From Political Independence to Economic Dependence. The Different Trajectories of Stabilisation and Adjustment in Morocco and Tunisia During the 1980s*

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Abstract

As regards their recent history, Morocco and Tunisia are often analysed as similar cases studies, owing mainly to the lesser importance of oil revenues compared with the rest of North Africa. This simplistic representation, due in part to the insensitivity of the main international financial institutions (IFIs), IMF and World Bank, to cross-country differences, would preclude analysis of some of the factors that marked the first phase of the structural redefinition of the two countries and the onset of these processes in the broader context of the crisis and the redefinition of the international economic system starting in the late 1970s and early '80s. From this perspective, and precisely because of the profound differences, the Tunisian and Moroccan cases prove to be complementary. As exogenous as the crises were, so were the solutions proposed, based on identical macro-objectives and theoretical assumptions, although their relative importance varied between the two. In Morocco, the intervention of IMF and World Bank – even in the context of partially discordant agendas – would be determined by the decision to ensure debt service, in line with the general strategy adopted for the debt crisis of medium-income countries, and would result in a policy of austerity and an investment blockade with lasting effects that cast doubt on the effectiveness of the intervention as early as the '90s and eventually made pursuit of the liberalisation side of the two institutions' agenda impossible. In Tunisia, in view of the differences in the GDP and trade balance composition, the intervention of the

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IFIs came later, when most of the stabilisation measures to deal with the current account crisis had already been adopted by the government; following the outflow of currency reserves in the summer of 1986, the two institutions managed to transform a support intervention into a structural adjustment process by using two sectoral loans for which earlier consultations had taken place as quick-disbursement loans with more extensive conditionality. If in Morocco the primary objective was to avoid default and guarantee debt service while, given the prevalence of IMF programme conditionality, preventing the policy shift towards liberalisation, in Tunisia the strategy emphasised reform, considered necessary to restore debt refinancing by private lenders, attracting foreign investment and transforming Tunisia into an export-led economy. In both cases, the intervention of the IFIs in the 1980s was not confined to the medium term as initially designed, but instead initiated a lengthy process of support and reform – considered fundamental to consolidate the country's fragile achievements. During the 1990s and in the context traced by the Barcelona Agreement – seen as functional to adaptation to WTO rules – the EU would become a major stakeholder in the reform process, also given the WB's desire to reduce its financial exposure; this, together with the trend of the main macroeconomic variables and the attendant social and political effects, prompts one to question the effectiveness of these interventions and their underlying assumptions, while being typical of some of the main global economic and international policy developments from the 1970s to the 1990s and their effects in the southern Mediterranean.

1. The Moroccan and Tunisian economies

The period in which the structural adjustment programmes began, national macroeconomic situations, and the difficulties that led to the IFI's intervention all differed between Morocco and Tunisia. These differences would be crucial in defining the trajectories of the two countries during the 1980s. In this section we will therefore try to trace the macroeconomic situation of the two countries: in 1980 as far as Morocco is concerned and in 1986 for Tunisia, placing them in the international economic context post-1979. In both cases, in fact, the crises afflicting the two countries and the dynamics during the period of stabilisation and adjustment were strongly influenced by the dynamics of international markets and the evolution of the IFIs'

mode of intervention during the decade. We will briefly analyse the evolution of the two economies, which are often thought to be similar, in order to identify their structural differences and, consequently, explain why the intervention of the IFIs came at different times in the two countries, taking account of the way in which the different composition of GDP and in particular of exports determined the relationship with external shocks during the economic cycle of the 1970s, and highlight the profound differences that marked their experiences of adjustment and reform. In the elaboration and drafting of this contribution, priority has been given to direct analysis and critique of the materials drawn up by IFIs and official bodies rather than to the academic literature. This choice reflects the characteristics of the research on the Tunisian and the Moroccan "adjustments". With the notable exception of the work of King, this literature is not only relatively undiversified but also, as a consequence, based largely on an uncritical reading of the documents of the IFIs themselves, often limited to documents related only to major programmes and, in most cases, to conclusive reports. In most cases there is a simple transposition, in many cases literal, of the narrative of the IFIs, without raising questions or probing into problems. In our analysis, instead, great attention has been paid to the reading and comparison not only of the concluding documents of the individual programmes, but also of those preliminary to the various programmes, including sectoral programmes, and to the changes in analyses, judgements and focal points over time. We are convinced that only a meticulous critical analysis of the documents – and of their contradictions, sometimes evident – can restore the problematic dimension of events, which is often hidden in their folds and inconsistencies. The importance of the Baker Plan for Morocco and the central role of the 1987 Industrial and Trade Policy Adjustment Loan (ITPAL) in catalysing structural adjustment intervention in Tunisia, two of the most important results of this research, were the product of this approach. Therefore, it was necessary to place the Moroccan and the Tunisian cases in the broader context of the international dynamics of the decade. In this case the documents produced by the OECD and World Bank, supplemented

by secondary literature, notably the work of James[1] and the text produced by the historian of the IMF, Boughton, on the period 1979-89 – which, unfortunately, accompanies the quality of the documentation with a partial and sometimes blatantly apologetic vision – make it possible to relate the phenomenon in general with the specifics of the two cases. These texts have been read considering the analysis of those who view the 1980s as a moment of restructuring of the world economy given the contradictions that emerged after 1973, with the aim of enforcing the possibilities of capital commitment and remuneration, generally ascribed to different disciplines, as in the work of Arrighi and Harvey, considering also the stratification of classes and interests in the lender countries. It was then deemed necessary to supplement this analysis – in sections 2 and 3, complementing the more quantitative and macroeconomic description given in the introduction – by examining the relationship between the economic policies applied and domestic, social and political developments in the two countries. Extensive use was made of the publications of the *Annuaire de l'Afrique du Nord*, which – accompanying analyses of an economic and political nature with in-depth sociological and anthropological studies – is still a fine secondary source despite the fact that – reflecting the evolution of the French academic world in recent decades[2], in which the anthropological and cultural approach to the study of the Maghreb countries has been hegemonic, with the exclusive attention to detail and lack of interest in the general that this sometimes involves – it unfortunately ceased publication in 2004. Untouched by these considerations is naturally the remarkable work of King.[3]

1.1 Features and differences analysed through the cycle of the 1970s

Since independence, the economic policy of Morocco had always maintained a liberalist accent, reflecting, at the same time, the

[1] James H., *International Monetary Cooperation Since Bretton Woods*, Washington, 1996.
[2] See P. Vermeren, *Misère de l'historiografie du Maghreb post-colonial 1962-2012*, Paris, 2012.
[3] King S.J., *The new authoritarianism in the Middle East and North Africa*, Bloomington, 2009.

monarchy's support for the classes that were loyal to it.[4] For this reason, and due to the propertied classes' scant propensity to invest, state intervention in the economy – characterised, however, by a particularly prudent investment policy – was always accompanied by protectionist measures favouring urban elites and large landowners through the granting of monopolies and incentives,[5] while penalising small property, especially in the agricultural sector.[6] In this sense the role of *Makhzen* – formed by owner classes of feudal origin directly involved in the state structure[7] – and of its relationship with the palace proved decisive in determining Morocco's political and economic trajectory, leading de facto to the subordination of economic policy to political stability and upper-class interests,[8] well represented by the lack of agrarian reform after independence. Until the mid-70s Morocco experienced slow growth in investment and a GDP growth rate of 4%, with a brief but significant increase at the start of that decade; during this period primary products and particularly phosphates accounted for about 90% of merchandise exports.[9] The growth stemmed from the increase in state investment during the 3rd and 4th plans (1968-76) to address the serious under-investment that had afflicted the Moroccan economy during the '60s. While under-investment proved a key determinant of Morocco's economic history, it is important to note its relation with an economic model that, reflecting the interest of the ruling classes, was always based on raw material exports, with little or no interest in industrialisation, expanding the internal market, or specialisation; this model continued between 1968 and 1976.

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[4] P. Vermeren, *Histoire du Maroc depuis l'indépandance*, Paris, 2016.
[5] J. Harrigan, H. El-Said, *Aid and Power in the Arab World: IMF and World Bank policy-based lending in the Middle East and North Africa*, New York, 2009.
[6] Morocco - Structural Adjustment Loan Project. Washington, D.C.: World Bank Group. 1988.
[7] This point will be gone into more deeply in section 2.2
[8] Ben Ali D., "État et Reproduction Sociale au Maroc: le cas du secteur public", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, Tome XXVI, 1987, pp. 118-131.
[9] Kingdom of Morocco - First and Second Structural Adjustment Loans, Washington, D.C., World Bank Group, 1995.

In the case of Tunisia, reflecting the relationship between the forces within the "National Union," economic policy changed over time, even radically. In fact, after a brief liberalist period – marked by an ambitious agrarian reform in 1959 that, albeit intended to foster a society of small landowners, represented the base for the cooperative movement of the 1960s – the lack of private investment in the economy opened the way to greater state intervention than in Morocco: the 1960s was marked by *socialisme destourien*, a complex and dynamic set of reforms based on import substitution, industrialisation and the extension of the cooperative system that came to an end in 1969. During the 1970s, however, a dirigist economic policy was accompanied by rapid liberalisation of the economy, with a substantial liberalisation of investment.[10] Unlike Morocco, Tunisia had not only significantly developed its human resources over the previous decades, especially during the '60s thanks to a massive effort in welfare and education,[11] but also had (relatively) more important industrial and manufacturing production in the 1970s. In 1980 Tunisian exports were significantly more diversified than Moroccan, consisting about 22% in manufactured products and 10% in agricultural products; a little more was accounted for by phosphates and about 53% by energy products.[12] An important factor common to the two economies was the high rate of population growth. In Morocco the rate was 2.35% in 1980, 2.39% in 1985, and 1.97% in 1990,[13] with a parallel increase in the workforce due to the linear demographic growth of the previous decades. In Tunisia, on the other hand, as a result of population control measures taken since the

[10] E. Murphy, *Economic and Political change in Tunisia: From Bourguiba to Ben Ali*, New York, 1999.

[11] Tunisia - Structural Adjustment Loan Project, Washington, D.C., World Bank Group, 1987.

[12] G. Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993.

[13] World Development Index -Population, total - Morocco: https://data.worldbank.org/indicator/SP. POP. TOTL?locations=MA; World meters, Morocco Population https://www.worldometers.info/world-population/morocco-population/.

