Speed of Adjustment, Sequencing and Outcomes of Macroeconomic Stabilization and Structural Reforms in Morocco: A Political Economy Analysis

Brahim Mansouri

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Abstract

Using political economy and statistical tools, this paper examines the speed of adjustment, sequencing and outcomes of macroeconomic stabilization and structural reforms in the Moroccan case. It argues that inefficiency of reforms in these areas is largely due to speed and sequencing issues as well as to interest group pressures and credibility of decisionmakers.

سرعة التكيف وتتابع السياسات ونتائج التثبيت الاقتصادي والكلي والإصلاحات الهيكلية في المغرب: تحليل اقتصادي سياسي

ابراهيم منصوري

ملخص

تناولت الورقة قضية سرعة وتتابع الإصلاحات الاقتصادية في المغرب من وجهة نظر الأطروحة القائلة بأن مثل هذه الإصلاحات لا بدّ من تناولها في إطار السياق السياسي والمؤسساتي الذي تطبق فيه. قدمت الورقة نتائج تطبيقية لحالة المغرب بما في ذلك قياس سرعة الإصلاحات في مجال التثبيت الاقتصادي والإصلاحات الهيكلية كل على حدة ، وكذلك حول تجربة تتابع الإصلاحات بما في ذلك الإجابة على السؤال لماذا ينبغي تطبيق إجراءات التثبيت الكلي في وقت مبكر؟ بالإضافة إلى اقتراح أن هنالك حاجة لجيل جديد من الإصلاحات يركز على الإصلاحات السياسية والمؤسسية.

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** Director of the Group of Research on Economics and Finance (GREF), Faculty of Law and Economics, Cadi Ayyad University, Marrakesh, Morocco; leader of the Moroccan teams working on Understanding Reforms; Bridging Research and Policy and Impact of Rich Country Policies on Poor Countries, Global Development Network (GDN), Washington, D.C. Email: contact@mansouribrahim.com; b-mansouri@lycos.com; brmansouri@yahoo.fr or brahim.mansouri@menara.ma . Website: www.mansouribrahim.com

Introduction

Presently, existing researches in this area seem "to criticize to criticize", arguing that structural adjustment and other accompanying reforms are bad news for the Moroccan economy and society. The problem is that these criticisms do not propose any alternatives to the existing Moroccan multifaceted crisis. An endogenous criticism of the multidimensional reform process unique to Morocco is therefore proposed.

In particular, the main hypothesis of this research is that economic reforms themselves should be related to the political and institutional context in which they are designed and implemented. This means that economic reforms do not form pure technical machinery where demand must be adjusted to supply at the macroeconomic level and auto-regulatory mechanisms of the market should be restored at the microeconomic level to achieve development and wellbeing. The reform process is a very complex phenomenon wherein economic, political, social and cultural aspects are interrelated. In general, to better understand objectives, means, outcomes and results of policies in the Arab World, interdisciplinary, transdisciplinary and multidisciplinary research approaches are needed.

Reforms in the Arab world constitute a non-dissociable part of development strategies. The reason is that their design and implementation strategies determine their outcomes and results. How such reforms are timed and sequenced depends on the political and institutional context of a given country. This is the main hypothesis of this paper. It does not aspire to give definitive answers to complex questions. The main objective is for it to be a springboard for exchange of ideas and experiences at the International Conference on New Approaches to the Design of Development Policies held in March 2006 at Beirut, Lebanon.

Speed of Adjustment in the Moroccan Reform Efforts

As in many developing and transitional countries, Moroccan decision makers have to make the choice between two competing approaches to implement macroeconomic and structural reforms. The first approach is commonly termed the shock, cold-turkey or big bang therapy approach. The second one is the gradual or the incremental approach. Whereas the shock approach agrees on programs of rapid and surprising reforms, the gradual approach is based on a package of incremental and multistage reforms.

A Relative Big Bang Approach to Macroeconomic Stabilization

In a political economy perspective, Morocco, to restore the budget balance, has relied heavily on cutting public investment expenditures in accordance with the big bang approach. However, some public subsidies and transfers have been readjusted only gradually and current public expenditures have been cut only slightly and even maintained constant in some cases. For instance, even before the beginning of the structural adjustment program, public investment spending was cut by about 4.7 percentage points of GDP in 1980 within the framework of the triennial plan 1978-1980 against only 2.95 percentage points of GDP for current public consumption and an increase of 0.85 percentage point of GDP for subsidies. In 1983, when the Structural Adjustment Program was launched, the shock therapy in cutting public investment spending resulted in about 5 percentage points of GDP decrease in this kind of public expenditures against 1.5 and 0.75 percentage points of GDP for current public consumption and subsidies respectively.

This approach to transforming the structure of public expenditures has certainly something to do with the fact that the shock therapy adopted in Morocco is aimed at restoring the budget balance without exacerbating popular and political displeasures, especially among labor unions in the public sector, less favored private consumers who benefited from subsidies, as well as among bureaucrats considered as a powerful interest group in the Moroccan case (Mansouri, 2003c, 2003f). Indeed, as empirical studies clearly show, public investment has been seen to be an important catalyst for capital accumulation in the private sector as well as for overall real economic growth.(1) Among the community of researchers, only those who have not paid any attention to political economy considerations have pretended that Moroccan decision makers succeeded in reforming the public finance of the country. Doing so, they have often forgotten that the Moroccan government perhaps knows that cutting public investment is bad for the development opportunities of the country as well as for the long-run social welfare of the population. However, politically speaking, the government was obliged to resort to center the shock therapy on capital expenditures. Mansouri (2003c) emphasizes that the fiscal policy reform in Morocco has been inefficient because of political economy factors. The efficiency of fiscal policy matters more than the accounting equilibrium of the public budget.

It is probable that in the face of a sharp fiscal, financial and monetary crisis, Moroccan decision makers have been obliged to resort to a shock approach, at least on the macroeconomic stabilization front, especially during the first years of adjustment from 1983 until the end of 1980s. However, fearing popular and political dissatisfaction, the government limited its big bang therapy to what is politically feasible, that is without cutting public expenditures which may exacerbate popular and political displeasure. In the field of public consumption and subsidies for example, Moroccan decision makers appear to have preferred a gradual and multistage approach rather than a shock therapy.

Another component of macroeconomic stabilization is the so-called monetary restriction. While Morocco is known as a country characterized by fiscal expansion and higher public debt stocks, it is important to stress that Moroccan decision makers did not historically resort to the monetization of public deficits. For instance, over the period 1960-1997, the base money is estimated to be only 14% of GDP in annual average, against 22% in Egypt for example. Base money creation, defined as the ratio of the absolute change in money base divided by GDP, amounts to a value of only 1.7, against 2.70 in Egypt.

Perhaps, Moroccan decision makers agree on the fact that there is a big trade-off between inflation and money creation and decided accordingly to not resort to money creation to finance fiscal deficits. Indeed, following Mansouri (2001, 2003a), relationship between money creation and inflation may be analyzed as a typical Laffer curve of seigniorage, where money creation (as a ratio to GDP) increases in a first period in relationship to inflation, and, as inflation increases, money creation begins to fall down because money holders are very sensitive to the eroding value of their money balances.

To curb inflation, Moroccan decision makers resorted to control not only the money base creation but also the monetary aggregates in general. The rule of money control consists simply on adjusting the total nominal money stock to the nominal GDP. In other words, the rule of money control in Morocco is that the rate of growth of nominal money stock should be fixed around the sum of the rate of real GDP growth and the rate of inflation.

This is only a part of the story. Money creation may also deteriorate external accounts either through increasing aggregate demand or through eroding external competitiveness, especially by exacerbating inflation and, therefore, by appreciating real exchange rates. Another important point concerns impact on prices of an expansionary fiscal policy. Mansouri (2003e) has shown that since the Moroccan public sector has a propensity to consume non-tradable goods, higher than that of the private sector, fiscal expansion has to increase inflation, and, through this channel, to appreciate the real exchange rate. Thus, even fiscal adjustment aims at curbing inflation. In sum, fiscal austerity and monetary restriction were both conducted in conformity with a relative shock approach.

Measuring the Speed of Adjustment in Macroeconomic Stabilization

It is now well known that the most important variable that determines fiscal adjustment efforts of the government of a given country is the fiscal surplus(2). Within the framework of the Structural Adjustment Program(3), Morocco centered macroeconomic stabilization efforts on reducing fiscal deficits to render them sustainable(4). In an adjustment speed perspective, it is important to know what is approximately the time elapsed between the move from an unsustainable level of fiscal surpluses, at the time corresponding to the launching of fiscal adjustment in 1983, to a targeted sustainable level of such surpluses.

As shown in Figure 1, representing values of budget surpluses over time, there is no doubt that fiscal deficits were decreasing, especially since the early 1980s. The smoothed values of fiscal surpluses in Figure 2 show more accurately how the fiscal stance in Morocco dramatically deteriorated until the early 1980s, and how fiscal surpluses began to improve henceforth. To approximate the speed of fiscal adjustment, using the budget surplus as a first relevant variable, an examination of the evolution of such surpluses from 1983 through a period where surpluses became stabilized, is in order.

Data investigations reveal that the fiscal surplus was stabilized only in the end of 1980. Indeed, the fiscal surplus was estimated to be around 11.5% of GDP in 1982. While it improved during the subsequent year, it experienced some deterioration after 1984, reaching 7.3 and 7.7% of GDP in 1985 and 1986 respectively, and amounted to about 5.2% of GDP in 1989. Over the period 1982-1989, the fiscal surplus annual average is estimated to be around 6.6% of GDP. In 1990, the budget deficit was stabilized at a level of less than 3% of GDP, and continued thereby to decrease, reaching only 2.2 and 1.5% of GDP in 1992 and 1993 respectively. The budget surplus annual average over the period 1990-1997 is estimated to be only 2.6% of GDP. However, as shown in Figure 1, fiscal surplus experienced an annual average deterioration of about 3.52% of GDP over the period 1998-2000.

