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Economic and Social Policies of Transition: The Case of Morocco

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Any review of the political economy of democratic transition periods from the Moroccan, Maghreb or Arab perspectives, compared to the more significant experiences in today's world, invariably takes us back to the relatively old issues of democracy's economic foundations, correlations between economic and democratic development, and the relationship between economic and political liberalisation.

It also takes us back to the link between the economy and political reform, the impact of public economic policies on the so-called "democratic" political system, and the role of economic stakeholders in the democratic process.

It is obvious that the issue is more complex than the mere relationship between the economic world, within a specific context (structures, standards, climate, variables, powerful forces, individual and collective stakeholders, economic situations, attitudes and behaviour), and the so-called political reform process, regardless of how laudable democracy is. Could democracy prevail regardless of the economic conditions on the ground?

Economic/democratic realities seem to be closely associated with the social and economic context in which they are applied; in other words, to its foundations and contents, and to constraints brought about by the conditions of exchange (goods and money). It is the path leading from a simple transfer of systems promoted by international development agencies, and their arsenals of standards, tools, and national and international mechanisms, to the application of locally initiated systems. It has to do, in fact, with issues of political power and available economic resources.

The pace of economic reforms, and transition
In the past two decades, the Moroccan economy witnessed structural reforms

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pertaining to liberalisation, privatisation and budgetary austerity. The first wave of reforms had to do with a set of adjustments to mitigate the impact of market mechanisms in what was still a highly centralised economy (liberalisation of prices, mainly interests; abolition of controls over foreign trade and investments; privatisation, etc.). The second wave of structural reforms tried to promote a more competitive export system. The latter wave of reforms tried to adjust the relationship between the State and the private sector, and strengthen the rule of law in the relationship between private and public stakeholders. The adjustment process went on to speed up and deepen the commercial liberalisation process, reform fiscal systems, adapt commercial legislation, expand the privatisation policies of public companies, gradually withdraw from intermediation processes, and open up to international inflows of funds.

Several concrete measures to liberalise trade through the conclusion of a number of international agreements were adopted, including the 1996 Association Agreement with the European Union, which came into effect in 2000, and the Agreement with the United States of America, in 2004. Moreover, new regulations and diligent supervision of financial systems were put in place thanks to new legislation that organised the banking sector and the Central Bank, and restructured several banks in difficulty. We should also add that the gradual privatisation of the telecommunications companies, and granting a second mobile phone licence, have resulted in considerable economic benefits. In 2004, over half the budget deficit was covered by revenue from privatisation, although as of 2006, these revenues had started drying up.

Additional measures strengthened these initial waves of reform. They included the issuing of a new decree regarding the conclusion of public deals, the launch of a process of judiciary reforms that included, in particular, the establishment of commercial tribunals, and the adoption of new laws to regulate competition and price liberalisation.

On the other hand, international financial organisations and the World Bank, among others, believe that there were serious stabilisation efforts to reduce the disequilibrium in the budget. Measures related to revenues and expenditures have kept the budgetary deficit relatively low, at 3% of the Gross Domestic Product (GDP), and prudent policies in general, have helped maintain a fixed rate of exchange. On the other hand, the adjustment of the basket of currencies that underlies the exchange rate, in 2000, has provoked a 5% de facto devaluation of the Dirham.

Favourable elements came to support these measures; emigrant remittances, revenue from tourism and direct foreign investments linked to privatisation, helped provide banks with cash and considerable amounts of currency reserves. This caused reserves to more than double, rising from 4.6 months of imports in 2000, to 10 months of imports in 2004. Remittances of Moroccans living abroad have, since 2001, increased national savings and engendered successive surpluses in the current account. In 2003, these remittances accounted for 8.2% of GDP.

Moreover, the external public debt has been decreasing, dropping from 34% in 2000 to 16% in 2004, even if this percentage is still quite high; conversely, and during that same period, the internal debt rose from 42% to 51% of GDP. On the global level, and despite the considerable budget deficit, Morocco has reduced its direct total public debt from 76% of GDP, in 2000, to 67% of GDP in 2004. Credibility lost as the result of debt rescheduling seems to have been restored by the end of the 1990s. The way the market perceives the Moroccan economy seems to have also improved, thanks to relatively good debt management, a low level of inflation, solid external reserves and structural reforms on the ground.