1960s, the increase in the workforce was 3% per year on average during the 1980s, while the rate of population growth (2.5%)[14] was slightly higher than in Morocco. Here, however, a fundamental difference was the importance attached to demographic trends in designing economic policies, not to mention the significant difference in urbanisation. If in Tunisia the reduction in fertility, the increase in specialisation and the effort to create jobs in line with the increase in the working age population was the subject of careful analysis and in some cases of planning, and remained a central objective of economic policy until the second half of the 1970s, in Morocco, given its policy priorities, the issue was relatively neglected and the matter was soon discarded as ungovernable; and in fact instability arose much earlier than in Tunisia, as evidenced by the 1965 revolt in Casablanca.[15] During the 1970s, the two countries followed somewhat similar trajectories, influenced by the events that marked the international economic cycle, while reflecting their differences in export structure and GDP composition. The similarities and differences characterising the trajectory of the two countries are evident from an analysis of the value of goods and services exports in relation to GDP.

In 1965, at a time when the experiment of industrialisation and centralised economy in Tunisia was gaining momentum, the share of GDP represented by exports was similar in the two countries (19% in Tunisia and 18.1% in Morocco[16]), and during the first part of the

[14] Tunisia - Industrial and Trade Policy Adjustment Loan Project, Washington, D.C., World Bank Group, 1987, p. 2.

[15] The decision to restrict access to secondary education, until then considered as the gateway to a public sector no longer able to accommodate new graduates, rapidly became a catalyst for widespread discontent. The 1965 revolt was the first of a series of episodes of popular unrest – both urban and rural – that marked the next few decades and was exacerbated during the ’80s. The declaration of the state of emergency marked the beginning of a phase of political repression and the disbanding of the opposition forces (symbolised by the assassination of Ben Barka in 1966 in Paris) that eventually led to the “Moroccan years of lead” but also represented the widening distance between the Palace and the Makhzen and the popular classes.

[16] In absolute value, GDP differed considerably between the two: $11.9 billion in Morocco and $5.23 billion in Tunisia in 2010 dollars. World Bank, GDP (constant 2010 US$),

'70s both countries benefited from rising raw materials prices on international markets. But in the second half of the decade the two trajectories diverged. However, their composition, as a consequence of opposite policies, was different. The peak was registered in 1974 when the export/GDP ratio reached 35.3% in Tunisia and 27.5% in Morocco, up from 26.05% and 20.8% in 1973 and 21.9% and 17.6% at the beginning of the decade, respectively. As result of the greater diversification of Tunisian exports and the presence of a more developed manufacturing sector, but mostly because of growing dependence on oil revenue, the export/GDP ratio showed similar dynamics but temporal differences. After 1974, the export/GDP ratio fell less dramatically in Tunisia than in Morocco; in the latter,, in fact, in 1976 the ratio was 17.9%, and declined to a low of 16.3% in 1978; in Tunisia, on the other hand, the low came in 1976 at about 29%.

The ratio of exports to GDP in Tunisia increased rapidly in the following years: in 1978 it was already 30.9% and given the dynamics of oil prices it amounted to 38.9% in 1979 and reached a peak of 41.3% in 1981. Moroccan exports, almost totally dependent on phosphates and agricultural products, recovered more slowly compared with Tunisia, and indeed the 1974 export/GDP ratio was never regained during the period under study here, but only in 2011. It is therefore clear that the lack of diversification of the export structure, largely dependent on extractive raw materials and agricultural products, and the poor development of manufacturing – elements that are more pronounced for Morocco, due to the low rate of investment since independence, than for Tunisia – exposed the balance of payments and the economy of both countries to exogenous shocks. The differing structure of exports and their different contribution to GDP in 1976-78 (Figure 1), together with other factors that will be discussed later, help to explain, first, why Morocco found itself in such a difficult situation that it had to resort to the international financial institutions well before Tunisia and, second, why the difficulties of

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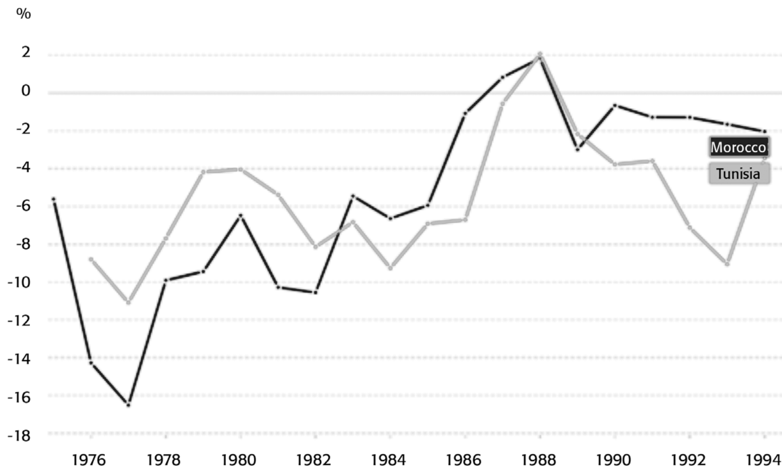
World Bank Indicators, The World Bank Group. https://data.worldbank.org/indicator/NE.EXP. GNFS.ZS?locations=MA-TN (accessed 14/07/2020).

FIGURE 1
Current account balance (% of GDP) - Morocco and Tunisia



Source: World Development Indicators.

the two countries manifested themselves mainly in different items of the current account. These two points would be decisive for the stabilisation and structural reform actions implemented by the IFIs and their results. The analysis here is primarily macro-economic. The relationship between social and political developments and economic policies is examined more in depth in section 2.2 for Morocco and section 3 for Tunisia.

1.2 Financial imbalances in Morocco and Tunisia: similarities and differences

The previous section describes the context of another and decisive dynamic inherent in the current account of the two countries during the last part of the 1970s and the first part of the '80s, namely debt, which was interpreted by the IFIs in a simplistic way mostly as the result of over-investment vis-à-vis savings, as posited by mainstream economic theory – while, as will be seen, the relation

between growth and cost of debt service was more important in practice. As in many "developing countries," in these two North African countries, commodity prices, the availability of capital, and international dynamics proved to be decisive in the 1970s. Comparing the dynamics in Morocco and Tunisia during the economic cycle of the '70s allows us to highlight several points:

1) the considerable extent to which the simplistic narration put forward in the '80s and '90s assimilated very different cases, indicating them as successes;[17]
2) the relationship between trends in commodity prices, international interest rates and diversification of exports in an international free market economic context that tends to favour creditors over debtors; and
3) as will be seen here, the importance of investments and diversification of exports in the long term.

In the case of Morocco, the boom in phosphate prices in 1974-1975 marked the end of the substantially conservative fiscal policy pursued until then. While revenues increased considerably as a result of the build-up in defence spending – related to the conflict in the Western Sahara – and the exponential increase in investment, these were outpaced by expenditure. As was stressed by the IFIs, this led to a rapid deterioration in the fiscal position: in 1976, when the fall in phosphate prices drove the export/GDP ratio down, the budget deficit reached 18% of GDP. So 1977, marked by the further fall in the price of phosphates, sealed the end of the short period of increasing investment and the industrialisation plan: the deficit was brought down to 11% in 1978, primarily by cuts in the investment outlays under a three-year Government stabilisation plan. However, the plan failed to bring down the imbalances, owing to trends in import prices, driven by the rise oil prices (which, in turn, supported the Tunisian export/GDP ratio at the end of the decade), the impact that drought had on agricultural production and thus the trade bal-

[17] Pfeifer K., *How Tunisia, Morocco, Jordan and Even Egypt Became IMF 'Success Stories' in the 1990s*, Middle East Report, no. 210, 1999, pp. 23-27.

ance, but also, as observed by the World Bank, owing to social pressures.[18] The budget deficit of the later 1970s had to be financed mostly by increased external borrowing on commercial terms and by net domestic bank credit, amounting to 3-4% of GDP every year. Therefore, the current account deficit soared from 2% of GDP in 1970-1972 to 12%, official grants excluded, in 1981; at the same time the foreign debt ballooned from about 20% to 70% of GDP. Debt-service payments rose from the equivalent of 11% of the value of exports of goods, non-factor services and private transfers in 1972 to 36% in 1981.[19] In 1983 the debt to GDP ratio reached 96%, and debt service almost 40% of exports. A major but rarely mentioned factor exacerbating the dynamic that led to the fiscal crisis of the '80s was the rise in international interest rates,[20] in particular from 1979 on, accompanied by the need to make increasing use of short-term commercial loans for debt refinancing (representing nearly 50% of public external debt in 1980).[21] The link between the surge in international interest rates at the end of the '70s and the Moroccan crisis – aggravated by the fact that 43 percent of Morocco's outstanding debt in 1980 was at variable interest rates, as against just 2 percent in 1970 and 16 percent in 1975,[22] is clear from consideration of the external debt indicators (Table 1). In sum, the rapid rise in Morocco's foreign debt has its roots in the economic cycle of the '70s, reflecting various adverse external developments – analysed below – which, in turn, highlighted the structural weaknesses of the economy. Therefore, the sharp increase in oil prices and depressed conditions in world

[18] Kingdom of Morocco - First and Second Structural Adjustment Loans (English), Washington, D.C., World Bank Group

[19] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai, J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience, International Monetary Fund*, IMF Occasional Paper, 1995.

[20] Morocco - Structural Adjustment Loan Project. Washington, D.C., World Bank Group, 1988.

[21] S.M. Nsouli, S.Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience, International Monetary Fund*, IMF Occasional Paper, 1995, p. 50.

[22] Ibidem.

TABLE 1
Moroccan external debt indicators in the first half of the 1980s

	1980	1981	1982	1983	1984	1985
Total external debt ($millions)	9689.1	10686.4	12410.0	13928.4	13944.0	16698.1
- Public debt:	8739.1	9625.4	11119.0	12567.4	12707.3	15432.1
- private lenders	3849.1	3694.3	4123.6	3084.4	3838.6	4059.1
- official lenders	4889.4	5931.1	6995.4	8763.0	8868.7	11373.0
- As % of GDP	59.9%	74.3%	86.3%	118.6%	127.0%	134.7%
Debt service ($millions)	1314.7	1427.3	1514.2	2063.8	1987.3	2361.6
- As % of EXPG+S	30.1%	34.5%	39.4%	52.6%	50.6%	56.7%

Source: Morocco - Structural Adjustment Loan Project (English), Washington, D.C., World Bank Group, 1988.

phosphate markets, together with the rise in international interest rates, undermined Morocco's ability to service its external debt at the start of the '80s.The turn of the decade witnessed the intervention of the IFIs in Morocco, at a time when the grant element of debt amounted to only 5% and the average interest rate on new commitments was 10%,[23] while private international lenders were on the brink of collapse.[24] In 1980 and 1981, given the failure of the Bank's attempt to negotiate a Structural Adjustment Loan (SAL),[25] the country signed two Extended Fund Facilities (EFFs) with the IMF, which were not fully drawn and disbursed to calm the food riots in Casablanca.[26] This was the first of a series of nine almost annual agreements with the Fund between 1980 and 1992.[27] In 1983, at the