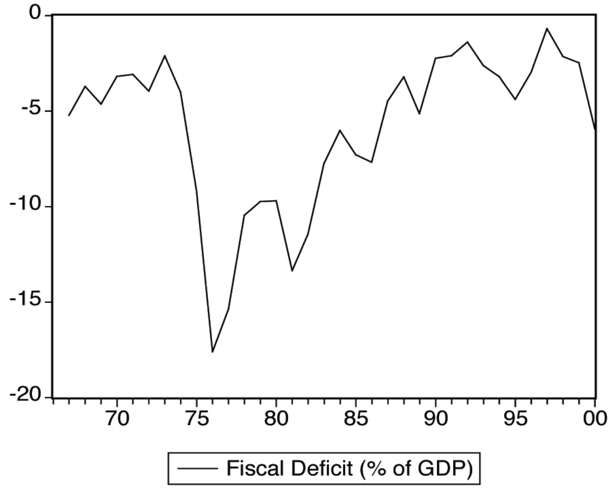

Figure 1. Evolution of fiscal surpluses in Morocco, 1967-2000 (% of GDP)

Nevertheless, it is important to note that fiscal deficits in Morocco have experienced a tendency to decrease during the whole period, as highlighted in Figure 2.

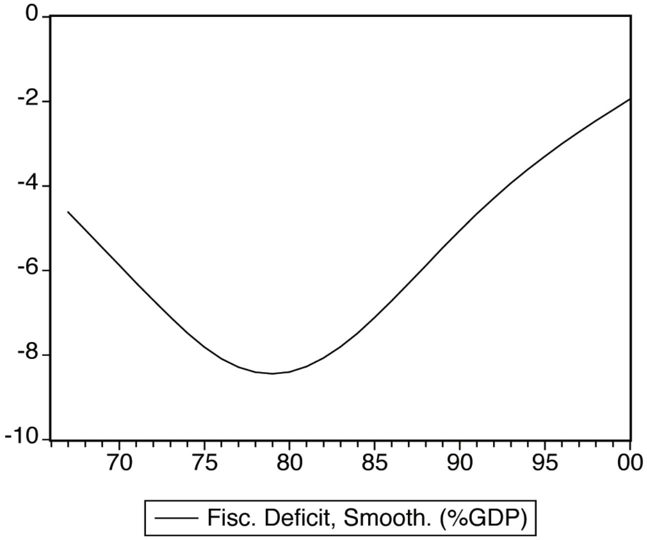

Figure 2. Evolution of fiscal deficits, 1967-2000 (HP smoothed, % of GDP)

What is more important is to find out why budget deficits in Morocco became stable and sustainable only after a period of a fiscal adjustment speed of about seven years even though Moroccan decision makers conducted a relative shock approach to fiscal adjustment. It is probable that the reason behind this relatively long speed of adjustment, is that the big bang approach to fiscal austerity relied heavily on cutting public investment expenditures. By contrast, other components of public expenditures were cut only slightly or even maintained over time. In addition to subsidies (gradually cut) and current public consumption (slightly reduced or even maintained in some cases), interest payments have an incompressible nature, and, therefore, remained a constant burden for the government budget and even, accumulated as a consequence of previous deficits.

As shown in Figure 3, fiscal deficits and public investment expenditures evolved following a same pattern over time. The smoothed values of the two variables, using Hodrick-Prescott Filter, reveal more precisely how fiscal deficits and public investment expenditures moved in the same direction. While effective and smoothed values of current public consumption were also decreasing following fiscal adjustment in the early 1980s, the decrease is weaker than in the case of public investment. As already pointed out, this means that Moroccan decision makers relied heavily, in their big bang approach to fiscal adjustment, on cutting public investment.

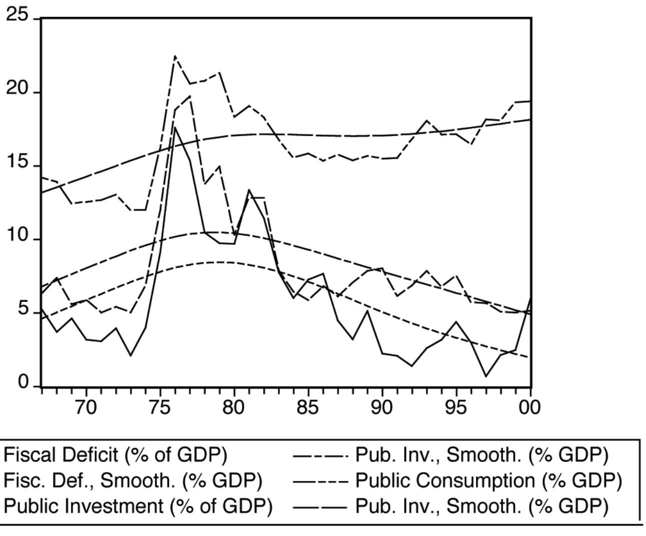

Figure 3. Parallel evolution of effective and smoothed values of fiscal deficits, public investment, and current public consumption 1967-2000 (% of GDP).

On the speed of adjustment in the case of inflation, Figure 4 shows the effective and smoothed values of the inflation rate revealing that the stabilization of inflation started in the early 1980s. However, inflation became "European"[(5)] only at the end of 1987, with a value estimated to be around 3%. From that year through 1997, the annual average inflation rate is estimated to be about 4%, against an annual average inflation rate of about 8% over the period 1969-1986 when inflationary pressures were particularly destabilizing. Over the period 1974-1986 when inflationary tensions were more destabilizing and more detrimental for the economy of the country, inflation reached even an annual average rate of about 10%[(6)].

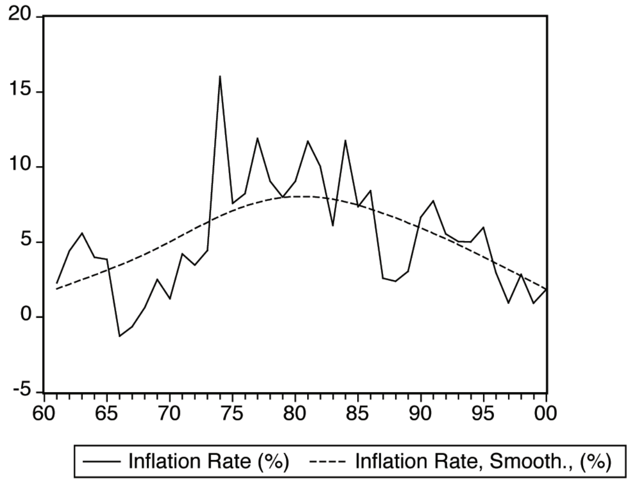

Figure 4. Inflation in Morocco, 1969-2000 (First difference of the natural logarithm of the Consumer Price Index, %)

Concerning external surpluses, it is important to emphasize that they also improved following macroeconomic stabilization of the early 1980s. As shown in Figure 5, effective and smoothed values of current surpluses, as well as surpluses on goods and services, continued to improve during the 1980s and beyond. It is probable that decreases in external deficits would have some links with fiscal adjustment in line with the budgetary approach to the balance of payments.

From values of about -12.3 and -15% of GDP for current account and goods and services surpluses in 1982, they improved in 1983 to be only about -6.5 and -10.7% of GDP respectively. In spite of some deteriorations in 1984 and 1985, they began to improve henceforth, reaching even a positive current surplus of about 2% of GDP in 1988. From that year and beyond, external deficits became relatively sustainable. What is surprising is that budget and external sector surpluses were stabilized following similar speeds of adjustment. This would probably give support to proponents of the Keynesian twin-deficit proposition in which fiscal and external deficits are linked (Mansouri, 2003d; 2003g has confirmed this relationship).

Another important issue is on why the big bang approach to fiscal adjustment did not induce a big bang improvement in external surpluses. The reason is that current public consumption is empirically seen to more significantly drive external deficits (Mansouri, 2003d). Therefore, there is no doubt that a shock cut of public investment is insufficient to reduce external deficits. Over time, with continuous cuts of public investment and gradual decreases in other kinds of public expenditures, external deficits began to fall and to become relatively sustainable, especially at the end of the 1980s, exactly as in the case of fiscal deficits.

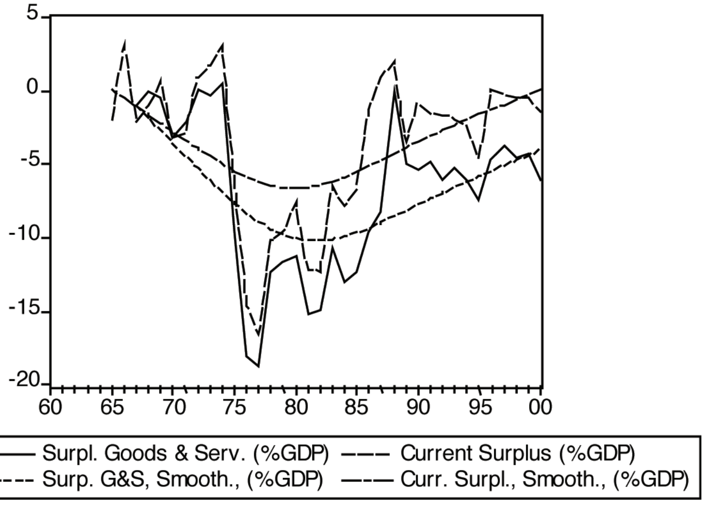

Figure 5. Evolution of effective and smoothed values of external current and surpluses on goods and services, 1967-2000 (% of GDP).

A Gradual Approach to Structural Reforms in Morocco

In contrast to the relative shock approach to macroeconomic adjustment, structural reforms in Morocco may be described as a gradual, incremental or multistage process.