In this positive atmosphere, the country's savings and investments increased. Between 1995 and 2004, national savings rose from 18% to 26%, and investment levels increased from 20% to 24%, mainly due to private investments. National savings grew in parallel with the transfer of funds from abroad. Exports were diversified, tourism and other sectors of the economy further developed, and there was an increase in bank deposits.

We should not forget to mention within this positive picture the good condition of the construction industry, though we cannot say with certainty that when this sector is healthy, everything else is. The same goes for the rather positive movement of foreign investments and tourism, in general, in various Moroccan cities, including, among other, Marrakesh, Aghadir, Ouarzazate and Essaouira.

The upward re-evaluation of Morocco's rating, linked to its national debt, by Standard and Poor's, the premiere international financial rating agency, from BB to BB+, was not a mere coincidence. Morocco can now borrow funds more easily from international financial markets, and at better conditions. Rated Moroccan private and public companies could also feel the effect, as well as those seeking to acquire a rating in the future, a fact that cannot but be of benefit to them. In fact, this evaluation went from stable in March 1998, to negative in November 2001, to stable again in February 2003-2004, to positive in 2006, signifying a general improvement in Morocco's rating. We could explain this success by the improvement of foreign indicators, such as external public debt, remittances of Moroccans living abroad, revenue from tourism and privatisation.

On the other hand, one must admit that growth has been unstable and rather modest, and has created very few jobs. The economy grew at less than 3.5% annually during the past decade, and at an inadequate rate of 3.8% in the period 2001-2004. At the top of the list of factors that contributed to this poor performance seems to be the variable nature of Moroccan agriculture, due to recurrent bouts of drought, given that growth depends on agriculture, which accounts for 15% of GDP. The year 2004-2005, with its 42 million kilograms of produce, proved to be an exceedingly average year, especially regarding the production of cereals, marking a drop in production of 57%, with a total of 36 million kilograms.

These modest results could also be blamed on low levels of growth in sectors other than agriculture, which accounts for 3.2 %, and the inadequate transformation of national savings into high yield investments. The insignificant amount of competition, by Moroccan businesses on the global economic stage, is not without its impact on this state of affairs.

Morocco's budgetary situation also suffered from a downturn. The most significant deficits in the country's budget were between 2001 and 2004, to the amount of 5.2% of GDP, a deficit eventually covered by revenues from privatisation and domestic borrowing. These large deficits could be explained by, above all, the ever-increasing salary levels, which accounted for 13% of GDP in 2004; in this context, personnel costs account for over 57% of the general budget, i.e., 44.5 million MD. The sums allocated to the "Voluntary Retirement" Plan, 3.5 billion Dirhams, (a plan designed to reduce public employment, whereby the public employee accepts to leave his position in return for financial compensation), and to the special promotion (2.2 billion) partly explain why these positions are so popular. In the span of one year, the salary cheque jumped by 24% to 41 billion Dirhams, and the voluntary departure of 40,000 public employees did little to help alleviate this heavy burden.

Revenues also suffered a downward trend due to the reduction of certain importation rights, though it is worth mentioning, in this context, the contradictions associated with the oil crisis; oil market tensions translate into an increase in financial revenue. As an example, in 2004, the domestic consumption tax (DCT) on energy products earned the State around 6.2 million Dirhams, i.e., more than 14% higher than the end of 2004. Moreover, thanks to the value added tax (VAT), the treasury brought in over 2 billion extra Dirhams

(+41%), i.e., a windfall of 8 million Moroccan Dirhams over the first eight months of the year; in other words, an increase of no less than 19% compared to the same period of the previous year. At a time when oil prices were on a continuous upward trend, the end of 2004 saw an income of 14 million Dirhams from the DCT and VAT on petroleum products. This source of income is destined to grow even bigger, as are the problems associated with it.