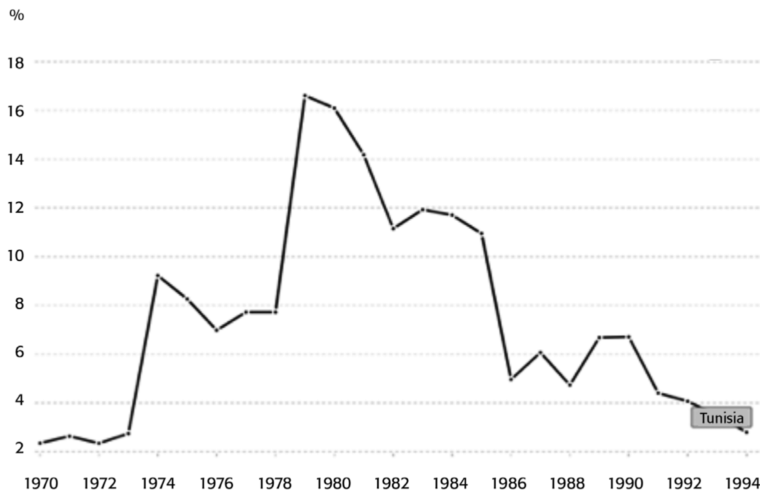
[23] Morocco - Structural Adjustment Loan Project. Washington, D.C., World Bank Group, 1988.
[24] *International Monetary Fund Annual Report 1980*, International Monetary Fund, 1980. *The Baker Plan: progress, shortcomings, and future*. Policy, Planning and Research Department working papers; no. WPS 250. Debt and international finance Washington, D.C., World Bank Group, 1988.
[25] Morocco - Country assistance review. World Development Sources, WDS 1997-1 Washington, D.C., World Bank Group, 1997.
[26] Kingdom of Morocco - First and Second Structural Adjustment Loans, Washington, D.C., World Bank Group, 1995.
[27] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995.

height of the crisis, Morocco had serious difficulties in "meeting its heavy debt service obligations."[28] This was the moment when the WB joined the IMF.

The Tunisian case serves as a useful comparison. During the '70s the economy performed strongly, despite the falling prices of most of its exports – which as will be seen had a severe impact on the domestic economy as well as the political situation – but aided by oil exports: GDP growth averaged 7.4% a year, while non-oil exports grew at over 10% on average. All sectors grew, especially manufacturing, whose share in GDP increased from 8.4% in 1970 to 11.9% in 1980, while the average annual increase in real value added came to 11%.[29] Generally, the rapid growth of GDP was due to the rising level of investment, which increased from 20% of GDP in 1970 to 29% in 1980, which, as the WB noted, was compatible with "respectable growth of per capita consumption [at an average annual rate of 9%] and a modest level of external financing, thanks to earnings from oil."[30] While a large share of public investment went to the development of human resources and infrastructure, national savings rose in line with investment, as petroleum revenues increased because of world prices. During the decade the budget deficit was held to 2% or less, except in 1976-78, and the current account deficit averaged 5-6%, although this too expanded briefly in 1976-78 to 11% of GDP, owing to declining world market prices of oil and phosphates. This two-year period marks the divergence between Morocco and Tunisia; the latter, in fact, thanks to the resurgence in oil prices again narrowed the current account deficit (Figure 2), without having to cut investment or consumption. Moreover, since Tunisia attracted considerable FDI, it had no difficulty completing the financing of

[28] Morocco - Structural Adjustment Loan Project, Washington, D.C., World Bank Group, 1988, p. 10.
[29] G. Bell, M. Yücelik, P. Duran, S. Nsouli, and S. Eken, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993.
[30] Tunisia - Structural Adjustment Loan Project, Washington, D.C., World Bank Group, 1988, p. 2.

FIGURE 2
Oil rent as % of GDP - Tunisia



Source: World Development Indicators.

current account by foreign borrowing. In sum, at the end of the decade Tunisia's external debt, mostly with official sources and on concessional terms, had increased quite modestly– the debt/GDP ratio was 42% in 1979 as compared to 38% in 1970 – and debt service amounted to 10% of GDP, while inflation was at 6.1%, lower than the global average.[31] However, difficulties began in 1981, when, as had long been known, the country's oil reserves began to run out as world prices fell and some industries – especially mining and chemicals – experienced difficulties determined by depressed world prices for their products. In 1981-86 the economy slowed down, with real GDP growth averaging 3.3%. In fact, the underlying dynamic of the Tunisian economy in the 1980s was precisely the transition from oil exporter to net importer (Figure 2). Although the 1982-1986 plan envisaged reduction in investment and budget expenditures,

[31] G. Bell, M. Yücelik, P. Duran, S. Nsouli, and S. Eken, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993.

from 1980 to 1984 investment remained at around 32% of GDP, the greater part of it in the public sector, while the overall budget deficit more than doubled as a percentage of GDP (6.7% on average) before narrowing in 1985 to 3.7% as part of measures undertaken in consultation with the IFIs. In general the internal and external situation had an impact on the budget through the social security system and consumer subsidies as well as through growing current transfers related to the operating losses of the public enterprises affected by the general situation.[32] All this, combined with the growth in the current account deficit – reaching 10.9% of GDP in 1984 – led to substantial recourse to foreign borrowing, which raised Tunisia's public and publicly guaranteed external debt to 47% of GDP and the debt-service ratio to 21.6%. In 1984 the first stabilisation efforts by the government in consultation with the IFIs, with deficit reduction through cuts in food subsidies, led to bread riots[33] (there were riots in Morocco as well, brutally repressed), in the context of the stabilisation programmes signed with the IMF. By 1985 Tunisia was having trouble getting external financing for its current account deficit, and the spectre of a balance-of-payments crisis loomed,[34] so the government adopted measures to curb the deficit and began consultations with WB and IMF.[35] In August 1986 the government announced a programme agreed to with the IFIs: the WB's Agricultural Sector Adjustment Loan in September 1986 – conceived as a joint loan with an ITPAL), effective since February 1987, promptly followed in November by the first Stand-by Arrangement with the IMF, marked the beginning of the IFIs' involvement in Tunisia.

[32] Tunisia - Structural Adjustment Loan Project, Washington, D.C., World Bank Group, 1988.
[33] E. Murphy, *Economic and Political change in Tunisia: From Bourguiba to Ben Ali*, London, 1999.
[34] Tunisia - Structural Adjustment Loan Project, Washington, D.C., World Bank Group, 1988, p. 3.
[35] Ibidem.

1.3 Morocco and Tunisia in the context of the international sovereign debt crisis of the 1980s

The national dynamics analysed so far need to be considered in the difficult and somewhat chaotic international context of the ’80s, when as James noted there loomed a single, generalised international crisis owing to the possible failure of international private lenders, manifesting the tension between the two tendencies – international coordination and free market dynamics – that had arisen in the course of the ’70s, with the prevalence acquired by the latter.[36] It is therefore necessary to situate Tunisian and Moroccan structural adjustments in this context in order to examine their peculiarities and the underlying dynamics. In this sense we need to consider:

1) the increasing involvement of banks in lending to middle and low-income countries;
2) the effect of suddenly implemented deflationary policies of high interest rates and the contraction of aggregate demand in the industrialised countries – with the emblematic rise in the discount rate by the Fed under Volker at the end of Carter’s presidency – which imposed substantial costs on creditors and had an immediate global impact on sovereign credit;
3) the price dynamics of raw materials and energy commodities and their effect on the current account balances of the least industrialised countries and on investment capacity, growth and debt support;
4) the response and efforts at coordination by the IFIs to overcome the impending crisis, a fundamental element in explaining the differences between the adjustment strategies studied here.

The peculiar situation of the later 1970s differentiated international lending from the Bretton Woods era essentially in two, related respects: the major role of private lending vis-à-vis the international agencies, a feature dating back to the ’60s as denounced by the Group of 77 in the 1967 “Charter of Algiers,” and consequently the

[36] H. James, *International Monetary Cooperation Since Bretton Woods*, Washington, 1996.

extent of banks' direct exposure. At the end of the '70s international lending was enormously attractive for banks in view of the practically unlimited liquidity, the end of the par value system and the advent of flexible exchange rates, but also the possibility of evading domestic regulation. At the end of the 1970s almost half of the net current account deficits and the reserve accumulation of the smaller industrial countries and the non-oil developing countries was financed by net borrowing from banks and on the international bond market.[37] The growing exposure of private creditors in low- and middle-income countries was based on the assumption (point 1 above) that the real interest rate would remain at the low or even negative levels of the later '70s. The loans were considered safe because of the positive relationship between the real interest rate and the growth of the creditor country's tax receipts and, consequently, the maintenance of the conditions underlying the growth rates of the lending economies. This was reinforced by the assumption that "nations cannot declare bankruptcy."[38]

Anyway, precisely these conditions were undone by the effects of the anti-inflationary policies implemented by the Western countries (point 2), which, by abruptly reducing the availability of liquidity, brought the reversal of capital flows, which reverted to high-income countries in search of higher and safer remuneration and at the same time (since interest rates generally reflected U.S. rates) an increase in debt service and refinancing costs, aggravated for the borrowers by the fact that private bank loans were generally at floating rates. These trends, together with effects on industrial countries' demand, impacted on the middle-income non-oil countries' balance of payments, as underlined by the IMF's 1982 Annual Report.[39]. The rise of the discount rate and quotation of the dollar in

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[37] D. Williams, *Opportunities and constraints in international lending*, Finance&Development - a quarterly publication of International Monetary Fund and World Bank, March 1983, Vol. 20, n. 1, pp. 24-27.
[38] As expressed by Citicorp Chairman, Walter Winston.
[39] *Annual Report of the Executive Board for the financial year ended 30*, April 1982, International Monetary Fund, Washington, 1982.

foreign exchange markets simultaneously increased the cost of debt servicing, resulting in a deterioration in the terms of trade, severing the link between the size of debt and its price and between investment and economic growth in the recipient countries (point 3) that had to ensure the repayability of the bank loans. In this sense the causal reciprocity of the factors determined by the rise in the Fed's discount rate warrants emphasis. Between 1980 and 1986 there was a sustained slide in international commodity prices, interrupted by a brief and modest upturn in 1982-83 followed by a new slump. As we have seen, given their different composition of GDP and exports, Morocco experienced difficulties in servicing its debt during the first slump, while Tunisia's foreign currency reserves were affected by the second.