Structural reforms in Morocco may be classified here as price liberalization, exchange rate policy and devaluation, trade liberalization, tax reforms, privatization, financial liberalization and reforms, and industrial restructuring. As Liew and Bruszt (2003) argue: "Price reform is often one of the first institutional changes introduced by reforming governments because in relative terms, it is the easiest to implement, compared for example to ownership and legal reform. Being easy in relative terms does not mean it is easy in absolute terms because popular protests against price rises are not unknown and a social security system to cushion the effects of price rises on the poor is often absent or inadequate or requires fundamental reform in developing and transitional countries".

This is exactly the case of Morocco where decision makers started to implement price liberalization even before the launching of the Structural Adjustment Program in 1983.

Regarding exchange policy, it should be noted that Moroccan decision makers undertook three successive devaluations of the dirham in 1984, 1985 and 1990. The objective was to encourage exports and limit imports. Even though such devaluations were undertaken over a period of three years, the adopted policy may be considered as a shock approach to devaluation, especially because of the relative steady devaluation over time and also because of the magnitude of the nominal devaluation itself. If the devaluation of the dirham has to boost exports, it may also contribute to increasing prices of imported investment and intermediate goods as well as to increasing debt service.

In a reform sequencing perspective, it seems that Moroccan policy-makers had the willingness to accelerate devaluation in line with a big bang approach before undertaking gradual trade liberalization. To limit the negative impact of devaluation on imports of investment and intermediate goods, import liberalization was undertaken in conformity with an incremental approach. A gradual approach was also followed to remove exchange controls, through incremental easings of exchange regulations.

The law on tax reforms was adopted in 1984, but implementation of reforms in this area started only in 1986 with the institution of a value added tax. In 1987 and 1990, the Corporate Tax (Impôt sur les Sociétés) and the General Tax on Income (Impôt Général sur le Revenu) were instituted. Hence, tax reforms in Morocco may be considered as a gradual and incremental reform process. The reason of gradualism in tax reforms would likely be that such reforms require more administrative state capacity on the design as well as implementation fronts

(Akesbi, 1993). Another reason would be that tax reforms often take time to be implemented because of the resistance of interest groups.

While financial reforms began to be implemented in the early 1980s, mainly since 1984/85, particularly with a process of partial interest rate liberalization, true financial reforms started in the early 1990s. Reforms in this area reflected what may be termed a gradual approach to structural reforms. It appears that Moroccan decision makers have learned much from the failure of shock approaches to financial reforms in Latin America, and, henceforth, resorted to incremental decision-making in financial reforms and liberalization.

Interest rate liberalization was conducted very slowly until 1996. Since that year until the present, interest rates have been not completely liberalized (7). While bank reforms were implemented relatively rapidly, there is currently a bank reform project to reinforce reforms in this area. Stock market, monetary market and exchange market reforms were generally reformed gradually (Mansouri, 1997a; 1997b).

The law on privatization had been adopted earlier in 1989. Nevertheless, implementation of the process was conducted only in 1993. Privatization was implemented later, especially because of the necessity to prepare legal and juridical regulations as well as to permit the operations of privatization to transit through financial markets, which began to be reformed and restructured only in 1993.

The privatization process was started through privatizing the most profitable public sector enterprises. While privatization cannot be considered as a simple transfer of enterprises from the public to the private sector, but rather as an operation aimed at improving productive and allocative efficiency, it appears that the objective of the Moroccan government was to address fiscal issues rather than to improve efficiency.

In conformity with the conclusion of the partnership agreement with the European Union in 1995, Morocco was forced to conduct a process of industrial restructuring within the framework of cooperation between the Moroccan private and public sectors on one hand, and the European Union on the other hand. In accordance with the Euro-Mediterranean Free Trade Agreement zone rescheduled to be set up in 2010, a program of industrial restructuring was designed and has to be implemented gradually. This has to be hand in hand with the gradual removal of import duties

Apart from prices of some basic consumer goods which are still subjected to public subsidies, the absolute majority of goods and services became totally liberalized in the early 1990s. This confirms what has already said about the gradual approach to price liberalization in the Moroccan reform process. Indeed, beginning in 1980, price liberalization was almost achieved during nearly a decade.

As to the exchange rate policy and devaluation, it may be stressed that nominal devaluations undertaken in 1984 and 1985 resulted in a depreciating real effective exchange rate. In 1984, the rate of real devaluation, computed on the basis of the effective real exchange rate, was estimated to be around 5.8%, against 6.7, 4.4 and 3.4% in 1985, 1986 and 1987 respectively.

After 1987, the real effective exchange rate became relatively stable until 1992 when the real effective exchange rate began to experience some appreciation in spite of the stability of domestic inflation in comparison with main trade partners (Figure 6). This explains why Moroccan policy-makers have decided a devaluation of the dirham in 2000.

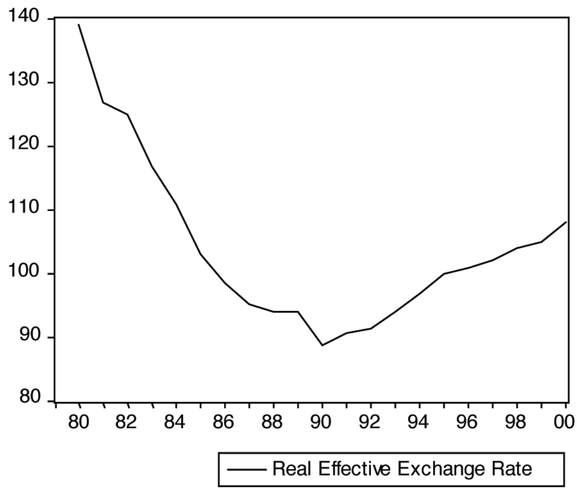

Figure 6. Evolution of the real effective exchange rate (Index, 1995 = 100)

Concerning the gradual trade policy liberalization, Moroccan policy-makers made some success in eradicating barriers to international transactions, especially through reducing export taxes and, less vigorously, through decreasing import taxes and duties.

As early as 1983, Moroccan policy-makers began to steadily and gradually cut import taxes and duties. However, as shown in Figure 7, especially with the institution of a special tax on import, public revenues from imports began to increase before experiencing a net decrease since 1994.

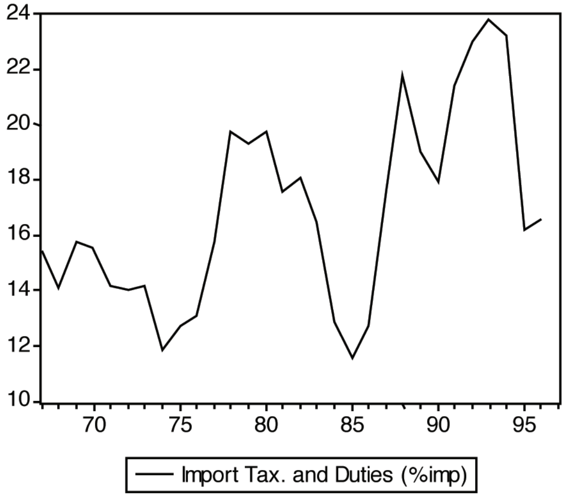

Figure 7. Evolution of import taxes and duties (% of imports).

The institution of a special tax on imports in 1987 may be considered as a government attempt to improve public revenues in the context of fiscal adjustment. As for decreases in government revenues on imports since 1994/95, these may be viewed as an expression of the government willingness to gradually reduce the tax burden on imports within the framework of the concluded partnership agreement with the European Union and the scheduled set up of the Euro-Mediterranean Free Trade Zone in 2010.

More vigorous are the willingness and the effectiveness of Moroccan policy-makers to reduce the tax burden on exports, especially taxes on phosphate exports. As shown in Figure 8, Export taxes were dramatically declining over the decade of the 1980s to become almost nil at the end of the 1990s.

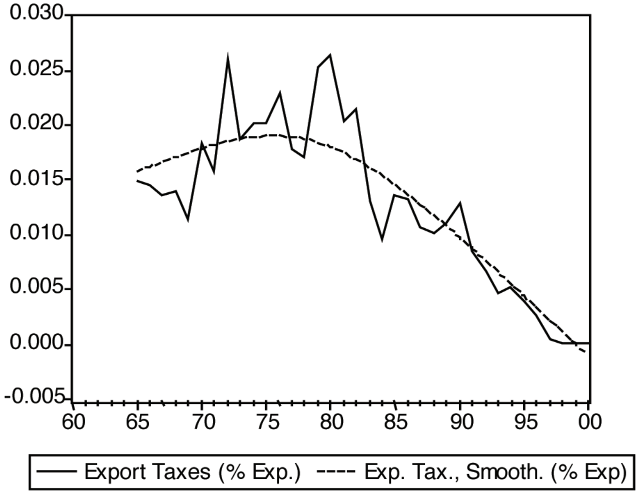

Figure 8. Evolution of export taxes (% of exports)

Concerning tax reforms, it is important to underscore that following reform measures beginning in 1986, tax revenues did not improve well until 1991. Over this period, tax revenues were generally stationary, with an annual average of about 21% of GDP. However, tax revenues slightly improved since 1992, corresponding to the end of the debt rescheduling, with an annual average of about 25% of GDP over the period 1992-2000 as shown in Figure 9.

It seems that tax reforms, as other structural reforms, generate better outcomes only in the medium and long run. In particular, institutional and administrative reforms are urgently needed in this area, especially through struggling against tax evasion and fraud as well as through improving and strengthening administrative capacity in tax studies and tax levying (Mansouri, 1999b). Moreover, a large agricultural sector is exonerated, preventing the government from substantial amounts of taxes needed to reduce fiscal deficits without resorting to cutting public capital expenditures dramatically.

