization is due to privatizations. Stock market liquidity, as measured by the ratio to GDP of the volume of transactions, has also experienced important increases, suggesting that financial market reforms, coupled with privatization, are good news for the stock market development. nevertheless, in spite of these important stock market development patterns, outcomes in this reform area remain below what is expected, especially if we compare outcome indicators with available data in some developing countries, especially in South-Eastern Asia and Latin America (see Mansouri, 1997a, 1997b, 1999a). Mansouri (1999a) constructed aggregate indices of stock market development for Morocco and a sample of 48 developing and developed countries. He argued that, on the basis of such composite indices, aggregating information on stock market size, liquidity and concentration, Casablanca stock market is largely under-ranked. Preliminary estimates indicate that the rank of the Moroccan stock market has recently improved following reform efforts in this area. However, while the size and liquidity of the market have relatively jumped, the degree of the market concentration, as measured by the ratio to total stock market capitalization of the capitalization of the first ten larger companies, remains relatively higher, with a value of about 0.65. Furthermore, stock market capitalization is still dominated by banks and holdings. Casablanca stock market volatility, as measured by the standard deviation of stock market returns, remains relatively stable in comparison with other emergent stock markets in the developing world. While this lower volatility may be seen as a sign of financial stability, it may also be viewed as bad news for the attraction of portfolio investment, especially because institutional investors sometimes prefer more volatile emerging markets (see Mansouri, 1997a, 1997b, 1999a).

Another reliable outcome indicator in the financial reform area may be the levels of real interest rates. Real interest rates in Morocco have experienced a tendency to become positive, suggesting that financial sector reforms, especially through alleviation of financial repression, resulted in less repressed financial markets, and, consequently, in more reliable incentives to savings, especially in the long-run, therefore enhancing quasi-money and financial depth.

As Loayza and Soto (2003: 8) argued, “*in the case of banking, a good indicator of financial depth that focuses on the private sector is domestic credit allocated by private commercial banks to the private sector, divided by GDP*”.

In the Moroccan case, the ratio to GDP of the credit stock available to the private sector is estimated to be around 38 percent of GDP as annual average over the period 1960-1983. During the period 1983-2000, characterized by bank reform efforts, the credit stock available to the private sector jumped to about 63 percent of GDP. Even though the time-series of the credit has sometimes experienced sharp fluctuations over the period and no control has been done for the contribution of other factors, data investigations suggest that reforms of the banking sector have yielded relatively good performances.

## **2.2. Outcomes of Trade Reforms and Exchange Rate Policy**

In what follows, we center on outcomes of two complementary reform components, namely exchange rate policy and trade reform.

### **2.2.1. Measuring Reform Outcomes on the Trade Front**

As Loayza and Soto (2003: 13) argued, *“there is consensus in both policy and academic circles that economies that are more open to international trade have higher rates of growth, as a result of higher investment and sustained gains in factor productivity”*. In addition to faster economic growth rates, trade openness may boost industrial transformation, change the structure of employment and contribute to a decline in poverty<sup>9</sup>.

As Loayza and Soto argued, *“using the percentage change in the ratio of real imports plus real exports to real GDP as an outcome indicator of trade reform rests on the assumption that average changes in this ratio that occur in the medium-term are mostly caused by policy changes. Under such assumption, this indicator can be used to compare improvements in trade openness over time”*. In what follows, we term this outcome indicator the “ratio of trade openness”. We argue that such a ratio experienced a slight decrease over the period 1960-1984, with a value of -0.06 percentage points. Following trade reforms of the second part of eighties, the ratio of trade openness experienced early decreases of about 1.62 and 2.74 percentage points in 1985 and 1986