As regards point (4), facing the widespread difficulty of low- and middle-income countries in servicing their debt, the problem that the main international financial agents faced to avoid the outbreak of a generalised crisis after 1982 was to absorb the shock by avoiding the failure of the exposed banks. Although the solutions envisaged changed over time, default was not considered an option and, contrary to the equation set out above – see (1) – a rising proportion of the national income of the "developing countries" went to debt service, subtracting it from investment, consumption and social expenditure, producing an increase in the tax receipts of the debtor countries even in absence of growth. The linkage between investment, growth and debt was severed, and during the '80s the low- and middle- income countries' capital flows became negative;[40] the debt then showing itself clearly to be a functional lever for the extraction and transfer of wealth. This, together with reforms, made it

[40] As Brands notes, the response to the crisis amounted to a veritable reshaping of the global economic system in the interest of the US and its allies, proving to be a way to preclude the sort of third world activism that had marked the previous decade. Brands H., *Making the Unipolar Moment: U.S Foreign Policy and the rise of the post-cold war order*, London, 2016; from a different perspective, a similar opinion is expressed by Arrighi, G., *Adam Smith in Beijing: lineages of the XXI century*, London, 2007, and also *The Long Twentieth Century: Money, Power and the Origins of our Times*, London, 1997.

increasingly difficult for the political systems of the debtor countries to observe the "social pacts" on which they were based. As will be seen, the different structure of the social pacts in Morocco and Tunisia would produce a change of regime in the latter but not in the former, despite the very high social costs of stabilisation measures. Even in the absence of growth, revenues were increasingly needed for debt repayment to avoid default.

Therefore, during the first half of the decade debt crises were generally regarded as liquidity crises and addressed through the case-by-case stabilisation approach generally taken by the IMF. The IFIs tried to make up for the lack of private lenders by offering the necessary capital to ensure the stability of the countries affected by debt crisis and avoid default. Their intervention in Morocco can be traced to this period, and even if it is a particularly early case, it well exemplifies the IMF-headed "stabilisation" approach. After 1985, in any case, the short-term crisis management that had emerged during the 1982-83 suspension of Mexican debt payments was "supplemented" by the US Treasury plan, which "amounted to a global indicative plan."[41] The decisive intervention of the US Treasury at the 1985 annual meeting of IMF and WB thus addressed the coordination problem, and led to an on-again-off-again collaboration between IFIs and private lenders, which marked a turning point. The sole "stabilisation approach" was transcended, and the strategies were devised that would take concrete form in the Baker Plan and later, in 1989, the Brady Plan. In this sense, the continuity of international lending represented the private lenders' side of a bargain with the IFIs, which in turn offered guarantees of repayment, coordination and the functional reshaping of the borrower economies.[42] So, after 1985, the debtor countries were divided into two categories,

[41] *The Baker Plan: progress, shortcomings, and future*. Policy, Planning and Research Department working papers; no. WPS 250. Debt and international finance Washington, D.C., World Bank Group, 1988, p. 2.
[42] *The Baker Plan: progress, shortcomings, and future*. Policy, Planning and Research Department working papers; no. WPS 250. Debt and international finance Washington, D.C., World Bank Group, 1988.

namely those affected by liquidity crises and those affected by insolvency crises.[43] Three different phases can thus be traced, but the passage from the first to the second is decisive to the general structure of the essay presented here.

The IFIs shifted their emphasis from short-term balance of payments stabilisation to longer-term development objectives, hence from the IMF to the WB as the lead institution in debt management. However, for our purposes here it is necessary to underline that the plan "remain[ed] silent on the role of the IMF,[44] a key element for understanding the IMF's line of action in Morocco. While the plan involved prolonged structural adjustment (the policy aspects involved in the plan are examined in section 2.2), the financial strategy called for banks to extend new lending of about $20 billion in the course of the next three years – or 2-2.5% of each bank's existing exposure each year – to 15 major debtor countries with debt difficulties. At the same time, the industrial countries were to increase net loan disbursement of multilateral banks to $9 billion over three years, complemented by the same amount from the WB, whose capital would be increased with US support with the target of $20 billion over the next three years from multilateral institutions to ensure "private bank/public sector symmetry."[45] Significantly, as the WB stated, "the interventionism of the industrial country governments [impacted on] what could be considered the internal affairs of debtor countries," especially as regards the way in which the liberalisation of imports and foreign investment and the reduction of the state sectors were carried out.[46] The Baker Plan, however, proved incapable

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[43] This distinction emerged at mid-decade, as stated by James. Initially it was considered that in all countries it would be sufficient to guarantee the flow of capital necessary to service the debt for the time needed to activate the stabilisation measures. Therefore, while the first category remained current, the development of the second has to be considered the result both of the failure of the first approach and of the acknowledgement of the excessive burden of debt, especially given the contraction of growth that is usually the result of the stabilisation measures themselves.
[44] Ivi, p. I; 6.
[45] Ivi, p. 3-4.
[46] Ivi, p. 7.

of addressing the transition from the "involuntary" lending of new money – as banks were pressured to make new loans proportionate to their exposure – to voluntary capital flows, failing also to supplement public lending; therefore it was replaced in 1989 by the Brady Plan, to which the beginning of the third period can be dated. The Brady Plan allowed the banks to get non-performing loans off their balance sheets, transforming their claims on the debtor countries into negotiable instruments. A commercial bank could exchange the non-performing loans for a performing bond: the debtor country's liability appeared as payment on the bond rather than the loan. Therefore the concentration of risk exposures on the private banks' balance sheets was reduced.[47] Morocco was at first considered eligible, but concern over the balance of payments and the view that the buy-back of the debt was too onerous for the foreign reserves, together with the absence of an agreement for access to the IMF Extended Fund Facility[48] made Jordan the only MENA country to take part in the plan. While the Baker Plan had held that eventually all the debt would be repayed on market terms,[49] the Brady Plan for the first time – at least formally – contemplated debt reduction as a possible means to solve the debt crisis,[50] therefore leaving a case-by-case approach decided by creditors only.[51] In general, therefore, the relationship between loans and investment based on that between growth and the cost of debt service was initially replaced by debt service in the absence of growth, hence based on budget cuts, and

[47] Boughton J.M., *Silent Revolution. The International Monetary Fund 1979-1989*, Washington D.C., 2001.
[48] S.M. Nsouli, S.Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, pp. 51-52.
[49] Sachs J., *Making the Brady Plan Work*, Foreign Policy, Summer 1989.
[50] As noted, to grasp this difference it is helpful to view the two plans as expressions of two different, although both Republican, administrations, i.e. Reagan and Bush. Brands H., *Making the Unipolar Moment: U.S Foreign Policy and the rise of the post-cold war order*, London, 2016.
[51] Berthélemy J.-C.; Lensink R., *An Assesment of Brady Plan Agreements*, OECD Development Centre, Working Paper n. 67, May 1992.

then on the Ricardian principle of comparative advantage (in decisive measure the result of specific economic and political conditions engendered by the reforms themselves) and foreign direct investment as vehicle for growth – and therefore on low labour costs, with scant importance attached to increasing value added in production or average income.

The general schema adopted in dealing with the debt crises of middle-income countries, as described here, implied the attribution of different relative importance to the objectives of stabilisation and liberalisation. IMF and WB intervened in the definition of the policies to be adopted, with sometimes conflicting roles and agendas. Generally speaking, analysing the respective documents one can see that, as result of an evolving approach, the IMF displayed a stronger commitment to the "stabilisation" side of the reforms, while the WB placed greater emphasis on liberalisation as a vehicle for growth. As to the two countries discussed here, Tunisia was considered as a country in which a liquidity crisis was possible, but when the IFIs intervened, the WB's role was preponderant and fairly consolidated. By contrast, in Morocco, a "Baker Plan Country," the transition from the IMF-led stabilisation approach typical of the first period to a reform process under the guidance of the WB proved difficult. The IMF had been present in the country since 1980, several programmes were under way, and the conditions attached to aid proved effective in guaranteeing the continued preponderance of the IMF.

Anyway, as we will see, the 1980s with the protracted intervention constituted a period of profound reconfiguration also as regards the IFIs' role, overturning or at least questioning role allocations that had once been taken for granted, as Morocco and Tunisia show.

2. Stabilisation over adjustment: IMF and World Bank in Morocco

So far we have focused on developments in the balance of payments on current account, in particular the trade balance and exter-

nal debt. Investment, seen from a macroeconomic point of view, while important, has not been absolutely central as it had been in the economic development of Morocco in the previous decades and would be again in determining the modalities and periodisation of the IFIs' programmes during the '80s. Analysing the economic history of Morocco and the recurrence of the problem of underinvestment, one cannot fail to ask the question formulated by Easterly, which in this particular case assumes a new cogency: what did structural adjustment adjust?[52]

Although they indicated it as a success in some cases, the IFIs in the 1990s clearly expressed the fact that the results of their protracted engagement in the Kingdom of Morocco were at least ambiguous: after a decade of massive involvement, while impressive reductions in the current account deficit and the budget deficit had been achieved,[53] GDP growth was slowing (in the period 1992-2000 it averaged 2.47%, compared with the 3.37% in 1983-1985 and 4.91% in 1986-1991[54] – using the periodisation of the IMF as will be seen later – but under 2% in 1989-1993, as pointed out by the World Bank).[55, 56] And there was growing awareness, in particular by the WB, that the relatively positive performance of the mid-1980s was due to external factors, as the exogenous shocks of the early 1990s and their perceptible effects on the Moroccan economy confirmed.[57] Although, as is pointed out by Harrigan and El-Said in their review,[58] the IFIs

[52] W.Easterly, "What did structural adjustment adjust?: The association of policies and growth with repeated IMF and World Bank adjustment loans", in *Journal of Development Economics*, no. 1, 2005, pp. 1-22.
[53] S.M. Nsouli, S.Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995.
[54] World Bank, World Development Indicators.
[55] *Kingdom of Morocco - First and Second Structural Adjustment Loans*, Washington, D.C., World Bank Group, 1995, p. IV.
[56] World Bank concern over a policy-induced stagnation inspired the reversal in investment policy envisaged by the SAL I already in 1988, as will be seen in detail later.
[57] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997.
[58] J.Harrigan, H.El-Said, *Aid and Power in the Arab World: IMF and World Bank policy-based lending in the Middle East and North Africa*, New York, 2009.

in their documents attribute these results both to the non-implementation of some reforms – more commonly in the IMF analysis – and to the "over-optimism" and overestimation of some trends and the excessively weak conditions for some programmes – an addendum present in the WB analysis[59] – our own thesis is that the results depended on the stabilisation and adjustment path as a whole, i.e. in the way its parts, their priorities and objectives were conceived, and on the relationship between arrangements and programmes. Therefore, since the Moroccan adjustment process was not conceived organically,[60] we will try to offer an overview of the different moments that constituted it and above all the main factors behind it. The moments are marked by the relationship between IMF and WB in setting priorities and designing policies, so in our reconstruction we will try to highlight the way in which the general strategy of the Baker Plan – applied indifferently to different contexts – constituted a point of passage, although contradictory, in the relationship between "stabilisation" and "adjustment" and between IMF and WB in Morocco. In our view this report, in direct relation to the issues of budgetary and fiscal performance on the one hand and investment and adjustment on the other, is the key to answering Easterly's question. But while the fact that Morocco was a "Baker Plan country" was pivotal, determining a profound mutation in the relationship between WB and IMF, it has not received due attention to date.