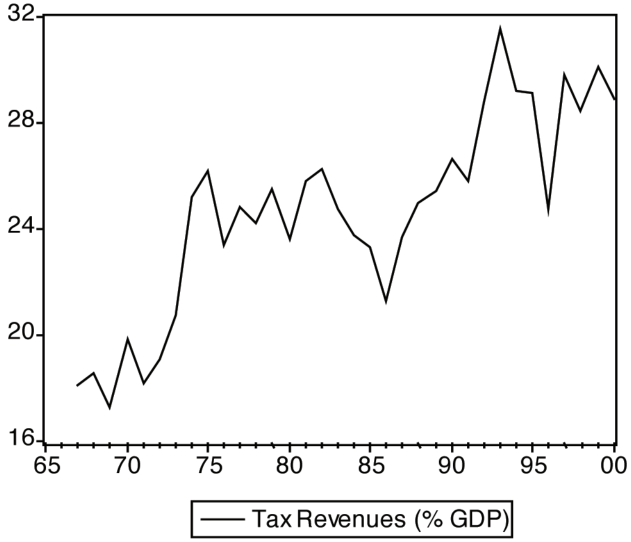

Figure 9. Evolution of tax revenues (% of GDP).

It is also interesting to note that without the petroleum levying instituted in 1986, tax revenues would have fallen dramatically since the second part of the 1980s. Indeed, following estimates of Faini (1994), this tax levying represented 2.44, 2.78, 3.26 and 2.71% of GDP in 1986, 1987, 1988 and 1989, respectively.

The speed of adjustment in the field of privatization is the slowest one in the realm of structural reforms undertaken in Morocco. A small number of public sector enterprises has been privatized from 1993 until the present. As Mansouri (1992) argues, in the case of Morocco: "Constraints of structural and institutional weaknesses still exist: embryonic situation of financial markets, insufficiency of financial resources, weakness of the local public sector, lacking of institutional capacities, etc. Consequently, structural and regulatory reforms are needed, especially the elimination of inefficient public monopolies and introduction of new competitive powers. In this framework, the competitive environment is still less developed, and, therefore, efficiency which is the main purpose of privatization, cannot improve. Privatization, in these conditions, can only reinforce refractory rent-seeking mentalities, away from creating and promoting a new entrepreneurship culture."

The speed of adjustment in this reform area is also relatively slow. A useful indicator to measure the speed of adjustment in financial sector reforms would be the real interest rate, measured here as the annualized monthly real interest rate on time deposits with maturities less than eighteen months(8).

As shown in Figure 10, in spite of a partial liberalization of interest rates since 1974, real interest rates became steadily positive only since 1985, corresponding to sounder, albeit partial, interest rate liberalization. The policy of positive real interest rates reflects the willingness and the effectiveness of policy-makers to boost domestic savings, especially through promoting time bank deposits; which are the main channel through which the domestic economy can be financed in the long-run.

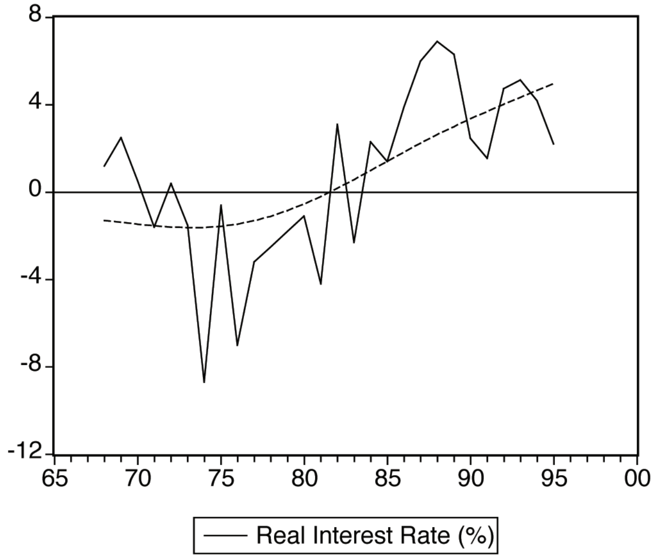

Figure 10. Evolution of the real interest rate (%).

Another channel through which long-run economic growth can be financed more efficiently is the stock market. In a reform sequencing perspective, simultaneous launching of privatization and stock market reforms in 1993 induced an increasing stock market capitalization, passing from 5% of GDP in annual average over the period 1986-1993 to more than 10% of GDP following the privatization process of 1993 (see Mansouri, 1997a, 1997b), and jumping to more than 25% of GDP in 2003. However, with the lacking of substantial further privatizations transiting through the stock market and given the refractory mentalities of the Moroccan people, stock market capitalization and the number of listed companies remain particularly stationary.

The Debate on Relevant Approaches to Reforms in Morocco: Some Main Issues

The debate between proponents of the shock therapy and those of the gradual approach, centers on the following major issues: (a) the costs of adjustment; (b) the credibility of the reform program; and (c) the feasibility of the approach. What follows is a focus on the issues of adjustment costs and credibility, with reference to the Moroccan case. The objective is to better apprehend the process of reform timing.

Timing of Reforms and Adjustment Costs in Morocco

In an unreal world where immediate adjustments of prices and non-costly reallocation of resources are possible, the optimal policy would be necessarily a simultaneous removal of all existing distortions. Unfortunately, this is not the case in the real world because reallocation of resources generates adjustment costs among different sectors of the economy. Moreover, different markets cannot adjust at the same speed to policy changes and price signals (Nsouli et al., 2002).

The debate between the proponents of the shock approach and those supporting the gradual therapy may be described as a "dialogue of hollows". They all base their arguments on lower adjustment costs. Two main hypotheses are necessary for the supporters of the idea that a shock approach to reforms is associated with lower adjustment costs through increasing reallocation of resources: the presence of rational expectations and absence of distortions. On the other hand, proponents of gradualism in the field of reforms emphasize that the big bang approach is costly in terms of adjustment costs to the extent that fast reforms may generate short-term losses, especially those associated with unemployment and income distribution effects. Consequently, this accentuates political opposition to the reform process[9].

In the case of Morocco, it is difficult for the two hypotheses of rational expectations and absence of distortions to completely hold on the macroeconomic as well as structural fronts. In conformity with the Moroccan economic, social, cultural and political reality of Morocco, the existence of rational expectations cannot be entirely admitted. Firstly, individualism is lacking especially because of the resistance of old economic and social formations. Indeed, one can observe that collective styles of life inherited from pre-colonial eras still remain predominant in the bosom of the Moroccan society. Moreover, the weakness of a modern civil society may be considered as a serious obstacle to the emergence of individualism. The latter is also hindered through the lack of an efficient educational system, generating analphabetism and ignorance.

The unsuitability of the hypothesis of rational expectations to the reality of Morocco is a support for a gradual approach to implement macroeconomic and structural reforms in the Moroccan context. This partially explains why the big bang approach to macroeconomic stabilization contains a grain of gradualism and incrementalism In spite of a certain dose of gradualism within the big bang therapy, short-term adjustment costs have occurred and even so accentuated that the hypothesis of rational expectations was lacking. For instance, in 1984, a popular and generalized unrest emerged in Morocco following a generalized increase in prices. This can be considered, in contrast with the neoclassical theory, as a reaction of the population against self-regulator mechanisms of the market. Contrary to this theory, this also means that people did not refer to the principle of equilibrating supply and demand to prices which can emerge from this balance.

The second hypothesis concerning absence of distortions cannot hold in the Moroccan case either. In an unachieved liberal economy, multiple distortions destabilize the system. From the administration of prices of goods and services, salaries and interest rates to that of exchange rates, distortions are detrimental to an optimal reallocation of resources, generating higher costs for the Moroccan economy.

The problem is that the Moroccan government multiplied distortions within the economy and economic agents have been already used to such distortions in so far as the existing distorted system would be the real world for them. Any abrupt attempt to abolish prevailing distortions would automatically lead to displeasures among economic and social operators who have benefited from advantages-based distortions. For instance, when Moroccan decision makers decided to reduce fiscal deficits through cutting public investment expenditures, corporations with powerful relationships with the government would necessarily support losses. Consequently, they would lay off a fraction of their labor force, thereby intensifying dissatisfaction and destabilizing the economic and political system. Another example concerns the removal of distortions through the elimination of public subsidies in line with a shock therapy approach. Such strategy would likely induce the deterioration of people’s standards of life.

On fiscal deficit reduction, the Moroccan government, facing political dissatisfaction from public sector labor unions and other interest groups, has been finally forced to resort to an increase of wages in the public sector, beginning in 1989, generating therefore an explosion of current public consumption.

In the economic, social, political, cultural and historical context of Morocco, people are more concerned with the short term rather than with the long-run effects of macroeconomic stabilization and structural reforms. This may explain why short-term adjustment costs due to the removal of persistent distortions, often lead to oppositions from economic and social actors. A more expressive example is the fact that limitations of hiring in the Moroccan public sector are viewed by Moroccans as an interference on basic rights of citizens. A traveler to Morocco may easily observe political demonstrations at the Parliament Palace in Rabat, of recently unemployed graduates proclaiming their rights to be hired in the public sector. What is surprising is that many of demonstrators refuse even well-remunerated positions in the private sector and continue to proclaim their political preference to work for the central government, public enterprises or local governments.

Timing of Reforms in Morocco : The Role of Credibility

As Nsouli et al. (2002) point out, the credibility of government policy and that of the reform process is particularly crucial for the success of reforms as well as for the control of adjustment costs(10). Feasibility is also essential for the reform process.

Edwards (1989) opines that: “One of the most important developments of the last decade in the theory of economic policy refers to the formal incorporation of the credibility effects into its analytical framework. A key implication of this literature is that the absence of credibility is equivalent to distortion; thus, we have to contemplate the possibility that the “incredibility” distortion will interact with the other distortion prevailing in the economy at the moment when a structural reform takes place”. One may agree with Edward’s proposition that credibility may be viewed as a distortion. However, a more operational and accurate definition of credibility consists of considering it as a situation where “private expectations about future policies do not deviate from the authorities’ explicit or implicit announcements” (Nsouli et al., 2002).