The improvement in the volume of fiscal revenues (by+13%, to 68 million Dirhams) would have not been enough to make up for the huge increase in expenditures, only confirming the problem resulting from the acute shortage of resources.

Deficits could also be explained by security-related expenditures, exceptional investments linked to infrastructure financed by the Hassan II Fund, major monetary transfers in favour of the retirement plan and to banks in difficulty. The general view is that these budget deficits were not sustainable in the medium term; the political environment, the yet incomplete democratisation process and the current system of government, to quite a large extent, account for this state of affairs.

The informal sector plays a major role in the Moroccan economy; according to several reports, it accounts for 17% of the production of the country's national wealth. In certain sectors, such as construction trade and public works, the informal sector employs 52% of the work force, and accounts for 40% of production and 55% of value added.

An important informal sector is a common feature of all economies in the Maghreb. In addition to the presence of an informal economy within each of these states, many factors indicate that an informal commerce industry is developing between the Maghreb countries, the Maghreb and Europe, and the Maghreb and sub-Saharan Africa. An interregional informal trading process is thus developing despite the lack of regional integration in North Africa. According to some observers, cross-border informal trade rose in the past two decades from 15 to 20% of the total interregional trade, though it is not taken into account, since it circumvents border customs, and uses informal transportation networks. The question that begs itself here is whether the presence of this informal economy reflects an absence of the rule of law and democracy, in addition to constituting a threat to the Moroccan State. An analysis of how the informal economy works helps us find out which illegal networks sustain it. The answer to these questions allows us to understand not only the nature of the threat that the informal economy represents to the State, but also how long the latter can sustain the erosion of its position, and under which conditions it would democratise.

Chief among the variables that explain the weak growth of the Moroccan economy, are the absence of the rule of law, equitable justice, institutional life, active tendencies towards democracy and good governance. Given this situation, the development of an informal economy seems entirely logical. It becomes a necessary means of earning one's livelihood and, in the long term, could undermine the stability of the State. This is one of the ways the relationship between economic and social vulnerability, on the one hand, and democracy, on the other, manifests itself.

The private sector and political reforms

Privatisation has helped bring in considerable amounts of income, though this financial success has not engendered economic and social efficacy. Given that it was not associated with the strengthening competition, and given that many monopoly transfers have taken place without opening the market to internal and external competition, the economic efficacy of privatisation remained limited. In many cases, it simply reinforced industrial and financial concentration, which did not at all improve economic efficacy. The outcome is still mediocre, judging by the limited fallout on regional development, its weak impact on public shareholding, and the limited effect on public and salary-related shareholding.

From a more general perspective, the role of economic stakeholders in the promotion of political and economic reform, particularly the so-called private sector, seems equally crucial, although, in principle, it is less valued than that of the State and its public institutions. However, their analysis will not conceal the State's monopoly over the planning process, and over the entire framework of social and economic policies.

One cannot but notice the pervasive presence of the "State", despite appearances to the contrary. Does this not explain the lack of competitiveness, transparency, openness towards investments and the excessive dependence on government contracts? It seems that behind the business opportunities stand the decisions and initiatives of the State.

Nevertheless, since the 1970s, the private sector seems to have come a long way, a journey during which it gained skill, ability and autonomy. Paradoxically, however, the State is still present, one way or another, at the core of this "private" entity. The State has encouraged it, of course, by presenting it with investment opportunities, and turning its public companies into semi-public ones…

Added to that are the issues of transparency, control, level of competition and social evolution of economic stakeholders, particularly when the families that hold the reigns of power are themselves involved in the market.

On the other hand, the current or potential role of the private sector in the promotion of economic and political reform, the issue of participation, the private sector's representation in state institutions and the social responsibility of business, raise key questions, not quite firm yet round which develop several struggles linked to the so-called democratisation process.

Demographic pressure and democratisation

Reducing unemployment levels is a major challenge associated with the stability of the State. In view of the Islamist Movements' radicalisation over the past few years, as evidenced by the recent phenomenon of suicide attacks and the danger of instability they pose to the regime, the integration of youth in the employment market is a top priority for the country's economic policies. Naturally, in the longer term, despite the disproportionate number of young people in the age pyramid, the demographic pressure will abate thanks to this decade's declining birth rates though, for the moment, youth unemployment remains a pressing issue.