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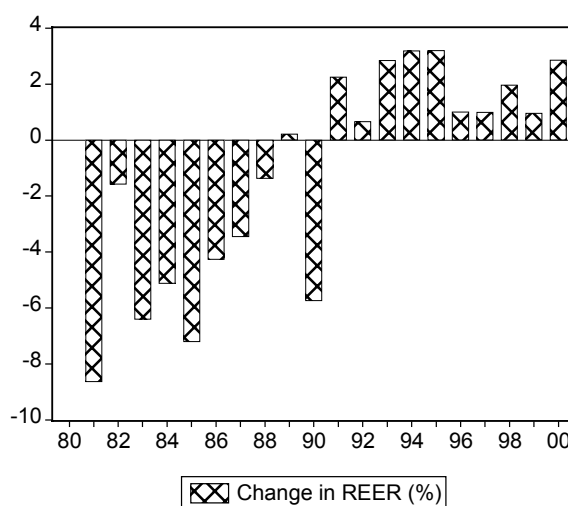
<sup>9</sup>- According to Vacziarg (2001, P : 393), in an empirical study of links between trade policy and economic growth in 57 developing countries, empirical results suggest that trade openness exerts a positive impact on economic growth, especially because of its contribution to accelerated accumulation of physic capital, technological transmission and improvement in macroeconomic policies. Loayza and Soto (2003: 13) surveyed economic literature on this issue and concluded that available studies point out several channels through which trade affects economic growth. First, “trade leads to higher specialization and, thus, gains in total factor productivity (TFP) by allowing countries to exploit their areas of comparative advantage” (Loayza and Soto, 2003: 13). Second, trade openness may expand potential markets, allowing to firms to exploit economies of scale and, thus increasing TFP. Third, through stronger interaction with foreign firms and markets, trade openness can contribute to the diffusion of technological innovations as well as to improvements in managerial practices. Fourth, “freer trade tends to lessen anti-competitive practices and rent-seeking activities by domestic firms that are mostly unproductive” (Loayza and Soto, 2003: 13). Finally, trade openness may reduce the scope for corrupt practices among the government officers.

respectively before rising afterward with growth rates of 2.96 percentage points in 1987 and a relatively higher rate of 5.85 percentage points in 1990. In annual average over the period 1985-1997, the rate of growth of the ratio of trade openness is estimated to be around only 0.5 percentage points. Data investigations indicate that these weak trade performances may be explained by export as well as import ratio to GDP fluctuations. Note also that trade reforms in Morocco did not perform well regarding the evolution over time of the composition of trade flows in terms of goods and trade partners. In spite of some improvements in exports toward Africa and elsewhere, Moroccan exports remain highly concentrated in the European Union, especially in France and Spain.

### **2.2.2. How Well Did Exchange Rate Policy Perform in Morocco?**

While Moroccan decision-makers devoted much efforts to the devaluation of the dirham in early eighties, the real effective exchange rate, started to experience overvaluation, especially since early nineties, with practically no efforts from the government to redress the situation until 2001 when a nominal devaluation has been implemented (see Mansouri et al., 2003).

**Graph 2: Relative Changes in the Real Effective Exchange Rate of the Dirham (%)**



As shown in graph 2, the real effective exchange rate of the dirham experienced two opposite patterns over the period 1980-2000. Indeed, one can observe real devaluations during the 1980s and steady overvaluations over the period 1991-2000. The annual average rate of devaluation of the effective real exchange rate is estimated to be around 3.76 percent over the period 1980-1990

against a rate of overvaluation of about 2 percent during the period 1991-2000. Over the whole period 1980-2000, the annual average rate of devaluation is about only 1.2 percent.

Even with such nominal devaluation, the dirham remains overvalued vis-à-vis the dollar, which is the currency for the invoicing of Moroccan international transactions. Such overvaluation undoubtedly hinders exports and contributes to the Disequilibrium of external accounts. Nevertheless, fortunately, thanks to macroeconomic stabilization, inflation in Morocco seems to be typically ‘European’, thus living the real exchange rate relatively stable.

### **3. On the Need for a Second Generation of Reforms**

As analyzed above, Morocco experienced poor performances in many reform areas on the macroeconomic stabilization as well as structural fronts. While macroeconomic domestic and external accounts seem to be stabilized, one can observe counter-performances in other reform areas. In an accounting perspective, almost macroeconomic indicators present a stability pictures with lower inflation, stable fiscal and balance of payments current account deficits, etc. in the same time, economic growth continues to heavily rely on rain falls, standards of life are worsening and social inequalities are widening.