It is interesting that the degree of credibility crucially determines the magnitude of adjustment costs. The problem of such adjustment costs arise when economic agents do not align their behavior with explicit or implicit announcement of policy makers, i.e., when they consider the state as incredible. The more credible the reforms, the more rapid will be the reallocation of resources, and therefore, the faster will be the speed of adjustment. In contrast, when credibility is lacking, there will be a reluctance of agents to announced reforms, and, consequently, the longer will be the process of adjustment, more specifically in highly distorted economies.

The issue relating to the credibility as a situation where the public's behavior is aligned with the decision makers, is a crucial question for the Moroccan case. When Moroccan decision makers have engaged in wider and broad-based reforms beginning with the implementation of the Structural Adjustment Program, perhaps with good intentions, agents still consider the process as incredible. The problem is not only that of past policy mistakes but also that of falsified electoral operations, widely criticized by opposition socialist political parties.

In allusion to Aesop's fable, the Moroccan government may be compared to the "boy who cried wolf too many times when there was no wolf, and was not believed when he finally told the truth" (Tanzi, 1994). The Moroccan government would have probably learned from past mistakes; but, because it is a slow learner, by the time it has learned, it has lost much of its credibility (Mansouri et al., forthcoming). In the past, before launching the Structural Adjustment Program, because Moroccan decision makers know that policies requiring credibility have less chance to be effective, they have finally resorted to policies that need less credibility to get effectiveness. With wide programs of credibility-based macroeconomic stabilization and structural reforms within the framework of the Structural Adjustment Program, the inherited incredibility induced some adjustment costs, independently of the timing approach to reforms.

In a macroeconomic stabilization perspective, Moroccan decision makers, on the basis of a relative shock approach, have resorted to limitation of hiring additional graduates and postgraduates. The objective is to gradually eradicate excessive numbers of staff overrunning the central government, public enterprises and local governments, and describing a dramatic experience of public over-hiring in the Arab World. Because people are historically used to such an over-hiring, and such a practice generally rendered possible through nepotism, clientelism and corruption, decision makers and their announced adjustment have lost credibility, and, therefore, adjustment costs, especially in terms of unemployment, have intensified rapidly.

Another example concerns proclamation of wage increases among labor unions in the Moroccan public sector. When decision makers negatively reacted to such labor demands, arguing that Morocco is in a phase of adjustment, labor unions ironically retorted that "the government has money just to make wasting expenditures as well as to pay big salaries for highly-placed bureaucrats". In such a situation, there is no doubt that decision makers and their announced adjustment lack credibility. This explains, in the example of labor unions' demands, why public employees do not align their behavior with the authorities' explicit or implicit announcements in the reform process. This also explains the magnitude of adjustment costs in terms of strikes, diminishing production and blocking administrative activities (Mansouri et al., forthcoming).

Another issue related to credibility problems concerns tax reforms. Schumpeter (1972), a pioneering researcher in sociology of taxation, points out the fact that "the tax history of a country constitutes an essential part of its history: economic puncture operated by the state to cover its needs and the way by which the product of this puncture is used exert a considerable influence on the destiny of a nation".

In tax reforms, many of the bottlenecks are created because of the lack of credibility of policy makers and their announced tax reforms. instance, in the case of Morocco, little has been done in struggling against tax fraud and evasion. Some powerful and pro-political economic operators evade tax payments or, in better conditions, are advantaged through awarded delays in paying taxes. This often gives incentives to other operators to evade tax payments or to delay payment of taxes. This not only prevents the treasury from optimizing public revenues, but also aggravates distortions within the economy. When tax reforms are not credible, owners of factors of production also reorient their activities toward the informal sector of the economy, implicitly refusing tax compliance. Informal activities become an apparatus to evade tax payments. Because tax reforms are viewed as incredible, especially because taxation strikes randomly and make discriminations between more and less powerful socioeconomic operators, owners of factors of production often dissimulate their activities within the informal sector where it is possible not to pay taxes.

Sequencing of Macroeconomic Stabilization and Structural Reforms in Morocco

In line with existing recent literature on reform sequencing, it would be interesting to see why fiscal and monetary stabilization should occur, and was effectively occurred, early in the reform process. This issue is addressed before focusing on the most controversial question of sequencing of reforms on the structural front.

Why Should Macroeconomic Stabilization Occur Early in the Moroccan Reform Process?

To address this issue, it is important to analyze how fiscal adjustment and monetary restriction may affect the efficiency of subsequent reforms, especially reforms on the structural front. In this framework, a distinction is made between domestic sector-based reforms and external sector-based ones.

(a) Macroeconomic Stabilization First: Impact on the Efficiency of Subsequent Domestic Sector-Based Reforms. To analyze why macroeconomic stabilization should occur early in the Moroccan reform process through apprehending its possible impact on subsequent domestic sector-based reforms, it is proposed to conduct a reductio and absurdum methodology. This means simply that it is assumed that Moroccan policy makers have followed structural reforms simultaneously with macroeconomic adjustment or they have implemented structural reforms before embarking on macroeconomic stabilization efforts. Assuming that this absurdity holds, it is observed how this situation would have affected the efficiency of subsequent domestic sector-based reforms, especially in structural areas. Impact on the efficiency of structural reforms of the assumed absence or simultaneous implementation of macroeconomic stabilization is analyzed taking into account four main structural reform areas: (a) price liberalization; (b) tax reforms; (c) privatization; and (d) financial sector reforms.

As highlighted in several recent analytical and empirical works, it is now well known that fiscal and monetary expansion may result in increasing inflationary pressures (Easterly, Rodrigùez and Schmidt-Hebbel, 1994). It is now commonly admitted that price stability is an imperious necessity for the economy. When nothing is done to stabilize inflation, especially in a newly liberalized market price system, prices will certainly experience general increases and, with increasing uncertainty about future prices, they will seriously destabilize decisional plans of savers and investors (Mansouri, 2001; 2003a). Since the relative shock approach to macroeconomic stabilization in Morocco took finally much time to bring about significantly stable inflation, gradually liberalized prices experienced some increases during the 1980s, resulting in eroding real values of wages and worsening standards of life of the population.

In conformity with the reductio and absurdum approach, if Moroccan policy makers have done nothing to stabilize the price system in the early 1980s, increasing inflation would have necessarily resulted in a bad economic and social situation, especially through heating the newly liberalized prices. The reason is that monetization of fiscal deficits and even their financing through borrowing would have resulted in more dramatically increasing prices.

Unlike previous studies on determinants of inflation (see for example, Easterly, Rodrigùez and Schmidt-Hebbel, 1994; Morandé and Schmidt-Hebbel, 1991, 1994), inflation is not considered here, at least in the Moroccan case, as a simple result of fiscal deficit monetization, but may also be driven by indebtedness-based financing of fiscal deficits. As Mansouri (2003g) argues, fiscal expansion in Morocco, independent of the means of financing public imbalances, may result in increasing inflation, simply because the Moroccan public sector is empirically seen to have a propensity to consume nontradable goods, higher than that of the private sector. Thus, since public spending is a puncture on available resources which would be used by the private sector, fiscal expansion would result in increasing prices even when policy makers resort to means of financing other than fiscal monetization.

Another reform area that may require early macroeconomic stabilization is privatization. At least four reasons may be behind the sequencing of macroeconomic stabilization and privatization in the Moroccan case: (a) Price instability may destabilize economic plans of potential domestic and foreign buyers of privatizable public sector enterprises; (b) Fiscal adjustment may be considered as a rationality signal from policy makers to current and/or potential managers of public sector enterprises; (c) Privatization can enhance the readjustment of public finance in the extent that it can improve public revenues and, therefore, may sustain the already undertaken fiscal adjustment measures; and (d) Privatization can act on the structure of public spending and, consequently, it can improve the efficiency of fiscal policy reforms.

An important reason which may justify early macroeconomic stabilization before embarking on tax reforms concerns the fact that early tax reforms preceding fiscal austerity may lead policy makers to increase the tax burden on households and firms to reduce accumulating and persistent fiscal deficits. Even in the case of simultaneous implementation of macroeconomic stabilization and tax reforms, Moroccan policy-makers would have probably resorted to tax rate increases, consequently endangering the tax burden. This would have amplified the phenomenon of tax-based crowding-out of private investment in line with the paradigm of supply-side economics. Indeed, for instance, as Mansouri (2001; 2003a) argues, corporate taxes are empirically seen to negatively affect capital accumulation in the private sector. More important is that relying on increasing tax burden to restore fiscal equilibria would have heated and intensified tax dissatisfactions and revolts, and tax reforms would have failed.

(b) Sequencing of macroeconomic stabilization with respect to financial sector reforms. Within this framework, it is argued that inflation should be lowered before implementing financial sector reforms. For instance, reforms in the financial sector area aim, among other purposes, at struggling against financial repression, especially through liberalization of interest rates and efforts to render positive the previously repressed real rates. In an environment of higher inflation, it would be difficult to maintain positive real interest rates. In such conditions, investment and savings would be negatively affected dramatically. Assuming that Moroccan policy makers have not devoted sufficient efforts to stabilize inflation before embarking on financial reforms, expectations about future inflation rates would have depressed savings and investment within the bank system and the stock market.

In a context where external financing was declining following the international indebtedness crisis of the early 1980s, Moroccan policy makers aspired to attract domestic and foreign savings and investment through banks and the stock market along a new strategy of development financing. For instance, the setting up of collective investment funds aimed at facilitating attraction of investment in transferable securities with fewer risks. Had Moroccan decision makers not resorted to stabilize inflation, uncertainty about future inflation would have resulted in the reluctance of domestic and foreign investors of buying stocks and shares through such investment funds.