Within a half century, the population of the Maghreb has increased 3.4 times, going from 25.7 million citizens, in 1950, to 77.8 million in 2001. Life expectancy has risen from 42 to 67 years, except in Mauritania where it is still bellow 50 years of age. This demographic change resulted in an increase in the number of young people between the ages of 20 and 40 years, a number expected to rise from 23 to 28 million by 2010. Based on these projections, in 2010, the 20-40 year olds would account for 36% of the population. Other projections see this age group declining by 2030, to account for only 33% of the population, as the result of the decline in fertility rates, which dropped from 7 to 8 children per woman, in 1970, to less than 3, in 2000. Between 2000 and 2010, the 20-40 year olds will face a shortage of employment opportunities, since the rate of job creation will be lower than that of population growth. In 2000, there were 15 million available employment opportunities in Algeria, Morocco and Tunisia combined, while in 2010, there will be 19 million opportunities for a 20-40 population of 28 million. Therefore, tens of millions of young people are threatened with marginalisation in the near future. If we take into consideration the hypothesis that a number of young women will be forced to leave the job market for family reasons, then millions would suffer from exclusion. Given this scenario, the challenges raised by the demographic changes reveal themselves on several levels.

Under these circumstances, poverty in Morocco is growing and deepening; today, an appalling 53 million individuals live under the poverty line. The poverty level seemed to decline from 21 to 13%, between 1984 and 1992, before rising again to 19% in 2000. The social fallout from poverty manifests itself in various violent forms, and fosters conditions that favour illegal, if not criminal, economic activities. Poverty also encourages migration given the ever-increasing wealth gap between the Kingdom and the European Union. With a GDP of $1500 per capita for the former, the European Union, with a GDP per capita of $27,000, cannot but be extremely attractive for the young citizens of the Southern Mediterranean shores, though it is no longer certain that migration would remain a central issue given all the restrictions imposed on it. In the 1990s, the number of poor people, based on income levels, rose from 13 to 19% of the population; today this figure stands at 15%. Two thirds of the poor live in rural areas, although it is in the urban centres that their numbers are showing an increase. Studies reveal the high level of homogeneity among poverty levels in various communities. They also reveal that at least a quarter of the population is economically vulnerable; it lives right at poverty's doorstep, at least 50% of Moroccans live under the poverty line, and are ill prepared to face unexpected events like an illness in the family, drought or loss of employment. This group of citizens is a considerable challenge for the country's social stability; frustrated by inequality, it struggles to overcome the conditions it lives in.

As for the extremely poor, they remain mired in a daily struggle to ensure the necessities of survival. The poor and the vulnerable, together, account for 40% of the Moroccan population, meaning that allowing them to benefit from the opportunities that growth provides and have access to basic services, is a vital necessity.

Reasons for the upsurge in poverty are due to the deteriorating income distribution system, and to the low rate of growth. Demographic experts, Emmanuel Todd and Youssef Courbage, looked closely at the path of the demographic transition in Morocco, and showed how the fertility rate of less than three children per woman, as is the case today in Morocco, marks in itself a break with the paternalistic ideology and patriarchal practices that characterise family life in Morocco. This could be explained by the confluence of two phenomena, the economic crisis of the mid 1970s and the increase in men's literacy levels, which qualifies Morocco for increasing and noticeable political openness. Intermarriage rates are quite low, barely 26%, a sign of growing individualism, and the search for autonomy and a more modern mindset. Instead of depending on the State to provide them with their needs, citizens are depending on themselves and on their own resources: "the demographic transformation portends, in the medium term, a society that is more mature for democracy."