2.1 Dealing with under-investment: analysing Moroccan economic policy causes and effects before the structural adjustment

In order to understand the peculiar context of the IFIs' intervention it should be viewed against the history of the Moroccan economy; we accordingly need to consider some dynamics that shaped the economy and society following the end of the colonial period. Under-investment, in fact, is a recurrent factor in the history of in-

[59] *Ibidem*.
[60] *Ibidem*.

dependent Morocco, and was due largely to the peculiar socio-political structure on which the Monarchy rested and the way it influenced economic policies. This further helps to explain why, despite the massive protests against the stabilisation measures, there was no regime change in Morocco, differently from Tunisia in 1987. In this sense, in fact, the influence that the new economic policy had on the relations between governments and their social referents was central.

The Moroccan state, in fact, made no substantial enlargement of its social base after the end of the Protectorate in 1956. While in Tunisia the National Front sought synthesis between the various portions of society that, albeit schematically, were represented in it, in Morocco a central role was played by the *Makzhen*[61] – a characteristic concept indicating the overlap and interpenetration between state and propertied classes. The state, in fact, maintained substantial autonomy vis-à-vis civil society[62] and even representative politics.[63] The classes forming *Makhzen* were (and are) bearers of different – and progressively differentiating – interests, benefiting from Morocco's position in the network of international trade[64] since the Algeciras Treaty of 1906. This, guaranteeing the economic openness of the Protectorate, made the Moroccan élites the point of conjunction between internal production and external commerce, as they were at once traders, local rulers and landowners. Therefore, the Moroccan owner classes were directly interested in both an economy based on exports of primary goods and the maintenance of extremely con-

[61] Marais O., "Elites intermédiaires, pouvoir et légitimité dans le Maroc independent", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1972, pp. 179-201.
[62] Two decisive elements in the history of Morocco in the post-independence period follow: a weaker drive than in Tunisia – where the issue was made clear by the Bizerte crisis of 1962 – to see that formal independence would be followed by substantial and economic independence, and consequently lesser importance attached to economic growth and better living conditions thanks to the development of an industrial economy.
[63] Ben Ali D., "État et Reproduction Sociale au Maroc: le cas du secteur public", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, Tome XXVI, 1987, pp. 118-131.
[64] *Ibidem*.

centrated land ownership; the enlargement of the internal market and investment were not in their interests, since they depended on exports of raw materials and agricultural goods produced on large estates by extremely cheap labour. Despite the efforts of democratic and left-wing forces, which, in a scantily industrialised society with a high percentage of geographically dispersed rural population, were rooted mostly in the small urban bourgeoisie, there were no substantial reforms and no enlargement of the interests represented in government – also as a result of the monarchy's ability to intervene in political dynamics. Rather, as will be seen, during the 1970s the Palace expanded its social base to the urban bourgeoisie and the army.

This was clear during the '60s, when population increase exceeded the stagnant growth of output, so that real per capita GDP declined. This was determined by under-investment, resulting from the massive capital outflow which, from independence onwards, affected the country until 1963-1965 – capital controls imposed by the Ibrahim government in 1959 having been implemented half-heartedly[65] – but above all by the link between the interests of large landowners and the *haute bourgeoisie* for which the monarchy was the guarantor. This led to the rejection of the agrarian reform and, consequently, the non-implementation of the 1959-64 plan whose necessary condition was to enlarge the internal market and produce a surplus to be allocated to industrialisation.[66] The problem of unemployment and underemployment, which as we have seen was at the root of the 1965 Casablanca revolt, was hardly a primary concern in economic policy formulation thereafter.[67] In fact, the third Five-

[65] Tiano A., *La politique économique et financière du Maroc indépendant*, Paris, 1963.
[66] For what concerns the outflows of capitals during the first years after independence and the general situation of the Moroccan economy see: Amin S., *L'économie Du Maghreb (1): La Colonisation et La Décolonisation,* Paris, 1966; Belal Abdel A., Agourram A., "L'économie marocaine depuis l'indépendance", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1970, pp. 146-168. For what relates with the relations between some social sectors, the monarchy and the economic policy of the realm: Monjib M., *La Monarchie Marocaine et la lutte pour le pouvoir*, Paris, 1992; Chevassu J-M., "Le Rôle de l'état Marocain dans la croissance. Le blocage et la restructuration du secteur industriel", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1987, pp. 195-217.
[67] At the time Moroccan population was composed mostly (two thirds) of rural popu-

Year Plan (1968-1972) provided for an increase in state investment, considered functional to private enterprise, but at the same time fostered a model based on exports of low-cost raw materials and agrifood products[68] (with the usual effects of the one-crop model) and imports of capital goods. These objectives achieved, the growth in employment (2%) would have been lower than that of the working age population (3%), thus somewhat aggravating the dependency of the Moroccan economy. The state investment, in fact, was directed, apart from agriculture, to the phosphate sector, tourism and to a much lesser extent light industry. Aided by conjunctural factors and reinvigorated by the investment under the Third Plan, the Moroccan economy, for the first time since independence, experienced a significant growth (5.2% per year) until 1972.[69] But even in favourable conditions the weaknesses were evident: the 1973 surge in petroleum prices was beneficial as the country profited from the related rise in phosphates prices, exports of which would finance the ambitious Fourth Five-year Plan (1973-77), without at first affecting the trade balance, given under-industrialisation and the low consumption level.[70] Between the end of the '60s and the first part of the '70s the economic development of Morocco was characterised by a push towards exports[71] and discontinuous investment dynam-

lation (an important factor in determining the limited mobilisation capacity of parties and unions). Urban unemployment – which worsened during the 1960s – was 30% to 50%, while rural underemployment was estimated at over 60%. *Ibidem*.

[68] This is well represented by the case of the agricultural sector, investments in which, aimed at favouring export crops (the association agreement with the EEC was approved in 1969), favoured large landowners and at the same time aggravated the national food deficit. It is interesting to note that this dynamic happened also in Tunisia at the end of the 1970s, after the dismantling of the agricultural cooperatives. This was one of the cases in which the two national dynamics, although different, seem to converge over time. For Morocco see: Benhadi A., "La politique Marocaine des barrages", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1976, pp. 275-293.

[69] Ganiage J., *Histoire contemporaire du Maghreb de 1830 à nos jours*, Paris, 1994.

[70] Vermeren P., *Histoire du Maroc depuis l'indépendance*, Paris, 2016.

[71] Concretised by the 1973 investment code law adopted under WB recommendation, and significantly implemented at the same time in Tunisia. This feature shows how although from significantly and somewhat opposed point of departure and different GDP structure, some features started to show increasing similarities after the 1969 EEC association and, as regards Tunisia, after the end of *Socialisme Dusturien* that when proclaimed, constituted precisely a response to the common problem of underinvestment.

ics, related to phosphates prices.[72] This relative boom in an economy that until then had suffered from under-investment proved short-lived, and while it is precisely to this period that the birth of industrial manufacturing in Morocco dates (public investment in the sector would increase from 11% of the budget during the third plan to 21.7% during the fourth), after the 1975 fall in phosphates prices, the Moroccan economy was affected by the combination of a collapse in export earnings, the impossibility of directing the production of the newly created light industries to a domestic market that was too small,[73] and the dependence on imports for both basic necessities and capital goods. After the brief parenthesis of the 1970s, in the '80s, as a result of stabilisation measures, Morocco returned to a situation of under-investment that impacted on the large majority of the population but not the upper classes, which saw their interests perfectly represented by a Monarchic state whose power was based on them. In this sense, as will be seen, the effects of the IFIs' intervention marked a return to the dynamics of the past – with the first part of the 1970s as an exception – more than a reversal of policies.

As noted in the introduction, between 1973 and 1977 the import-export ratio went from 80% to 40% and recourse to debt increased. At the end of the '70s the factors mentioned resulted in a complex situation both socially and politically, which is essential to understanding the politics related to the stabilisation measures. On the one hand, the gap between civil society and the political elites widened: the parliament of 1973 remained the same until 1983 while the decentralisation law of 1976 strengthened the local elites. These mea-

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[72] From a political point of view, starting from 1969 and for the whole period of the fourth plan (1973-1977) Morocco was shaken by the beginning of the years of terrorism and the repression followed by two attempted coups (1971 and 1972) and the revolt in the mid-Atlas, complex factors whose analysis would go beyond the theme of this paper, but which had as a result a widening of the gap between the population and decision-makers as well as a symbolic "Moroccanization" of the economy and administration and the insistence on nationalist issues that would lead to the deployment of the armed forces in areas far from the capital and especially in the Western Sahara, with significant repercussions on Moroccan finances after 1975.

[73] Ben Ali D., "État et Reproduction Sociale au Maroc: le cas du secteur public", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, Tome XXVI, 1987, pp. 118-131.

sures were linked to the efforts of Hassan II to strengthen support for the monarchy, as well as the "green march" of 1976, confrontations with Algeria, and especially the costly military commitment in the Western Sahara, which was structurally inflationary. In this context, after the capture of the city of Tan Tan in 1979 by the Polisario Front, more than 7,000 U.S. troops intervened in support of Morocco during operation "Ohoud." The intervention, repeated in 1982, and the strong relationship between the US and Morocco are significant. Morocco was important not only as a debtor country but also as regards the projection of US power in the region, arguably related to the steady support offered by the IFIs. Also, in 1979 the oil shock hit Moroccan industry and, together with the sudden rise in interest rates, the balance-of-payments deficit, which was aggravated by the European recession as a result of the dynamics discussed in section 1.3. At the same time, from a social point of view, the drought that lasted from 1980 to 1984 was decisive, a factor that would become recurrent in the following decades, aggravating the urban migration of the rural population, strangled by debt and looking for work. Precisely in the urban context of Casablanca – a city of 3.2 million, a quarter of them in *bidonvilles* and where 70% of the 1.9 million people under twenty years of age were not in school and the vast majority were unemployed[74] – during the famine caused by the drought, the bread riots of June 1981 and January 1984 broke out (the latter in parallel with the riots in Tunisia), caused by the cancellation of food subsidies under the stabilisation measures imposed by the IFIs. Differently from Tunisia, where the bourghibiste state encountered increased difficulties in representing the totality of social categories and was replaced by a government with a more restricted group of social referents on the eve of structural adjustment, in Morocco these economic policies, as the effects of the economic cycle of the '70s, did not contradict a power system already extremely elitist, which was indeed reinforced during the decade that preceded the IFIs' intervention, or the interests of its stakeholders, thus not endangering the

[74] Santucci J-J., *Chroniques Politiques du Maroc*, Paris, 1985.

power of the Monarchy, which found new legitimation in the realisation of the reforms demanded by the IFIs – whatever the social cost. This was reflected in the composition of the Moroccan government during the decade, which despite the insistence on pluralism in the 1983 elections showed accentuated political continuity – both within the decade and with the '70s, as exemplified by the figure of Lamrani, three times prime minister (1971-72; 1983-1986; 1992-1994) – and can be considered as the expression of the alliance between the entrepreneur classes and the Palace.