In fact, what matters more is not to “reform to reform” but to “reform to improve”. In addition to inadequacies and mistakes in timing and sequencing of reforms (see Mansouri et al., 2003), bad performances of the Moroccan reform process seem to be explained by the fact that institutional, political, social and cultural reforms had not been accompanied with macroeconomic stabilization and structural reforms. The Moroccan government as well as international financial institutions and partner countries in Europe and elsewhere know right now that outcomes and results of economic reforms crucially depend on the institutional, political, social and cultural context, suggesting that reforms in these areas are particularly urgent. As highlighted through interviews with decision-makers in Rabat, real reforms in the Moroccan case are those which started later in the nineties and early 2002 (we refer mainly to our interviews with central directors in the Ministry of Finance and Privatization, the direction of Statistics and Plan, advisors of Ministers, political scientists, leaders of political parties, etc.). Given that institutional, political, social and cultural reforms have been initiated only recently and some of them haven't even started yet, it is not possible to examine their outcomes. In what follows, such reforms, considered here as the second generation of reforms<sup>10</sup>, are outlined, their importance is highlighted and their likelihood of success is examined.

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<sup>10</sup>- Here, the second generation of reforms include political, institutional, social and cultural reforms. For certain analysts, such reform components may be termed the ‘third generation of reforms’ while the second generation

### **3.1. On the Emergency of Political and Institutional Reforms**

It is now well-established that outcomes of macroeconomic stabilization and structural reforms crucially depend on the political and institutional context. As Ruis and van de Walle (2003: 2) argued, “*there has been a growing recognition over the course of the last twenty years that institutional, cultural and managerial factors weigh heavily on the course of economic reform programs in developing countries*”. Indeed, in line with Ruis and van de Walle’s idea for developing countries in general, Moroccan decision-makers initially disregarded these factors in the framework of the first generation of reforms in early eighties and afterwards. In the case of Morocco, it is important to underline that the first generation of reforms had been adopted in a context of critical crisis resulting in hasty unrealistic reform actions with less objectivity (on distinction between first and second generations of reforms, see Fanelli and Popov, 2003).

In a situation of autocracy, political repression, weak state capacity, bad governance and weak civil society, economic reforms cannot yield successful results. Paradoxically, most of the developing countries have unsuitable political and institutional context while they all need economic reforms. However, as Liew and Bruszt (2003: 26) pointed it out, “*institutional capacity is not always exogenous but is determined to some extent by the actual implementation of reform. Successful reform increases the capacity for further reform*”. In what follows, we outline the role that democracy, state capacity, governance and civil society can play in redressing the worsening economic and social situation in the particular case of Morocco.

#### **3.1.1. Sustaining Reforms: The Driving Role of Democracy and Governance**

It seems that poor reform performances are partially due to inappropriate and resisting institutional and political environment. Reform of political institutions can be interpreted as building a capacity for economic reform because political institutions ultimately determine the ‘rules of the game’ (Liew and Bruszt, 2003: 18). In the Moroccan case, this resisting political and institutional milieu appears through the following aspects :

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may consist of structural reforms. Hence, for us, the first generation of reforms include not only macroeconomic stabilization but also structural reforms. Besides, as highlighted through analysis of timing and sequencing of reforms (see Mansouri et al., 2003), macroeconomic stabilization should occur early in the reform process before embarking on structural reforms. While this sequencing path seems to be understood by Moroccan policy-makers, the second generation of reforms, which require more credibility, were delayed.

- the particularities of the emergent democracy and human rights;
- The lack of state capacity;
- the quality of governance and bureaucracy;
- the blocking of laws and rules on the level of some sovereignty ministerial departments, especially the so-called *General Secretariat of the Government*;

Obviously, economic reforms cannot induce expected results and outcomes without reforming the institutional and political environment. In the Moroccan case, these reforms may be summarized as follows :