Democracy and Unemployment

Unemployment seems to be endemic to the Maghreb region, "with a projection of a total population of 86 million in 2010, and a 35% activity rate, the three Maghreb countries will have between 4.8 and 6 million unemployed. If employment trends remain unchanged, Morocco and Tunisia would account for 15% of them, and Algeria for 25%," (The World Bank: Labour Supply, Unemployment and the Challenge of Job Creation in the Maghreb). In 2006, unemployment figures stood at 12.8%, 20.4% in urban areas and 4.1% in rural areas, not such a novel phenomenon given that, since their independence, the countries of the Maghreb seem to sustain high rates of unemployment among youth, university graduates and women. The paradox is that, despite its rigid economic systems that inhibit growth, this region enjoys an ever-expanding active population. Since 2003, countries of the Maghreb have maintained an annual 5-6% growth rate, which helped reduce the unemployment level from 29% to 23% in Algeria and from 15.4% to 14.3% in Tunisia. Given the relatively weak growth rate, few employment opportunities have been created in Morocco; in 1995, the unemployment rate stood at 23%, but dropped to 18%, in 2002 thanks to the dynamism of the manufacturing sector. In 2003, however, unemployment rose again to 20%, with the average hovering at between 22% and 19% over the entire period.

According to the World Bank, the Maghreb must create 16 million additional jobs for new market entrants, between 2000 and 2020. Given the unemployment rate in the region, estimated at 20.4%, 22 million jobs have to be created in the next two decades to reduce unemployment, and absorb new entrants to the market. Unemployment is especially high among youth; if youth account for 37% of the unemployed in Morocco, Algeria and Tunisia, 66% of the unemployed are therefore youth.

The phenomenon of rampant unemployment among the youth is undoubtedly a major challenge for the State. It seems to feed anxieties in the European Union and the United States, including, among others, fear of radicalism, Islamism, immigration, and social violence. Although in the Maghreb region, a university diploma is supposed to be a means of social integration, young university graduates are those most affected by the phenomenon. In Morocco, the study that looked at unemployment in urban areas in 2000, estimates that the number of active citizens with higher education degrees was 297,501, among whom 47.7% held university or training college diplomas. Among this well educated category, unemployment was 28.9%. The same study estimates that graduation coincides with a 77.7% rate of unemployment among active citizens with higher academic degrees. It is obvious that right now in Morocco, there is a weak correlation between employment and higher education.

Unemployment among degree-holders is even more difficult to address, given that the latter are not part of the informal labour sector. In urban areas, degree-holders account for only 5.3 of the informal labour force and 66% for those who do not hold degrees. Youth, training and creativity are the very qualities that the informal sector seems to reject; in fact, public service has long been a natural outlet for degree holders in Morocco. According to available data, employment in the public sector has not stopped declining since the 1990s; in Morocco, it dropped from 13% in 1991 to 9.9% in 2000, and it was mainly the informal, rather than the private, sector that compensated for this decline. In the 1990s, the informal employment sector in Morocco was estimated at 45%, with four out of every five informal workers being self-employed, and the rest working for companies with less than 10 paid employees.

Unemployment is part, and parcel, of this huge phenomenon that confounds and impedes political reform prospects.

Thus, correlations between political and economic reform highlights the fact that they usually go hand in hand in a transition period, without the reciprocal impacts being evident and without being able to say for sure that one justifies the other.

The presence of a large informal sector is a major characteristic of the global economy. It intersects both politically and institutionally with the rule of law, as evident by various recent indicators regarding the Arab world. It particularly impacts economic and social policies, the transparency of economic activities, the relationship between the employers and the State, budget expenditures on the social sector, and the serious drainage of resources in favour of security related expenditures.

The study on the relationship between economic and political reform also shows that in the short term, and like other countries in the Maghreb region, Morocco faces a massive rise in unemployment levels, with explosive political and social results like political radicalisation. A remarkable tendency has developed which propels unemployed degree holders towards political opposition movements, especially the Islamists. The rise of the Islamist movements in the 1980s has often been blamed on their ability to mobilise the youth. Legal Islamic organisations, like the Justice and Development Party, (tolerated), and al-‘Adl wal Ihsane, seem to give hope to the youth by offering the perspective of an Islamic State rife with job opportunities.

This is how the general configuration of the economy, the all-important informal economy within it, the exclusion phenomenon, the precarious situation, mass unemployment and demographic transformations affect, to a very high degree, the nature and pace of political change.