Another important idea concerns the prerequisite necessity of reducing fiscal deficits before implementing financial sector reforms. Indeed, fiscal deficits may be considered as the manifestation that the public sector 'levies' financial resources which may be more efficiently used by the private sector.

For example, had Moroccan policy makers not resorted to reduce fiscal deficits before conducting financial sector reforms, issuing of government bonds and their transition through financial markets would have competed with the private sector-issued stocks and shares. Since private economic agents in Morocco view government assets as relatively risk-free, such competition would have resulted in a direct crowding-out of long-run financing of private firms through the financial market. Even with decreasing fiscal deficits, one can observe that increasing domestic public debt stocks in Morocco has recently resulted in the crowding-out of private economic activity either through competition with private stocks and shares in the financial market or indirectly through increasing interest rates (financial crowding-out of private investment).

(c) Impact of Early Macroeconomic Stabilization on the Efficiency of Subsequent External Sector-Based Reforms. Obviously, since fiscal and balance of payments deficits may be seen as twin imbalances, equilibrium in these two areas should be restored simultaneously. Effectively, as Mansouri (2001a, 2003a, 2003d) maintains: trade as well as current account surpluses in Morocco, are positively and significantly linked to fiscal surpluses, in line with the Keynesian absorption (financial or budgetary) approach to the balance of payments. However, unlike certain previous simplistic statistical/descriptive studies in this area, Mansouri continues to point out that fiscal and external deficits in the Moroccan case are seen to be bidirectionally linked. This empirical finding confirms that fiscal and external deficits should be tackled simultaneously as highlighted in the Moroccan macroeconomic stabilization process.

(d) Sequencing of macroeconomic stabilization, exchange rate devaluation and trade reforms. It is now well known that what matters more is not nominal devaluation but depreciation of the currency in real terms. Therefore, if fiscal and monetary measures devoted to stabilize inflation have not been taken early in the 1980s, the real exchange rate would have appreciated. As data on the real exchange rate in Morocco show, substantial nominal devaluations unambiguously result in weaker real devaluations when domestic prices rise more rapidly in comparison with inflation in main trade partners of Morocco.

For instance, in 1984, in spite of a substantial nominal devaluation of more than 40%, the real effective exchange rate experienced a devaluation of only 5.7%, especially because the rate of inflation - measured as the rate of growth of the consumer price index - reached a value of more than 12%. Similarly, inflation was about 8% in 1985, increasing more rapidly than in Morocco’s main trade partners, and, even with a second substantial nominal devaluation in that year, the real effective exchange rate experienced a devaluation of only about 6.7%. When inflation became relatively stable in the early 1990s, the real effective exchange rate started to become more stable. Paradoxically, from 1994 and onwards, in spite of a continuing stable inflation, the real effective exchange rate began to experience some appreciation, especially because of lacking nominal devaluation.

In a trade reform perspective, it is obvious that an appreciating real exchange rate is detrimental for exports. Simple data investigations show that real exports, measured as the nominal value of exports divided by the index of the mean value of exports, are negatively and strongly correlated with the real effective exchange rate. Indeed, the estimated correlation is about –0.80. Regressing real exports on the real effective exchange rate and real GDPs of Morocco’s main trade partners, yields results confirming the fact that real devaluation boosts exports and increasing real incomes abroad boost them as well. All these empirical results demonstrate that trade reforms should go hand in hand with real devaluations albeit such real devaluations lead to increasing prices of imports and looking-up debt service. Since what matters more is not nominal but real devaluation, a macroeconomic stabilization aimed at stabilizing inflation is needed well before embarking on exchange rate devaluations.

Another issue confirming the robustness of the sequencing of macroeconomic stabilization and trade reforms concerns the fact that simultaneous implementation of exchange rate devaluations and trade liberalization without fiscal adjustment, may fail to boost exports. The reason is that accumulating and persistent fiscal deficits would appreciate the real exchange rate. Since deteriorating balance of payments current surpluses are the expression of the fact that domestic absorption is exploding and the Moroccan public sector propensity to consume non-tradables has been empirically seen to be more than that of the private sector, increasing public sector absorption results in appreciating real exchange rates(11). The problem is that Moroccan policy-makers undertook real devaluations successively in 1984 and 1985 (and later in 1990) before sufficiently stabilizing inflation. The product of such misleading sequencing was that substantial nominal devaluations were neutralized through increasing inflation. This resulted in insufficiently increasing exports, and real devaluation - considered as an implicit tariff on imports - was insufficient to stop imports, especially after their gradual liberalization.

Another sequencing problem concerns the fact that Moroccan policy makers conducted trade liberalization, even gradually, before undertaking sufficient macroeconomic stabilization. In the literature on reforms, there is a strong support for initiating stabilization before embarking on trade reforms[(12)] Insofar as inflation was not sufficiently stabilized during the eighties, trade reform in Morocco was taking place under relatively wrong market signals. Resources were directed less efficiently. For instance, relatively high and variable inflation rates during the 1980s would have confounded changes in relative prices with the general price movements, generating therefore some distortions through sending inappropriate signals to the market. Moreover, since trade reform in Morocco necessitated large nominal devaluations, inflation would have been relatively increased in an environment where fiscal and monetary policy had been insufficiently tightened. For instance, following the substantial nominal devaluation of the dirham, decided in1984, inflation jumped from 6.16% in 1983 to 12.2% in 1984. Over the period 1982-1986, the annual average inflation rate was about 9.2% before experiencing a net stability afterward with an annual average inflation rate of only about 4% over the period 1987-2000 even though inflation jumped in early nineties following the nominal devaluation of 1990.

Early trade reform undertaken before sufficiently stabilizing macroeconomic indicators would also result in decreasing efficiency and thus hindering the build-up of political support to sustain the reform effort. Even currently, many Moroccan private firms, such as textile corporations, disappeared and others would probably disappear from the exporting industrial sector because of some mistakes in the sequencing of reforms.

Sequencing of Structural Reforms in Morocco

In previous developments, the focus was on the necessity for macroeconomic stabilization to occur early before conducting structural reforms. While such sequencing had been generally respected in the Moroccan reform process, nothing had been analytically and empirically done among the community of researchers to appreciate how well the macroeconomic-structural sequencing has been conducted to yield successful reform outcomes. This paper now addresses the question related to the sequencing of various structural reforms in Morocco, to wit: (a) The sequencing issues of price liberalization, privatization, tax reforms as well as financial sector reforms and (b) Issues related to trade reforms, exchange rate policy and industrial restructuring.

(i) Sequencing of Price Liberalization, Privatization, Tax Reforms and Financial Sector Liberalization. There are many arguments supporting the hypothesis that price liberalization, privatization and financial sector reforms are closely linked. In this sense, in an environment where prices are distorted, markets are not functioning correctly, private and/or public corporations are inefficient and financial markets are repressed, price liberalization alone will not create the appropriate incentives for removing distortions and improving productive and allocative efficiency.

While price liberalization is crucial for improving efficiency within and across sectors, it should be completed by privatization and financial sector reforms which are major keys for a properly functioning market-oriented economy. Without a true market price system, performances of firms in terms of profits and their counter-performances in terms of losses are unable to transmit signals about what industries should expand and which of them should shrink. However, without completing such price liberalization by privatization and financial sector reforms, reform outcomes in terms of removal of distortions and improvement of efficiency would be less successful.

While initial conditions differ across countries, many analytical and empirical works emphasize the necessity that price liberalization should precede or be implemented simultaneously with privatization. However, at least in the Moroccan case, it may be argued that it was almost impossible to implement privatization in the early 1980s and in conjunction with price liberalization in an environment where the entire preconditions for a true market-oriented economy were still lacking. In particular, the following preconditions for efficient privatization were then lacking: (a) A well-functioning institutional environment encompassing modern legal and regulatory frameworks; (b) An institutional framework advantaging efficient information systems (like accounting and auditing); (c) The full right to unrestricted acquisition of private ownership; and (d) The full protection of the freedom to carry out economic activity by an efficient and credible legal system involving sanctions and redress. The interviews of policy makers indicated clearly that true reforms in Morocco began in the early 1990s after ensuring the necessary macroeconomic adjustment.

In addition to the above cited preconditions, early privatization in conjunction with price liberalization would have needed deeper financial sector reforms. Financial sector reforms need lasting preparatory work and stronger state capacity to be implemented in due time. Perhaps, such a state capacity would have been needed to resist powerful interest groups like the Groupement Professionnel des Banques au Maroc (Professional Group of Banks in Morocco). Refusing market-based determination of interest rates and preferring agreement-based fixation of interest rates, such an influential banking lobby would have continued to maintain a bank system functioning like a quasi-cartel as well as to contribute to slow adjustment in the financial sector area, especially through imposing partial and gradual interest rate liberalization. When bank and stock market reforms began to be implemented in 1993, the privatization process started to be conducted as well. In such timing conditions, privatization was implemented gradually in conjunction with reforms of the stock market through which major operations of privatization transited.

(ii) Analysis of the sequencing of privatization and financial sector reforms within the two sectors (in-house sequencing). As recent literature on this research area points out (Dornbusch, 1991; Mckinnon, 1991), it is often unfeasible to simultaneously privatize all state-owned enterprises. It is therefore crucial to design and implement an optimal sequence of reforms. Formally, it may be argued that the medium and long-run relationship between the number of privatized pubic sector enterprises and privatization outcomes in terms of productive and allocative efficiency may be analyzed as a typical Laffer curve. In this sense, with increasing number (N) of privatized public sector enterprises, efficiency starts to increase in a first period, and, over time, starts to fall after reaching its maximum. The reason behind this inverted U-curve is that a simultaneous privatization of greater number of public sector enterprises finishes over time to fail to improve efficiency, especially because of the lacking of legal and regulatory frameworks and prerequisite restructuring of public sector privatizable enterprises (Mansouri et al., forthcoming).