- reforms concerning the constitution, especially in 1992 and 1996, focalized on the separation of powers between the executive and legislative institutions. The Constitutional Council and the Economic and Social Council were created in 1992. While the former helps to respect the constitutional rules and the well-functioning of elections, the latter is reserved to enhance economic and social development and to ensure transparency in economic activity. In 1996, a bicameral parliamentary system was set up, in particular to ensure more representativity for professionals.
- Reform of the old electoral system where bureaucrats were intervening to advantage accession to power of administrative political parties. In a political environment where falsification of elections still persisted, a consensual political changeover has occurred in 1998 and resulted in a government with heterogeneous ideological tendencies. Under this government, Morocco has experienced a new electoral system (elections by listing) aiming at struggling against pressures on the electorate and use of “dirty money”. Elections under the new system have resulted in a new government, the first one that is relatively issued from urns, with a technocrat prime minister.
- Moralization of the public life, public sector rationalization and creation of conditions for good governance have recently received more attention in comparison with what was going on during the seventies and the eighties.
- The Consultative Council for Human Rights and a ministerial department specialized in this field were set up. Within this framework, political prisoners were liberated and allowances were allocated to them.
- A reform of local governments toward more autonomy and prerogatives was adopted in 2001. In a parallel direction, a new regional cutting up was conducted in order to create more homogenous jurisdictions in terms of geography, demography and wealth.
- A judicial reform was designed in order to create an environment that is favorable to a good functioning of the market economy. In this field, administrative and commercial courts were instituted.

Other reforms concerning the corporate environment were undertaken, promulgating several juridical acts such as those concerning limited companies, competition policy and price liberty, commercial code, investment charts, creation of regional investment centers in order to provide potential investors with assistance and facilities, etc.

All these reforms are linked to the concepts of democracy, state capacity and governance. It is essential to underline that the quality of governance depends on the stage reached in the field of democracy (African Institute for Democracy, 1997). One controversial debate currently concerns effects of the kind of political regime on designing and conducting economic reforms. It is generally believed that because of weaknesses of democratic institutions in a developing country like Morocco, authoritarianism would probably perform in initiating economic reforms in comparison with democracy. This proposition is also explained by the fact that rent-seeking groups are more influential in democratic regimes. These interest groups may resist economic reforms. Furthermore, autocratic regimes have longer horizons because of their aptitude to dominate interest groups. Economic reforms induce positive results only in the medium and long run. Well, democratic regimes cannot resist until collecting reform benefits. Under lobby pressures, democratic governments risk to abandon reforms in favor of unrealistic economic policies (Haggard et al., 1991; Haggard and Kaufman, 1992; Haggard and Webb, 1993, Mansouri, 1999b). It seems that these ideas contain somewhat a grain of truth in the Moroccan case. For instance, following the process of political liberalization, free constitution and development of labor unions in the bosom of the public sector resulted in large resistance against efficient fiscal policy reforms (see Mansouri, 2003e). Indeed, while fiscal policy reform should be efficiently implemented so as it may generate successful results in terms of economic growth and improvements in standards of life, it has paradoxically led to maintaining and even expanding public consumption to the detriment of public investment. Well, as already noted, comprehensive econometric analyses have clearly shown that current public consumption crowds out private investment and hinders economic growth while public investment is a real catalyst of private investment as well as of overall real per capita economic growth (see Mansouri, 2001a, 2003a, 2003b, Mansouri, 2004, forthcoming). In fact, labor unions in the public sector have viewed fiscal adjustment as a null-sum game. While they accept fiscal adjustment, they often prefer that the burden of fiscal austerity would have been supported by other components of public spending, especially public investment expenditures. Even bureaucrats continue to consider fiscal adjustment as a null-sum game, and this behavior has resulted in exploding public salaries to the detriment of public investment which is essential for development opportunities of the country. Since Moroccan policy-makers continue to maintain and even expand current public consumption, they are adopting a pure accounting approach to fiscal adjustment, and therefore, they are conducting an inefficient fiscal policy reform. On the structural reform front, indirect taxation, including taxation on international transactions, continues to dominate public revenue, thus leading to a tax system with weak redistributive intensity. Implicitly, since Moroccan decision-makers rely heavily upon indirect taxation, they in fact resort to less credibility-based rise in public revenue. Such behavior means also that tax

administration is weak in the Moroccan case because, simply, the levying of direct income taxes is the one which requires more state capacity. Other examples of reform inefficiency concerns areas such as privatization and industrial restructuring. As already noted, the privatization process was delayed after privatizing only profitable public sector enterprises.

