Economic Reform in Morocco: Stabilisation versus Adjustment

Introduction

Morocco has undergone more than two decades of economic reform supported by IMF and World Bank policy-based lending. This has led to a paradox: despite reform, sustained export-led growth has not been achieved. After an initial recessionary period between 1983–5, reform seemed to pay off in terms of a significant period of export-led growth and employment creation, especially in the manufacturing sector. However, this could not be sustained into the 1990s when growth again stagnated and unemployment and poverty rose. More recently, since the late 1990s there has been yet another growth upswing. However, much of this growth has been fuelled by domestic demand financed by tourism revenues and migrant remittances, although there are some signs of export diversification, especially in the service sector. Sustainability is also called into question by the fact that the recent growth has been extensive, that is, based on increased factor inputs especially capital, rather than intensive, that is, based on productivity improvements.

There are several factors which might help account for the above paradox. Firstly, throughout the reform period, whenever demand reducing stabilisation policies of the IMF came into conflict with supply enhancing policies of the Bank’s structural adjustment programme, the former prevailed. For example, when fiscal consolidation conflicted with trade liberalisation in the form of tariff removal the latter was sacrificed by the Bank. Likewise the Bank has been unable to secure competitive devaluation in the face of IMF objections. More recently the Bank has wanted to support the government in a more activist and heterodox industrial sector strategy but has had to hold back in the face of IMF concerns for the fiscal deficit.

Another explanation for the paradox rests in emergence of Bank over-optimism and complacency in the 1990s and the fact that since the early 1990s the Bank has lost leverage in Morocco as alternative sources of funding have
become available to the authorities. Bank complacency was facilitated by a politicisation of the lending process at the end of the 1990s, whereby the Bank granted a large policy-based loan with little conditionality to Morocco in support of the new monarch and his more politically open regime.

**Boom and unbalanced growth 1970–83**

During the 1970s and early 1980s, Morocco followed the typical developing country development strategy of high protectionist barriers and an overvalued exchange rate to stimulate domestic industrialisation, accompanied by a dominant role for state investment. The development strategy involved heavy state investment in irrigation, the phosphate sector and infrastructure. The policies have been described as a period of ‘Moroccanisation’ (World Bank 2006 p.1) consisting of import substituting industrialisation (ISI), a drive for agricultural and food self-sufficiency, restriction on foreign ownership, national control over natural resources, and public sector involvement in large capital intensive and heavily protected industries.

Despite the central role given to the state, Morocco did not pursue an avowedly socialist policy like many of its neighbours and Moroccanisation was stated by political leaders to be neither nationalisation nor étatism. Rather, state involvement in large investments was needed due to the lack of large private capital after independence in 1956, but at the same time the government encouraged the private sector and private sector investments. This neo-mercantilist approach involved state control over trade and market-based exchanges whilst at the same time guaranteeing monopolies and privileges to those who supported the state and the monarchy. In particular, the Moroccan state encouraged the success of the commercial bourgeoisie and urban and rural notables, a key component of its support, through tariff protection, subsidies, the creation of agencies to offer cheap credit and state purchase of their outputs. These favoured families, in whom wealth was concentrated, came to form powerful *de facto* lobbies against future reform.

Morocco also embraced a multi-party political system after independence. Following popular unrest and two aborted military coups in 1971 and 1972 the ruling élite followed a populist distributive policy designed to promote social welfare, of which public expenditure on education and subsidies constituted a major part. Following the attempted coups, the state also embarked on an agrarian land redistribution programme, including the reclamation of foreign-owned land, which led to the redistribution of 400,000 hectares between 1973 and 1977. This represented an attempt by state and monarchy to widen its support in the countryside as well as an attempt to stem the rapid rural to urban migration.