In the Moroccan case, decision makers began the process of privatization by privatizing large and profitable enterprises. While the reason behind this choice was that larger and more profitable enterprises may be privatized with less efforts of restructuring and bring about significant exceptional revenue for the government, such sequencing within the public sector enterprises was done with some political opposition, at least within the Parliament and among trade unions. This may partially explain why the process of early privatizations took much time to be implemented as well as why the process was delayed in early 1990s until the early 2000s.

On the sequencing of financial sector reforms, it is interesting to note that many recent studies have argued that financial development may actively contribute to promote investment and long-run economic growth (Levine and Zervos, 1996; Mansouri, 1997b; Khan and Senhadji, 2000). However, empirical studies in this research area often forget the fact that financial development and long-run economic growth may be bidirectionally linked. In this sense, financial development may be needed to foster economic development, but financial development itself needs a reasonable level of economic development to occur in terms of changes in the financial structure (transition from direct to indirect finance).

Financial sector reforms include reform efforts not only in areas such as money, exchange and stock markets, but also regulatory and structural reforms. The following elements may constitute the essential of reforms in this area (Nsouli et al., 2002): (a) Reform of the interest regime and monetary operations; (b) Development of the banking system; (c) Strengthening of money and interbank markets; (d) Enhancing of competition among financial markets; (e) Fostering of long-term capital markets; and (f) Development of foreign exchange markets.

Even tax reforms should be implemented early in the reform process and in conjunction with macroeconomic stabilization, price liberalization, privatization and financial sector reforms. The reason behind this sequencing path is that inefficient tax system is itself a source of distortions. For instance, a tax system which randomly strikes economic agents is detrimental to economic activity because it distorts economic plans and perturbs expectations of owners of factors of production. Since the unreformed tax system is distortionary, it may penalize specific activities or assets "without a clear public-externality justification" (Loayza and Soto, 2003) The distortionary unreformed tax system may create uncertainty for a variety of economic activities, discourage high levels of effort and investment and generate incentives to undertake wasteful activities devoted to tax evasion and avoidance. Thus, embarking directly on structural reforms, especially price liberalization, privatization, trade liberalization and financial sector reforms, without reforming the distortionary tax system, would lead to unsuccessful reform outcomes.

The relative success of partial privatizations and financial sector reforms in Morocco has certainly something to do with early implementation of tax reforms. The reason behind this idea is that the removal of tax distortions through tax reforms would have helped to provide economic operators with incentives to be involved in the privatization process as well as in financial sector liberalization.

However, as already noted, early implementation of trade liberalization before deeper tax reforms in Morocco resulted in losses of revenue for the Moroccan government. Such revenue losses were simply due to deep cuts in import and export taxes. Without instituting a ‘special tax on imports’ and ‘oil levying’, tax revenue would have dramatically fallen. This confirms the proposition that the speed with which the Moroccan government might restructure the tax system and broaden its base, should be a major determinant of the optimal speed of trade reforms.

(iii) Sequencing of Trade Reforms, Exchange Rate Policy and Industrial Restructuring. Trade reform is perhaps the most controversial topic in terms of timing and sequencing. Although it has been extensively debated in the recent literature, no full agreement on speed and sequencing has occurred. Nevertheless, numerous theoretical and empirical studies have agreed on the benefits of dismantling trade barriers, especially quantitative restrictions at the initial stages of reform(13). The reasons behind this sequencing proposition are:

- The arbitrary nature of many quantitative restrictions creates uncertainty for consumers and producers;
- Quantitative restrictions create distortions that reduce efficiency in domestic production and dampen competition in the domestic market;
- Quantitative restrictions support the development and maintenance of monopolies, and quotas often lead to rent-seeking and corruption in the allocation of rights to imports.

Given that other structural reforms such as price liberalization, privatization and financial sector reforms aspire to reduce uncertainty for consumers and producers and to promote transparency and efficiency, it is illogical to maintain distortionary trade restrictions or to sequence them later after embarking on other structural reforms. This supports actions of the Moroccan government when it started to gradually implement the removal of trade restrictions before conducting other structural reforms. Since these structural reforms aim at enhancing efficiency of production and promoting competition, maintaining trade restrictions would have resulted in conflicting finalities. In other words, persistent trade restrictions would have annulled positive outcomes of other structural reforms. Finally, since other structural reforms aspire to produce a healthier domestic economy, trade restrictions-generating illegal practices would have infected the reform process in other areas such as price liberalization, privatization and financial sector reforms.

On the sequencing of trade reforms in relation to exchange rate policy, it is interesting to note that trade reform often requires large nominal devaluations like in Morocco in 1984, 1985, 1987 and 1990. As known among economists, devaluation boosts exports because it lowers their prices in foreign currencies and reduces imports because it increases their prices denominated in domestic currency. In this sense, the rate of devaluation seems to work like an implicit tariff rate on imports. However, while devaluation may contribute to the reduction of imports in the short run, its impact on exports takes longer time to materialize. Positive effects of devaluation on exports necessitate a diversified structure for the domestic economy. In a context where exports consist of primary goods with prices determined at the level of international markets, or a reduced number of manufactured goods, devaluation would impact exports only slightly. Another issue concerns impact of real depreciations on the domestic economy. While such depreciations may contribute to boost exports, they may also lead to a fall in real wages unless they are offset by a rise in living standards through reduced protection. Unfortunately, this is not the case in Morocco where social inequalities are widening, poverty is increasing and unemployment is intensifying.

Reform Outcomes in Morocco: The Need for Political and Institutional Reforms

What is more important in the Moroccan reform process is that how reforms are designed, implemented and evaluate how they perform. The following section deals 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 by macroeconomic stabilization and structural reforms, would have resulted in excellent economic reform outcomes.

Inefficiency of Macroeconomic Stabilization and Structural Reforms

(a) Inefficiency of Macroeconomic Stabilization. As already noted, fiscal austerity in Morocco consists of reducing public expenditures in a politically feasible way. While the Moroccan economy should be subjected to appropriate adjustments because of multiple disequilibria it suffers from, reforms, especially on the fiscal front, have been conducted in a way 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 have resorted to cutting public investment spending.

Using multiple analytical and empirical approaches, previous studies have revealed how fiscal reforms in Morocco were manifestly inefficient (Mansouri, 2000; 2001; 2003a; 2003b; 2003c; 2003e; 2003f). While current public consumption is seen to crowd out private consumption and investment and to hinder economic growth, this kind of public spending was maintained and even sustained. On the other hand, 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 and even sustained, 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.

(b) Obstacles to Structural Reforms. 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. Well-functioning markets for goods and services in a situation of price liberalization obviously require an active competition policy (Mansouri, 1992). 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. Following these considerations, Moroccan policy makers adopted a competition policy to ensure existence, freedom and loyalty of competition, which are indispensable conditions for price liberalization.

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. 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.

Concerning privatization, as already noted, only relatively profitable public sector enterprises have been transferred to the private sector. This may contradict the fact that the rationale behind privatization is that the private sector is more rational than the public sector. Normally, based on 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 Moroccan policy makers aim at maximizing exceptional public revenue from privatization, not at improving productive and allocative efficiency through the operation. While such extra revenue from privatization has 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 the liberalization of the economy.

While privatization of less profitable public sector enterprises is extremely urgent in the case of Morocco, it is vital to know why the privatization process resulted in poor outcomes in terms of delaying the process over time. As pointed out by Campos and Esfahani (1996), “Government interventions cannot be divorced from issues of redistribution, because it is partly through redistribution that a regime sustains itself”. In the real world of politics, redistribution does not necessarily mean a transfer of wealth from rich to poor. It really means the transfer of wealth from the less powerful to more influential groups.

When the Moroccanization process was conducted in the 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 have 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 may 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 (Mansouri et al., forthcoming).

On tax reforms, Loayza and Soto (2003) posit that "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 this study of tax reform outcomes, namely: (a) the ratio to GDP of total taxes; (b) the ratio to total taxes of taxes on international transactions; and (c) 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, op. cit.). As for the third indicator, it represents efforts of decision makers in raising income taxes for purposes of income redistribution.

As already noted, it may be noted that following tax reform measures beginning in 1986, tax revenues did not improve well until 1991. Over the period, tax revenues were generally stationary, with an annual average of about 21% of GDP. However, tax revenues slightly improved since 1992, corresponding to the end of the debt rescheduling, with an annual average of about 25% of GDP over the period 1992-2000. As already argued, 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% of total taxes and 4.4% of GDP. Following the implementation of tax reforms in 1986, taxes on international transactions amounted to 16.15% of total taxes and 3.7% 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 calculations, direct taxes are estimated to be about 12.6% of total taxes and 2.6% of GDP from 1970 through 1985 in annual averages. Following the implementation of tax reforms since 1986, direct taxation slightly improved with values of about 15.6% of total taxes and 3.8% 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.

(c) Outcomes of financial sector reforms. In this reform area, one can observe how much efforts from decision makers have yielded 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, outcome indicators matter more in this reform area(14). As highlighted by Loayza and Soto (2003), 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 may be considered. From 1960 through the end of 1983 - date when financial reforms were started to be gradually implemented - the sum of money and quasi-money was estimated to be around 40% of GDP in annual average, with 36% for money and only 4% of GDP for quasi-money. Over the period 1984-2000, the sum of money and quasi-money was estimated to be around 64% of GDP in annual average, with 48% for money and 16% of GDP for quasi-money.

This distinction between money and quasi-money is interesting, especially in developing countries. As 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 savings in the banking sector. While relatively liquid money heavily dominated monetary aggregates in Morocco before the initiation of incremental financial sector reforms in the early 1980s, 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 the Casablanca Stock Exchange. While the number of listed companies has remained relatively stable in the early 1980s until the beginning of the 1990s, the stock market capitalization experienced a really big bang, passing from an annual average of 5% of GDP during the period 1986-1993 (Mansouri, 1997a) to nearly 25% of GDP in 2003 (Bourse des Valeurs de Casablanca, Stock Market Statistics, 2003). However, most of the boom in stock market capitalization is due to privatization.