2.2 IFIs' support and periodisation between 1980 and 1993

In many respects Morocco was a special case. This becomes all the clearer if one takes into account the number and persistence of the IFIs' structural interventions over the course of a decade. Although this was an element common to many developing countries in the history of the period, in the case of Morocco, even by comparison, the number and persistence of programmes was a notable feature.[75] In 1980-81 the negotiations for an SAL proposed by the WB failed because of the political difficulty of getting the ruling classes to accept the reforms it envisaged at a time when other sources of funding were still available[76] – especially private and short-term debt, as we have seen. The plan launched in 1983 by the new Lamrani Government to comply with the IMF's Extended Fund Facilities (EFF) was characterised by the pre-eminence of budget austerity and measures aimed at reducing demand, by comparison with the plan proposed in 1980-81.[77] Taking into account also the two EFFs, between 1980 and 1992 Morocco took out 18 support and adjustment loans with WB and IMF (Table 2), an astonishingly high number. As for IMF, during the period 1980-93, it committed to Morocco 3,040 million SDRs under stand-by and extended arrangements; Morocco

[75] Bird G., *International Monetary Fund lending: The empirical evidence*, Working Paper n. 70, Overseas Development Institute, 1993, p. 14.
[76] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 6.
[77] *Ivi*, p. 7.

Table 2
IMF Loans and World Bank Adjustment Loans to Morocco (disbursed) – 1980-1993

Institution	Loan	Starting	Ending	SDR	Dollars
IMF	EEF	10/80	3/81	147	–
IMF	EEF	3/81	4/82	136,5	–
IMF	SBA, CFF	4/82	4/83	517	–
IMF	SBA	9/83	3/85	300	–
WB	ITPA I	5/84	6/85	–	150
WB	ASAL I	8/85	6/89	–	100
IMF	SBA, CFF	9/85	12/85	125	
WB	ITPA II	10/85	11/86	–	200
WB	ESAL	3/86	12/89	–	150
IMF	SBA	12/86	4/87	240	
WB	ASAL II	12/87	12/91	–	225
IMF	SBA	9/88	12/89	210	–
WB	PAL	9/88	12/89	–	23
WB	SAL I	12/88	12/89	–	200
IMF	SBA	7/90	3/91	48	–
WB	EFSAL	6/91		–	235
IMF	SBA	1/92	3/93	18	
WB	SAL II	3/92	12/93	–	275

Source: IMF, *History of Lending Arrangements - Morocco; Kingdom of Morocco - First and Second Structural Adjustment Loans*, Washington, D.C., World Bank Group, 1995.

used resources amounting to a total of 1,733 million SDRs, including 352 million SDRs under the two Compensatory Financing Facility loans (CFF) of 1982 and 1985.[78] The WB's overall financial support in 1983-1995 was $5.53 billion, or $425 million per year;[79] the adjustment loans amounted to $1,065 million.[80] As a result, by 1994 the Moroccan debt to IBRD represented 17% of its total external debt

[78] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995.
[79] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 8.
[80] *Kingdom of Morocco. First and Second Structural Adjustment Loans* (English), Washington, D.C., World Bank Group, 1995, p. 2.

and 12% of GDP, a record among WB borrowers that was equalled only by Tunisia, where the percentages were respectively 19% and 12%. By contrast, for the group of all-middle income countries IBRD debt represented only 6% of total debt and 2% of GDP in 1994.[81] It is worth pointing out that while IMF financial assistance peaked in 1985, turning negative in the years 1985-88, exposure increased; in fact, it is not by chance that in the periods predominated respectively by the two IFIs these two dates mark the passage between the first and the second phase of the stabilisation and adjustment intervention. Whereas for the IMF the first period runs from 1983 to 1985, the year of the tax and trade regime reform,[82] for the WB the first phase – referred to as "Successful Start of the Adjustment Process, but Insufficient Focus on Structural Fiscal Issues" – ends in 1988, coinciding with the activation of SAL I;[83] in both cases the second phase – called by the WB "Conflicting Signals and Overoptimism"[84] – ends in 1993, when SAL II is closed. The turning points of 1985-1988 also appear to be the same in other respects. One of them is the level of central government investment (which in 1977 amounted to 20.7% of GDP) which in 1988 – as a result of the measures provided for in the first place by the IMF, which defined "fiscal adjustment" as its "primary policy"[85] – declined to its lowest level, 3.6% of GDP (or 2.8% by the 1988 WB estimate),[86] before rising in subsequent years, climbing to 7.7% of GDP in 1993[87]; a second is the turning point in the fiscal policy represented by the tax reform of 1986, while

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[81] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 8.
[82] S.M. Nsouli, S.Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, p. 8.
[83] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 9.
[84] *Ibidem*.
[85] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, p. 10.
[86] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 5.
[87] *Ivi*, p. 44.

a third is a determining factor in the general policy followed by the IFIs. In fact, if the years 1985-1988 are those that are identified as pivotal in the adjustment and stabilisation path, it should also be noted that these coincide basically with the years during which the IFIs' intervention in heavily indebted countries was built around the "Baker Plan" (1985-1989),[88] which encompassed Morocco.[89] It was under the Baker Plan scheme that Morocco obtained – for debt restructuring in three stages between 1986 and 1992 – a total of $6.2 billion in medium-term credit, in addition to a sixth Paris Club rescheduling (1983-92), for a total amount of relief of $6.9 billion.[90]

2.3 A contradictory pattern with conflicting objectives: The Baker Plan and the non-return to an investment policy

In Morocco the IFIs essentially applied the common strategy of the day, a strategy that would be maintained throughout the decade and beyond. As seen, the base of the strategy was, as in the first half of the '80s, the rejection of a "bankruptcy approach" to the problem, judging that coerced forgiveness would "admit default," assuming that the principal debtor countries could – in the colourful jargon of the time – "grow their way out of the debt problem."[91] On the basis of the main assumption, this second point, after 1985, should have implied a change – as shown in the introduction – both from the point of view of the policies applied in the debtor countries and, implicitly, an "institutional shift from the IMF to the WB as the lead institution in debt management."[92] At the core of the Baker Plan effort there lay the understanding of the necessity to support the debtors'

[88] *The Baker Plan: progress, shortcomings, and future* (English). Policy, Planning and Research Department working papers; no. WPS 250, Debt and international finance Washington, D.C., World Bank Group, 1988.
[89] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, p. 51.
[90] *Ivi*, p. 8-9.
[91] *The Baker Plan: progress, shortcomings, and future* (English). Policy, Planning and Research Department working papers; no. WPS 250, Debt and international finance Washington, D.C., World Bank Group, 1988, p. 4.
[92] *Ibidem*.

current account in order to ensure continued debt service. But also, for the general approach to the middle-income debt problem, this meant moving away from short-term stabilisation programmes that implied recessionary effects, to longer-term development objectives – with strong emphasis on capital flows, FDI and trade liberalisation as well as privatisation, in order to replace government as investor, and international capital to avoid the risks connected to borrowing abroad (including the "free rider" behaviour of banks and the resulting halt of lending).[93] Therefore, where the IMF provided direction early in the crisis, the WB, pursuing the Baker Plan targets, would have sought to do so over the medium term. The evolution in the IFIs' intervention strategy and the related rejection of the sole stabilisation approach implied, at least in the medium term, an increase in infrastructural investment. However, the passage from the first to the second declination of the general approach was therefore by no means a linear and univocal process as would appear to be suggested by the activation of the credit lines shown in Table 2, but rather extremely contradictory and difficult, profoundly marking the path followed by Morocco during the 1980s and the first part of the 1990s with the persistent effects of the fall in investment on both policy measures and growth.[94] The result was the substantial non-departure from the "stabilisation approach."

During the first phase of IFI involvement – approximately the first half of the decade, given that, as will be shown, it is necessary to problematise the two periodisations utilised by IMF and WB in referring to the Morocco intervention – the emphasis was precisely on macroeconomic stabilisation, to be achieved by improving current account balance in the short term by cutting government expenditures and particularly investment and reducing demand.[95]

[93] Ivi, pp. 4-5.
[94] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988; *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997.
[95] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, Interna-

Otherwise, subsequently to 1985, the 1987 WB SAL was said to "constitute a major departure from past attempts in that stabilisation was to be accompanied by structural reforms so as to maintain acceptable rates of economic growth."[96] In any case, the transition to the new strategy turned out to be more complex than expected on paper, and the adjustment process did not experience any particular turning point.

Therefore, until 1985 and under the lead of the IMF, emphasis was placed on diverting budgetary resources in order to avoid default, and although several structural reforms were envisaged, this aspect was essentially limited to preparatory studies.[97] This was in part determined by the worsening of the general situation in 1981-82, reflected in the replacement of the programme supported by the EFFs by a succession of Stand-By Arrangements, flanked by WB's sectoral loans, seen in Table 2.[98] Moreover, given that interest on public debt amounted to about a quarter of budget outlays,[99] the emphasis was on fiscal adjustment through sharp cuts in capital expenditure and wage restraint (real state-sector salaries fell by 20%), supported by a restrictive monetary policy through credit controls and a flexible exchange rate; at the same time, social tensions were exacerbated by the reduction of subsidies on essential consumer goods,[100] sparking "bread riots" that were violently repressed, as in 1981 and 1984, ideally – and symbolically – marking the begin-

tional Monetary Fund, IMF Occasional Paper, 1995, pp. 8-9; 11-13; 16-18; 42-51. *Kingdom of Morocco - First and Second Structural Adjustment Loans* (English), Washington, D.C., World Bank Group, 1995, p. 4.

[96] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 10.

[97] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, p. 8.

[98] *Ibidem*.

[99] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 4.