Reform is certainly a political act and, consequently, there is no sense in dealing with them without taking into consideration the driving role of democracy. Democracy and participation are essential for successful reforms in Morocco. Democratization permits to gather consensus necessary for sustainable reforms as well as for economic, social and political stability. However, as highlighted above through examples of inefficient reforms, what matters is not to ‘*democratize to democratize*’ but to improve the quality of public institutions<sup>11</sup>. It is now well-known that state capacity in the reform process may be stronger in certain less democratic countries in comparison with relatively democratic ones. This means that democracy is not the equivalent of the sole ‘multipartism’. As Alesina and Perrotti (1994) argued, democracy is a system where governments can lose elections. Unfortunately, right political parties always won elections until 1998 when left political parties formed a government, but only in coalition with old right political parties. It is not irrelevant in the Moroccan case to say that bad administrative and political governance is largely due to the absence of real democracy even though the Moroccan democratization process is perhaps the best in the region of the Middle-East and North Africa (MENA). Lack of reliable governance is bad for reform efficiency and long-run economic growth in general. For instance, if public investment is seen to crowd-in private investment and economic growth, and current public consumption is seen to crowd out them, bad governance will be indirectly considered as bad for growth (see Mansouri, 2003b, in his case study, *GDN Program on Bridging Research and Policy*). Bad governance also occurs through dilapidation of public resources, particularly through “over-invoicing”, non-respect of rules related to public transactions, etc.

As Isham et al. (1997: 219) argued, “*discussions of governance often generate more rhetorical heat than empirical light. Governance, like religion, is a broad topic that inspires strong beliefs and is difficult to measure reliably*”. According to the World Bank (1992), governance is the manner in which power is exercised in the management of a country’s economic and social resources for development. Governance raises three main questions, namely *what*, *how* and *how well*. In the reform process, it is important to know *what* are public decisions which affect the allocation of public expenditures, especially public investment, and determine incentives for all other actors (Isham et al., 1997). *How* those public decisions are exercised depends on social and political structures as well as official and unofficial institutions. If the two questions are essential, *how well* public decisions are designed

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<sup>11</sup>- In fact, it is extremely difficult to introduce democracy in a country where illiteracy rates are higher. It matters to raise questions about the perception of democracy among the Moroccan people. Moreover, democracy in Morocco tends to be an “imported product”, that is democracy has not emerged from cultural, sociological and historical reality of the country. Thus, it is important to know how the emergent democracy in Morocco may be improved so as it can positively influence the reform process.

and implemented to achieve better reform performances is the most important one. To improve reform outcomes and reform efficiency, a good functioning of public institutions is needed, and such institutions crucially depend on administrative and organizational factors: i) efficiency in collecting information; ii) efficiency in the organization of decision-making; iii) efficacy in allocating tasks between executive agencies of economic reforms and policies; and iv) transparency of financial measures of the government, including audit.

### **3.1.2. The Need for Stronger State Capacity and Civil Society**

In the Moroccan case as well as in the general case of many developing countries, bad governance is closely related to the concept of state capacity. The state capacity may be defined as “*the ability to undertake and promote collective actions efficiently*” (see World Bank, 1997; see also Bicanic et al., 2003; Ruis and van de Walle, 2003). Authors of the World Bank (1997) report on “*The State in the Changing World*” defined effective state as a state where ambitions are matched with capabilities.

According to Liew and Bruszt (2003), there are four types of the state capacity :

- upholding general rights of economic actors;
- creating a predictable policy environment for economic actors;
- preventing the use of the state institutions by powerful private groups to redistribute wealth and opportunities to themselves;
- regulating relations among economic actors in a balanced way and preventing the misuse of asymmetries in economic and informational power within the market.

From this point of view, successful economic reforms inevitably involve some form of political reform. Political institutions are devoted to maximize aggregate social welfare. To reach this goal, the state should have capabilities to identify specific problems, to explore reform programs and to implement them efficiently<sup>12</sup>. Because state capacity, as above-defined, is not fully well-guaranteed in Morocco, reform outcomes on the macroeconomic as well as structural front are below what is initially expected.