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 compared to outcome indicators with available data in some developing countries, especially in South-Eastern Asia and Latin America (Mansouri, 1997a; 1997b; 1999c).

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

Loayza and Soto (2003) opine: "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 was estimated to be around 38% 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% 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.

As Loayza and Soto (op. cit) argue: "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".

This outcome indicator may be termed the "ratio of trade openness". It may be argued 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 the 1980s, the ratio of trade openness experienced early decreases of about 1.62 and 2.74 percentage points in 1985 and 1986 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 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. It may also be noted 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.

Need for a Second Generation of Reforms

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, bad performances of the Moroccan reform process seem to be explained by the fact that institutional and political reforms (the second generation of reforms) have not been accompanied by macroeconomic stabilization and structural reforms. The Moroccan government, as well as international financial institutions and partner countries in Europe and elsewhere, are aware that outcomes and results of economic reforms crucially depend on the institutional, political, social and cultural context. This suggests 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 1990s and early 2002(15). In a situation of autocracy, political repression, weak state capacity, bad governance and weak civil society, economic reforms cannot yield successful results.

(i) The Driving Role of Democracy, State Capacity and Governance. It seems that poor reform performances are partially due to an inappropriate and resisting institutional and political environment. Reform of political institutions may be interpreted as building a capacity for economic reform because political institutions ultimately determine the 'rules of the game" (Liew and Bruszt, 2003). All reforms of the second generation are linked to the concepts of democracy, state capacity and governance. Reform is certainly a political act and, consequently, there is no sense in dealing with reforms without taking into consideration the driving role of democracy.

Democracy and participation are essential for successful reforms. Democratization permits the gathering of consensus necessary for sustainable reforms as well as for economic, social and political stability. However, what matters is not to 'democratize to democratize' but to improve the quality of public institutions(16). 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) posit, democracy is a system where governments can lose elections. Unfortunately, right-wing political parties always won the elections until 1998 when left-wing political parties formed a government, but only in coalition with old right-wing political parties. It is relevant to say that bad administrative and political governance is largely due to the absence of real democracy even if 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 are seen to crowd out them, bad governance will be indirectly considered as bad for growth(17). Bad governance also occurs through dilapidation of public resources, particularly through "over-invoicing", non-respect of rules related to public transactions, etc (Mansouri et al., forthcoming).

As Isham (1997) points out: "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: (a) What; (b) How; and (c) How well. In the reform process, it is important to know what the public decisions are, which affect the allocation of public expenditures, especially public investment, and determine incentives for all other actors (Isham, op. cit.). 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 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. Such institutions crucially depend on administrative and organizational factors: (a) efficiency in collecting information; (b) efficiency in the organization of decision making; (c) efficacy in allocating tasks between executive agencies of economic reforms and policies; and (d) transparency of financial measures of the government, including audit.

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. State capacity may be defined as "the ability to undertake and promote collective actions efficiently". [(18)] As for the effective state, it may be defined as a state where ambitions are matched with capabilities.

According to Liew and Bruszt (2003), there are four types of 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. Because state capacity, as defined above, is not fully well guaranteed in Morocco, reform outcomes on the macroeconomic as well as structural front are below what is initially expected (Mansouri et al., forthcoming).

As Ruis and van de Walle (2003) argue: "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 interviews with certain Moroccan policy makers, among others, the 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. It would likely allow Moroccan decision makers to revise already 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.

(ii) The Major Role of Civil Society in the Reform Process. Counter-performances in macroeconomic stabilization and structural reforms may also be explained by the 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 great importance. For instance, stronger civil society is needed for efficient further privatizations, promotion of the "entrepreneurship spirit" and "people's share of ownership". Also crucial would be its role in influencing public decisions in political and institutional reforms. Unfortunately, at least in the Moroccan case, the emergence of a real civil society faces major challenges. It is important to mention the following challenges: (a) the neo-patrimonial nature of the Moroccan state; (b) the lack of "citizenship mankind"(19) ; and (c) 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 (Mansouri et al., forthcoming).

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. A market-oriented economy system needs a situation where economic agents do not expect the government to respond to all their needs. Paradoxically, this is not the case in Morocco. For instance, people tend to associate increasing prices not on demand and supply mechanisms, but to the fact that the state does not assume its responsibility in regulating prices. In the perception of the Moroccan people, the state has to play its role in regulating not only the economy but also the social sphere, i.e. distribution of benefits, clientelism, etc. 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[20].

As Bernoussi (2000) points out, the major characteristic of the Moroccan is that he is often away from all forms of institutional contracting. According to the Conseil National de la Jeunesse et de l'Avenir , only 18% of interviewed urban youth understand the meaning of the term 'association' against only 10% of rural youth, with only 14% of urban and 6% 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% of urban youth and 50% 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. Pascon (1967), the renowned 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 Morocco. It is now well known that 'private sector' organizations exist in the Arab World in general and in Morocco in particular. However, such organizations are different from what is known as civil society in the developed World. Simple terminological investigations clearly show how differences are manifest. 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 (Mansouri et al., forthcoming).

In the framework of civil society, among the emerging associations, one can mention feminist associations. After efforts devoted during the 1990s to defend women rights in a patriarchal society, feminist associations obtained timid amendments of the Mudawana [21]. in 1997. Bad performances in this reform area are essentially due to a resisting religious milieu. Following the enthronement of the King Mohammed VI, a new relatively revolutionary familial code has been promulgated. Without the arbitrage of the King, such code would not have emerged.

Concluding Remarks and Policy Implications

In addition to the speed of adjustment and sequencing associated with reforms, it is argued that reform outcomes in Morocco may be due to the fact that economic reforms have not been accompanied by political and institutional reforms. The speed of adjustment and sequencing of reforms are strongly linked to political economy issues which have received less attention among the academia and policymakers. Among the components of political and institutional reforms, it is important to mention efforts to enhance democracy, governance, state capacity and civil society.

Since reforms on the political and institutional fronts may affect the willingness and ability of the bureaucrats to continue to extract rents and to benefit from corruption and briberies, the bureaucracy has been seen to block the reform process in these areas, especially through advantaging the slowness of laws and their implementation. Even under the government changeover during the period 1998-2002, reforms of the second generation have experienced a particular slowness. The ruling elite is also a powerful stakeholder which may affect and be affected by reforms of the second generation. While a coalition government was set up in 1998, some key ministerial departments, known as sovereignty ministries, e.g. the Ministries of Interior, Justice, Foreign Office, Religious Affairs and the powerful General Secretariat of Government, remain under the direct control of the Royal Palace.

The implicit hypothesis of Moroccan decision makers seems to be that the causality runs from economic policies to institutions rather than the other way around. Extra-economic factors play major roles in altering the expected objectives of reforms. Sociologically speaking, the ‘social and societal issues’ may play a major role in the Moroccan reform process. Social institutions, organizations and structures are particularly important. In Morocco, the tendency is to expect that all the components of the society have the willingness and capacity to comply efficiently with reform demands. Moroccan decision makers and political parties often tend to forget that social institutions, organizations, structures and components all have some conditions to comply with reforms. Such conditions have to be taken into account in the reform process. If certain existing conditions are seen to hinder reform efforts, they should be apprehended, corrected and reformed.

Footnotes

(1) On this issue, see previous works by Mansouri, 2000, 2001, 2003a, 2003d.

(2) For details on the measurement of fiscal surpluses in Morocco and a sample of developing and developed countries, see Mansouri (2001, 2003a).

(3) In Morocco, the structural adjustment program, coupled with external debt rescheduling, started in 1983 and ended in late 1992.

(4) On sustainability of fiscal deficits in Morocco, details may be found in Mansouri's previous studies using the accounting approach as well as the present value constraint approach to fiscal sustainability and solvency (Mansouri, 2001, 2003a).

(5) This means that inflation in Morocco became lower and comparable to inflation rates observed in the European main trading partners.

(6) It is interesting to stress that inflation in Morocco, in comparison with other countries with inflationary tradition, has never reached the level of inflation-maximizing seigniorage, estimated to be around 20%, corresponding to a maximum of money creation (seigniorage) of about 4% of GDP.

(7) However, as will be seen later, "social learning" from past reforms in other countries cannot be considered as the sole reason of a gradual approach to financial reforms. Resistance of bank trade unions, as powerful interest groups, may also have something to do with slow reforms in this area (Mansouri et al., 2006).

(8) See the data base on interest rates in a sample of developing countries, in Easterly, Rodrigùez and Schmidt-Hebbel, 1994.

(9) On this issue, see the pioneering work of Little, Scitovsky and Scott, 1970.

(10) See also Bhattacharya (1997).

(11) On this issue, see Mansouri (1999d ; 2003f).

(12) See for example, Sachs (1987).

(13) See for example, Nsouli et al. (2002).

(14) On this important distinction between policy and outcome indicators, see Loayza and Soto, 2003.

(15) Mainly interviews with Central Directors in the Ministry of Finance and Privatization, Statistics and Plan, advisors of Ministers, political scientists, leaders of political parties, etc.

(16) It is extremely difficult to introduce democracy in a country where illiteracy rates are high. It matters to raise questions about the perception of democracy among the Moroccan people. Democracy in Morocco tends to be an "imported product", i.e., 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 (Mansouri et al., forthcoming).

(17) See Mansouri, 2003b.

(18) See also Bicanic et al., 2003; Ruis and van de Walle, 2003.

(19) This means that the Moroccans do not generally feel as true citizens belonging to a society.

(20) On effects of cultural factors on the reform process, see for example Ruis and van de Walle, 2003.

(21) In Morocco, the Mudawana is the legal framework organizing the relationships between men and women within the family.

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