[100] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995., pp. 8; 13-14.

ning and the end of the first stabilisation phase formally under the leadership of the IMF. This monetary policy had two main effects. Fiscal measures were related to the current account deficit and the debt trend, and are explanatory of the policy focus: until 1983 Morocco was receiving net resource transfers in excess of 5% of GDP, but after 1985 this trend was reversed and in 1987 the country made outward transfers equal to nearly 3% of GDP abroad, net of debt rescheduling, as a consequence of the current account deficit. Nonetheless, owing to the continuing albeit decreasing foreign deficit and increases in the valuation of external liabilities linked to real exchange rate movements, the stock of external debt continued to rise (see Figure 1 and Table 1), amounting to 115% of GDP and 353% of all foreign exchange earnings in 1987;[101] this trend continued, and interest payments on the budget soared from 2% of GDP in 1980 to 5.8% in 1993.[102] The second, most decisive feature is investment policy, which was strictly related to the first both in the short term and as an underlying factor in the medium term, representing a recurrent factor in the overall policy mix for the decade. In fact, if the IMF periodisation defines 1985 – the year in which the Baker Plan started and IMF lending peaked before quickly turning negative – as the end of the "first phase" in the light of the first partial reforms of the tax system (introduction of VAT) and the trade system in 1986, the World Bank considers the implementation of its SAL I as the turning point from an "initial phase of *stabilization cum liberalization to one of comprehensive structural adjustment*"[103] attempting to make up for some "weaknesses" of the adjustment program in remedying macroeconomic imbalances, essentially the fact that the "narrowing of fiscal deficit has been achieved, in large part, at

[101] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 4.
[102] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, p. 16.
[103] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 6.

the expense of public investment […] lead[ing] to the suspension or cancellation of many essential investments in key economic and social sectors with potentially deleterious effects on future growth and development of human capital, as well as on income distribution."[104] While for IMF 1985 represented the passage to the second phase to be seen in continuity with the measures already implemented, the WB was bearer of a somewhat new approach. In this sense, we believe it is necessary to underline how the central point of the discord between WB and IMF was investment policy – as reported in the 1988 SAL I project – and not simply the "conflict between stabilisation and trade reform," which was, if anything, a reflection of it[105] as stated at the time,[106] while the contrary is reported in the Country Assistance Review of 1997[107] and subsequently in the literature.[108] In fact real government expenditure had declined by over 50% between 1981 and 1986, falling below the minimum necessary to meet the development needs of the private sector, whose total gross fixed capital formation rose from 12.9% in 1982 to 16.6% in 1986,[109] thus failing to make up for the reduction of more than half in central government investment,[110] given also that private investment was discouraged by the deterioration of infrastructure and public fixed capital owing to the policy of budgetary austerity.[111]

[104] *Ivi*, p. 5.
[105] The classic reference in this sense is the reduction of the Special Import Tax (SIT) provided for by ITPA II in order to promote trade liberalisation. This measure, however, was eventually dropped, "as the Bank gave ground to the arguments of the IMF (which at that time played a lead role in the context of ongoing debt reschedulings) in the interest of stabilisation and immediate deficit reduction"; original brackets in the text. *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 11.
[106] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 8.
[107] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, pp. 26-28.
[108] J. Harrigan H., *El-Said, Aid and Power in the Arab World: IMF and World Bank policy-based lending in the Middle East and North Africa*, New York, 2009.
[109] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 13.
[110] *Ivi*, p. 5.
[111] M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Re-*

We therefore suggest that the inherent conflict in Moroccan macro-economic policy after 1986 was rather between a fiscal policy aimed at reducing deficits while increasing savings mainly by reducing investment in a context dominated by the increasing cost of debt service (represented by payments to the IMF) and the need to create a path of reform, which however required an increase in investment and could lead to a worsening of the current account balance, thus requiring compensatory actions on the exchange rate (as suggested by the WB).[112] This contradiction during the first phase was "external," showing the contradictory approaches of IMF and WB, and resulting in the impossibility of implementing the sectoral reform envisaged by WB programmes due to balance-of-payments problems, thus being "internalised" into the SAL's programmes that marked the "second phase."

In fact, despite the negative IMF capital flows in the course of the second half of the 1980s and the formal institutional shift from IMF to WB as lead institution in debt and restructuring management envisaged by the Baker Plan – a factor that should be related, as anticipated, with the implementation of the first SAL in 1988 – what marked Morocco's path between the second half of the decade and the first half of the 1990s was the failure to resolve this contradiction, mainly as a result of three factors:

1) the inability of SAL I to exert an immediate effect, the difficulty of isolating it from the analytical point of view, and, given the importance of past policy actions, the effects of the austerity policy on investments and thus on development, diversification of GDP and even on maintenance of infrastructure – and their persistent effects in the given economic context;[113]
2) the fact that SAL I did not constitute a departure from the past

silience and Growth Through Sustained Adjustment: The Moroccan Experience, International Monetary Fund, IMF Occasional Paper, 1995, p. 14.

[112] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 8.

[113] *Kingdom of Morocco - First and Second Structural Adjustment Loans* (English), Washington, D.C., World Bank Group, 1995, p. IV.

and, being implemented against the background of the IMF-sponsored stabilisation programmes, reflected, from the policy standpoint, the persistence of the Government's commitment with the IMF (Table 2), with the coalescence of contradictory measures;

3) medium- and long-term growth, which implies the capability to cope with exogenous factors, namely fluctuations in international prices and demand, a crucial element in assessing the effects of a stabilisation and reform process rooted precisely in analogous dynamics.

As for factor 1), restrictive monetary policy and limitation of credit and investment has a lasting effect over time in a number of ways, shaping the economic environment in which new investment is expected to be made, for example through the deterioration of fixed assets and infrastructure, the adverse impact on the productivity of capital and the lack of further development, exerting its long-term effect also through the compression of domestic demand and the widening of the difference between high and rising interest rates and the marginal return on fixed investment,[114] as well as through the lack of cultural and technical development of the workforce (access to primary education declined from 64.02% in 1984 to 55.02% in 1989, reaching again 64.7% only in 1995, thus configuring a real "lost decade" in the field of human development),[115] which ultimately limits the real development of an economy whose greatest structural problem was dependence on raw material export revenues and lack of manufacturing.[116] Moreover, as in factor 2), the SAL objective to "support Morocco during a transition to a path of higher growth through increased investment" "was hampered by

[114] A factor profoundly accentuated by the fact that the overall strategy of the IFIs relied mainly on foreign capital for investment, as clearly stated in all the documents here cited.

[115] In 1986 the IBRD implemented the ESRPL (Education Sector Recovery Program Loan), as reported in Table 2. The World Bank, World Development Indicators, *School enrollment, primary (% net) - Morocco*.

[116] See note n. 90.

the commitment to "supporting a medium-term framework for Moroccan public finances in parallel with the IMF program to reduce the budget deficit"[117] and by an institutional and procedural framework which, as a result of the profound changes made in previous years, made it both difficult and time-consuming to approve new investments.[118] In fact, not only did the Target Investment Program (TPI), the main instrument foreseen by SAL I to increase public investment – which accounted for more than half of public investment, having increased from 2.4% of GDP in 1987 to 3% in 1990 – have limited effects (during the years of the program central government fixed investment increased by less than half a point as did total government investment (from 4% of GDP in 1987 to 4.5% in 1990), but, as the data show, the average investment had been higher before the programme (5.4% of GDP in 1985and 4.8% in 1986) than after (4.4% in 1990 and 4.5% in 1991), a sign that the program was not only unambitious, given the overall fiscal constraints around the SAL, but also impossible to sustain over time,[119] given the institutional and procedural changes mentioned above. The fact that the average growth rate of real GDP during the years 1985-1988 was 5.6% while the average for 1989-1992 was 2%[120] is what links the foregoing factors with factor 3), calling into question the relationship between growth and exogenous factors, a decisive element in assessing the outcomes of the IFIs' policy and reforms since 1980. At the beginning of the 1990s the IFIs' forecasts of the performance of the Moroccan economy were characterised strictly by the commencement of SAL II – substantially a continuation of the previous program with em-

[117] *Morocco - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 6.
[118] These modifications were at the level of the budget laws after 1986, and at the Investment Code and Central Bank and credit policy level. S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, pp. 10; 26; 35.
[119] *Kingdom of Morocco - First and Second Structural Adjustment Loans* (English), Washington, D.C., World Bank Group, 1995, pp. 8-9.
[120] *Ivi*, p. 9.

phasis on growth, trade liberalisation and social development – and CSP in 1993.[121] The contradiction between GDP growth and the optimism that characterised the WB at the beginning of the decade is accompanied by the contradiction in the explanation adduced. If, in fact, in the 1997 Country Assistance Review the cause is uniformly seen as the insufficient liberalisation of trade (and in one case the simultaneous appreciation of the exchange rate), the role attributed to exogenous factors in determining GDP performance is less clear; and while on p. 27 the Review notes "in retrospect, it would appear that exogenous factors played a more important role than judged by the Bank,"[122] on the subsequent page we find that "there was hardly any economic growth between 1990 and 1993, yet this was too easily dismissed as being the result of exogenous factors."[123] It is significant to note, however, that WB's emphasis appears to be exclusively on the liberalisation process, in particular trade, seen as a fundamental element for growth, and, marking a deep break with the concerns underlying SAL I, very little attention was paid to the level of investment. Therefore, our hypothesis is that in the period before SAL the growth of the Moroccan GDP was sustained by favourable external factors, such as, above all, the upward trend of phosphates and the downward trend of oil prices[124] (which by contrast would have an adverse effect on the Tunisian economy). The demise of these factors in the latter part of the 1980s made the effects of the policy of high interest rates and low investment evident; GDP growth was thus hit again by the effects of the 1991 Middle East crisis and the increase in the ratio of debt service to exports, which had fluctuated between 30% and 35% over the previous decade and, in 1993 (a factor not mentioned by WB but only by IMF)[125] rose to 37%

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[121] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, pp. 26-28

[122] The same is reported in the 'Executive Summary', p. 5.

[123] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997.

[124] *Ivi*, p. 25.

[125] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay,

as a result of the return to full debt service. This general hypothesis would be confirmed by the performance of GDP in subsequent years,[126] which was highly volatile owing to external factors, demonstrating the ineffectiveness of more than a decade of IFI interventionism in Morocco, and also by the level of private investment,[127] which did not grow satisfactorily despite a tax reform that reduced progressivity and introduced proportional taxation for high capital and assets.[128]

Finally, it is therefore clear that the attempt, represented by SAL I, to increase investment in order to promote growth and diversification of the Moroccan economy failed, given the prevalence of a policy based on the pursuit of a balanced budget and increased savings – which, in relation to GDP, remained at the same level in the 1980s as in the 1970s – and ultimately the need to divert resources towards debt service. This failure is shown eloquently by the current account balance (Figure 1). In this context, it is worth stressing that Morocco did not enjoy any debt cancellation with the exception of $2.7 billion owed to Saudi Arabia forgiven in 1990, nor, given the reserve level and the impact that it would have had on the balance of payments, was it possible to use the buy-back clauses provided in the last agreement with the London Club in that year.[129] As stated by the WB itself, in 1990, "the Bank now recognize[d] that in spite of the substantial progress in stabilisation, several development is-

Resilience and Growth Through Sustained Adjustment: The Moroccan Experience, International Monetary Fund, IMF Occasional Paper, 1995, p. 51.

[126] The World Bank, World Development Indicators, *GDP growth (annual %) - Morocco*.