As Ruis and van de Walle (2003: 5) argued, “*it would however be a mistake to treat state capacity as entirely exogenous to the political system, as is too often done*”. As highlighted through our interviews with certain Moroccan policy-makers, among others, first generation of reforms has permitted to enhance state capacity through learning from already undertaken reforms. Such increasing state capacity would probably facilitate initiation and implementation of the second generation of reforms, and, therefore, it would likely allow Moroccan decision-makers to revise already

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<sup>12</sup>- An other factor that may affect the process of reforms as well as their outcomes, failure or success, is the credibility of laws. If this is the case, poor credibility of laws may undermine prospects for long run economic growth. “*It would be expected that a business environment characterized by incredible rules such as unclear property rights, constant policy surprises and reversals, uncertain contract enforcement, and high corruption would translate into lower investment and growth*” (Brunetti et al., 1998 : 353).

undertaken macroeconomic and structural reforms. Nevertheless, this would be the case only if Moroccan decision-makers learn fast from their past reform mistakes and slippages.

Counter-performances in macroeconomic stabilization and structural reforms may also be explained by lack of civil society. In a situation of economic liberalization and decreasing state interventions, a strong civil society is urgently needed. Its role in abiding the population, replacing the role of the state in responding to people's needs as well as its active role in influencing public policies are of a great importance. For instance, stronger civil society is needed for efficient privatizations, promotion of "entrepreneurship spirit" and "people's share of ownership". Also crucial would be its role in influencing public decisions in fiscal policy reforms so as fiscal austerity would not rely heavily on cutting public expenditures on physical and social infrastructure.

Unfortunately, at least in the Moroccan case, emergence of a real civil society is facing major challenges. Among them, it is important to mention the following : i) the neo-patrimonial nature of the Moroccan state; ii) the lack of the citizenship mankind; and iii) the traditional nature of the Moroccan society. In Morocco, one can easily observe how the Moroccans still behave as simple individuals not as true citizens.

The neo-patrimonial nature of the Moroccan state is due to the resistance of old 'collectivist' economic and social formations inherited from pre-capitalist modes of production. While the construction of a market-oriented economy is crucial in the reform process, the cultural environment may be a resisting factor. Well, a market-oriented economy system needs a situation where economic agents do not expect that government responds to all their needs. Paradoxically, this is not the case in Morocco. For instance, people tend to associate increasing prices not to demand and supply mechanisms but to the fact that the state does not assume its responsibility in regulating prices. In the imaginary of Moroccan people, the state has to play its role in regulating not only the economy but also the social sphere : distribution of benefits, clientelism, etc (see Benali, 1991). Hence, instead of organization into civil society associations, Moroccan people often expect that the state can respond to all their needs. This Moroccan cultural reality may constitute an obstacle against reforms (on effects of cultural factors on the reform process, see for example Ruis and van de Walle, 2003).

As Bernoussi (2000: 4) pointed it out, the major characteristic of the Moroccan is that he is often away from all forms of institutional contracting. According to a research carried out by The '*Conseil National de la Jeunesse et de l'Avenir*' (CNJA) later in the 1990s, only 18 percent of interviewed urban youth understands the meaning of the term 'association' against only 10 percent for rural youth, with only 14 percent of urban and 6 percent of rural who adhered to constituted associations. This passive situation would not likely change at least in the short and medium run even if there is some political willingness to change the situation. Indeed, 60 percent of urban

youth and 50 percent of rural youth interviewed persons justified their reluctance through their unwillingness to adhere to associations and their preference for individual acts.

The traditional nature of the Moroccan society also hinders the emergence of civil society. The concept of 'tradition' among sociologists who studied the Moroccan society refers to the geographical and value space where certain institutions were set up to respond to people's needs within the framework of a political regime characterized by oldness and holiness. Paul Pascon (see Pascon, 1967), the famous Moroccan sociologist, studied the nature of the Moroccan society and pointed out the robustness of resistance against political modernization with civil society as a 'major cone'. In the same direction, it is important to know whether civil society as known in occidental countries is needed in oriental societies like in Morocco. It is now well known that 'private sector' organizations exist in the Arab World in general and in Morocco in particular, but such organizations are different from what is known as civil society in the developed World. Simple terminological investigations show clearly how differences are manifest. Indeed, civil society in the developed World is assimilated to 'institutions of the nations' (Mu'assassat ul-Umma in Arabic) in the Arab World, citizenship is opposed to fraternity, trade unions are opposed to sophist groups, etc.

### **3.2. Importance of Social and Cultural Reforms**

As already noted, macroeconomic stabilization and structural reforms in Morocco did not result in successful performances on the social front. While widening social inequalities and increasing poverty may be explained by negative effects of inefficient reforms on economic growth, social inequalities may also be due to less public efforts to struggle against poverty and gender inequalities. On the cultural front, it is now well-established that the cultural context also affects the reform path. As the Moroccan political scientist, Mohamed DARIF, has declared in an interview with us, "*reform is not a simple promulgation of laws. This is insufficient. Culture should change. The cultural condition has its weight for success of reforms. For instance, there is no 'culture of institution' in the Moroccan administration. Administration is centered around the idea of a person*".

#### **3.2.1. Alleviating Income and Gender Inequalities: The Role of Social Reforms**

Increasing poverty in Morocco is the most situation that may reflect income inequalities in a country where 10 percent of the population get 90 percent of the 'national cake' while 90 percent of the population get only 10 percent. Increasing poverty in Morocco, and elsewhere in other developing countries, has resulted in increasing attention for this phenomenon among researchers, public authorities, NGOs and international financial institutions. As shown in Ravallion (1994), struggling against poverty requires not only sustained economic growth but also public actions

targeting the poor. This explains why Moroccan decision-makers, following popular displeasures and external pressures, finally embarked on social reforms to alleviate poverty. The objective is to take in charge those individuals and households who cannot benefit from 'fruits of growth' (direct transfers) as well as to guarantee adequate infrastructure in favor of less favored social couches, especially through education, health and other vital social services (on this issue, see Lipton and Ravallion, 1993).

Human under-development in Morocco may be dated from the sixties when demographic explosion occurred inconsistently with the level of economic growth. In spite of the relatively rapid growth and the ambitious public investment programs of seventies, social inequalities continued to increase. Inefficient macroeconomic stabilization and structural reforms since early eighties resulted in a deterioration of major social indicators. According to the human development index, Morocco has been ranked the 126<sup>th</sup> in the World in 1999 against the 117<sup>th</sup> in 1995. The rate of poverty, measured on the basis of the headcount poverty ratio, amounted to 19 percent in 1998-1999 against only 13.1 percent in 1990-1991 (see the Direction of Statistics, National Surveys of Housholds' level of Life). The poverty rate is more than the rate observed in countries with similar economic development (only 7 percent in Tunisia).

In addition to its high level, the poverty rate in Morocco occults certain disparities. First, rural zones (27.2 percent) are more affected by the phenomenon in comparison with the urban milieu (12 percent). Second, inter and within-regional gaps are particularly widening. Finally, analyses in terms of gender have shown that poverty affects women more than men.

Even though struggling against poverty has necessitated important efforts from public authorities, much remains to be done. Economic policies targeting the poor, especially in the rural milieu, are manifestly urgent. This would be feasible through investment in basic physical and social infrastructure and employment stimulation, especially in agriculture and micro-enterprises. Accompanying measures, such as integration of women into development, good governance, participatory democracy and protection of the poor against risks as well as redistributive policies, have to eradicate poverty.

All these measures cannot be undertaken efficiently in a situation where Moroccan decision-makers continue to maintain and expand current public consumption while public investment expenditures continue to support the brunt of fiscal adjustment. Inefficiency of structural reforms also cannot contribute to the eradication of poverty because, simply, such inefficiency adds to the worsening economic growth standards. This means that outcomes of social reforms, especially for purposes of poverty alleviation, crucially depend on the degree of efficiency of economic reforms.

Successful reform outcomes also require efforts to eradicate discrimination against women. In a patriarchal society like Morocco, women's legal status is not suitable to development. For instance, in terms of education and integration into the

World of labor, women in Morocco and in other patriarchal societies, tend to be considered as non-full citizens. Barriers are often risen against the emancipation of women, especially in education and labor. The major paradox of the Moroccan society is that although a change in the *sex structure* of labor force in favor of women has to boost per capita real income, and hence to reduce income poverty, economic growth does not contribute to the improvement of this *structure*. By contrast, an increase in male labor as a proportion to total labor force has to reduce per capita real income, and hence to worsen average income poverty. In spite of this reality, male labor as a proportion to total labor force remains stable, around 70 percent, leaving only 30 percent for female labor (on this issue, see Mansouri, 2001b) . This suggests that there are other non-economic factors that determine bias against women's education and integration into the labor market. Especially, in patriarchal societies, like the Moroccan one, cultural, sociological and archaic religious factors are often against women's emancipation and integration into the development process. This phenomenon is particularly highlighted by recent controversies in Morocco among those who are for women's integration into the development process and those who are against it. Women's disadvantageous position in the labor market is due to the persistence of patriarchy as well as to the dependence of women in the bosom of the family and the society. Home work and children care are considered as the main women's field while men must work outside to get means of living. This division of responsibilities between women and men and the patriarchal order of the society explain why women tend to accumulate less human capital in comparison with men before integrating the labor market. The educational system is designed so as women receive training non-adapted to labor market requirements, and social as well as cultural values tend to perpetuate this vision. As the Greek philosopher Platon argued in his famous book "La Republica", "oh! If we require that women do the same services as men, we must train them in the same disciplines". Well, as highlighted by James Mill, a nineteenth century philosopher, the evolution of a society depends crucially on the place devoted to women in that society.

Development policies in Morocco must work for eradicating segregation against women in areas such as education and labor markets. What matters more is to modify the *composition* of labor force not to improve an employment that creates and reinforces bias against women. Efficient strategies are needed to struggle against gender inequalities in order to integrate women into the development process and to eradicate their marginalization in the bosom of the society. More sensitization is needed to struggle against refractory mentalities and patriarchal values to improve women's position in the society in Morocco as well as in other Middle-Eastern and North-African countries.

### **3.2.2. For a Culture Favoring Progress: A Long-Run Perspective**

It is now well-known that outcomes and results of public actions, especially at the level of economic, political, institutional and cultural reforms, crucially depend on the cultural context of countries. As Luis and van de Walle (2003: 2) argued, policy-

makers initially largely disregarded institutional and cultural factors when they designed the first generation of reform programs.

Indeed, in the Moroccan case, policy-makers' implicit model of decision-making was largely apolitical and acultural, focusing almost entirely on economic design issues, thus taking for granted the implementation of reform programs. In a situation where people are get used to the manna of the state, it is very difficult to convince individuals and organizations to comply with reform actions. For instance, in a newly liberalized system, it would be very difficult, at least in the observed Moroccan context, to lead people to take themselves in charge through, say, entrepreneurship or seek for jobs in the private sector. Most of the graduate and postgraduate students continue to organize mass demonstrations to get their 'rights' to work in the public sector. Individuals who work in the public administration tend to consider their offices as their own fiefs. Corruption is endogenous to the Moroccan society, suggesting that it is almost impossible to remove corruptive practices, at least in the short and medium run. People are against the emancipation of women and their integration into the development process, maintaining their refractory hostile-to-change mentalities.

Moroccan policy-makers should not neglect cultural factors within the framework of the second generation of reforms. To reform the cultural context, an efficient educational system and a reliable program of sensitization are needed. Cultural reforms are fundamentally long-run efforts. A long-run perspective is urgently needed to transform mentalities in favor of efficient reforms not only on the economic front but also at political, institutional and social levels.

- **Concluding Remarks**

Our paper on macroeconomic, structural and institutional reforms is centered on the 'how-well question'. We have tried to understand reform outcomes and to highlight the emergency of a second generation of reforms, especially on political, institutional, social and cultural fronts.

In many cases, macroeconomic stabilization and structural reforms resulted in manifest counter-performances, reflecting their inefficiencies. While macroeconomic reforms generated stable macroeconomic indicators, outcomes in other areas, such as economic growth and standards of life, are below what is expected. In addition to timing and sequencing problems, bad reform performances would be due to lacking political, institutional, social and cultural reforms. Whereas Moroccan policy-makers seem to have taken the *right* decision to initiate reforms, *bad* performances have been observed and lacking reform efforts on the politico-institutional, social and cultural fronts have rendered the situation somewhat *ugly*.

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