[127] Accompanied by the following statement: "Morocco's industrial sector has grown at only 3.0 percent per annum in real terms, even though it absorbed one quarter of the Bank's lending during 1983-94: in addition, while the sector grew at 3.4 percent per year during 1983-90, its growth rate dropped to 1.2 percent during 1990-94. Private investment peaked in 1989-91 at 13.7 percent of GDP but then declined to about 11.7 percent in 1994, the same level as in 1983." *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 14.

[128] S.M. Nsouli, S. Eken, K. Enders, V.-C. Thai. J. Decressin, F. Cartiglia and J. Bungay, *Resilience and Growth Through Sustained Adjustment: The Moroccan Experience*, International Monetary Fund, IMF Occasional Paper, 1995, pp. 14-16.

[129] *Ivi*, p. 51.

sues facing Morocco remain much as they were in 1983."[130] Ultimately, in fact, it was the general assumption underlying the debt strategy that determined the outcome of the IFIs' intervention during the 1980s and the failure to move towards a strategy aimed at investment and growth. Having secured the resources for reform – and reflecting the climate of the early 1990s, with the conclusion of the Uruguay Round and the imminent birth of the WTO – the World Bank's emphasis shifted exclusively to the issue of trade liberalisation as a determinant of growth, no longer considering a surge in investment to be a prerequisite for those reforms. Therefore, the definitive end of the period considered was marked by the negotiations for the launch of the Barcelona process: given its "high financial involvement" in Morocco (in 1994 17% of Morocco's external debt was with the IBRD) and the new situation that was being configured, the WB planned to reduce its involvement in the following years, given that from 1993 net transfers from the Bank turned sharply negative and the role of other donors intensified, in particular the EU, which in the context of the future "association agreements" was expected to double its previous assistance, at the same time securing the trade liberalisation process, given the nature of the agreement itself.[131] In the end it had to be observed that "With Tunisia, Morocco was also the first MENA country to firmly anchor itself to Europe and to enter a far-reaching commitment to become fully integrated in the world economy" and that, as the WB continued, "Stability is not sufficient, however, to greater prosperity."[132]

3. From stabilisation to reform: the 1980s and the roots of Tunisia's "long-structural adjustment"

From various points of view, the Tunisian reform process repre-

[130] *Kingdom of Morocco Country Assistance Review* (English), Washington, D.C., World Bank Group, 1997, p. 13

[131] *Ivi*, pp. 21-22; 30.

[132] *Ivi*, p. 30.

sents the counterweight to the case of Morocco and a necessary term of comparison to understand the inherent dynamics of the IFIs' interventions and their far-ranging effects. In fact, not only was the leadership of the Tunisian adjustment firmly in the hands of the World Bank, but the collaboration between the two IFIs was not affected by substantial differences, and their intervention was much more straight-forward. Moreover, in light of what we have seen above, if in Morocco the intervention strategy was determined by the priority objective of avoiding default on the debt, in Tunisia priority was given to the transition to a market economy and the opening to international flows of goods and capital. Together, these two aspects – adjustment and reform – and the way in which they were interpreted represent the "external constraint" to which they were subjected in facing crises mostly determined by exogenous factors and international dynamics. In this sense, Tunisia and Morocco can be seen as the two complementary faces of the IFIs' interventions in the period.

Therefore, while Morocco was characterised by strong institutional continuity – given the compatibility of stabilisation measures with the "request" of the upper classes and the ability of the monarchy to maintain its relationship with them – it is necessary to underline that in Tunisia the three-year period 1986-1988, characterised from an economic point of view by the active intervention of the WB (ASAL I, September 1986; ITPAL, February 1987; SAL, May 1988) and IMF (SBA, November 1986; EFF, July 1988), was marked from a political point of view by the birth of the regime of Ben Ali, which ended the Bourghiba presidency with the famous medical *coup d'etat* of 7 November 1987. As the coup proved fundamental to speeding up reforms and reducing government investments,[133] the two aspects must be related. The austerity measures of 1984-86, and hence the reforms implemented under the IFIs' umbrella, gave the *coup de grâce* to a political system based on the often dialectical and conflict-

[133] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 9.

ual relationship between trade unions, representatives of manufacturing and agricultural enterprises, and the ruling party. If the *Dusturian socialism* of the '60s and the dirigisme of the '70s represent fluctuations within this dialectical and representative mechanism, the dynamics of the '80s – internal and external – and the measures imposed, by their very nature, made it impossible for a power structure to reach a "consensual" compromise between the different social referents. Hence the birth of a regime whose main source of legitimacy came to be what can be seen as an external constraint and the guarantee of reforms.[134]

In this sense, the crisis of the mechanism of representation and consultation – whose opposing drives emerged during the 1969-70 transition that led Tunisia to be the first Arab country to experience "*Infitah*" – can be traced back to the failure of Prime Minister Nouira's "*Contrat de Progres*", which provided for a contractualisation of social relations.[135] This was approved in 1974, in a context marked by strong economic growth driven by exports that began in 1972 but was soon reversed by the collapse of phosphate and semi-finished and raw materials prices following the slowdown in world demand, which had a decisive impact on the Tunisian economy from 1975 onwards. In view of the large increase in the working age population and in order to create jobs, during the second half of the 1970s the government invested in processing industries that were doubly dependent on international trade and capital: they not only processed imported products for domestic consumption but at the same time needed foreign investment for their establishment and operation, while the demand for their products depended on imports financed by oil receipts and the access to credit that this guaranteed.[136] During the period, however, the living conditions of the

[134] European Union, "*EU policies in Tunisia before and after the Revolution*", Policy Department, Directorate-General for External Policies, June 2016, Brussels, p. 74.
[135] Ben Dhiaf I., "Chronique Politique Tunisie 1980", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1981, vol. 19, pp. 577-601.
[136] Tizaoui H., *Le Décrochage Industriel des Regions Intérieures en Tunisie*, Tunis, 2013.

working population worsened both as a result of the decrease, in relative terms, in investment in public services, and as a result of the decrease in wages in relation to the cost of living, as well as soaring unemployment and the resurgence of regional disparities.[137] What took shape, despite the extension of the functions of the "*Caisse Générale de Compensation*" in order to calm food prices, was a "real social fracture" between the *Dusturien* Socialist Party and society, culminated in the "Black Thursday" of 1978, the first national strike in Tunisia, which had as its effect the arrest of workers and executives of the union, and, during the night of 26-27 January 1980, the takeover by a commando of the city of Gafsa, a mining town that was a symbol of trade union struggles and representative of the depressed south of the country. The episode, though often depicted exclusively for its international implications – the commando had received weapons from Libya – also had domestic social relevance that could not be mistaken.[138] The Gafsa episode contributed to the destitution of the Nuira government by Bourghiba on 8 March 1980 and its replacement, after profound changes in the party and in the top administration, with the Mzali government on 23 April. The main objective was to pacify a situation deemed dangerous; the Mzali government at first seemed to meet the demands for pluralism and greater political freedom, accepted some of the union's demands and released the leaders imprisoned in 1978. As far as the political aspect was concerned, however, the struggle against the Islamist political forces was used to legitimise a return to repression; while from the economic point of view starting in December 1983, as a result of the demands of WB and IMF, the government changed course. The emergence of the *Mouvement de la tendance Islamique* (MTI) during the 70s, in fact, was ascribable to the incapacity of the party to rep-

[137] Ben Romdhane M., "Mutations économiques et sociales et mouvement ouvrier en Tunisie de 1956 à 1980," Centre de recherches et d'études sur les sociétés méditerranéennes (CRESM), Editions du CNRS, Paris, 1976 vol. 21 pp. 259-284
[138] Ben Dhiaf I., "Chronique Politique Tunisie 1980", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, 1981, vol. 19, pp. 577-601.

resent the demand of broad strata of a society that had become much more complex than in the past, reflected in the party itself. At the beginning of the 1980s, therefore, the fracture was not only between party and society but also within each.[139] The party – which had experienced numerous turnabouts during the previous decades – was highly fragmented and stratified; the pressure from the entrepreneurial classes was strong, and had strengthened during the '70s against those who expressed the dirigiste tendency.[140]

The Tunisian political situation in the '80s was thus marked by two major features, both the product of long-term dynamics. The first feature was the incapacity of the *Parti Socialiste Desturien* (PSD) to represent the demands of the components of an increasingly complex society. This was manifest during the rupture with the *Union Générale Tunisienne du Travail* (UGTT), which had emerged during the 1969-70 transition and been concretised during the subsequent decade, and with the emergence of opposition parties both secularist and Islamist, whose success was due not only to social problems but also to the movement of "re-traditionalisation" of society triggered in the 1970s by the dismantling of the agricultural cooperatives and the sale of land to private individuals, which fostered the rebirth of traditional social ties and the influx of immigrants to the cities, with high unemployment and poverty; among them, support for the MTI was very strong.[141] The second feature was the internal division of the party, whose dynamic was dominated by the abrupt decisions of Bourghiba, concerned to keep the party in power, but within which, as a result of the fracture with the UGTT and the change in the economic structure in the 70s, the component that referred to en-

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[139] Among the opposition forces, there were violent confrontations between "secularists" and "Islamists," who clashed several times in universities – with recurrent clashes in the university of Tunis between 1984 and 1987, still well remembered today, as some Tunisian novels demonstrate – and in the streets.

[140] Ben Romdhane M., "Mutations économiques et sociales et mouvement ouvrier en Tunisie de 1956 à 1980," Centre de recherches et d'études sur les sociétés méditerranéennes (CRESM), Editions du CNRS, Paris, 1976 vol. 21 pp. 259-284

[141] King S.J., *Liberalisation against Democracy. The Local Politics of Economic Reform in Tunisia*, Bloomington, 2003.

trepreneurs and owners had gained strength.[142] The instability was accentuated by the impossibility of distinguishing party and state – even in the eyes of the party – and by the lack of democratic dynamics and the presence of strong repression. Moreover, this situation led to the spread of a clientele system, experienced as even more unbearable in a situation of widespread unemployment. In this sense, the bread riots of January 1984 must be seen in the broader context of a decade of bitter social conflict in Tunisia and related to the facts of January 1978 and 1980, although they were also the expression of a rapidly changing context, as is made clearer below. In any case one must emphasize that these were only the most serious episodes in years marked by almost continuous protests, strikes and clashes.

Apart from the political factors, three issues were central from a macroeconomic point of view:

1) the greater diversification of the Tunisian GDP compared to Morocco, for the reasons seen above, the greater stock of fixed capital and past investment in human capital formation, and the presence of a developed manufacturing sector – arguably the element at the base of the results claimed for the reform, together with non-compliance with the policy of investment reduction;
2) the way, and partly the degree, that exogenous shocks affected the national economy – in a context characterised by the progressive depletion of energy raw materials reserves; and
3) the lesser importance of the debt problem, given its structure, which was influenced by the state of the current account and the foreign currency reserves, which, with a view to stabilisation, was a central issue for government in 1982-1986 and for the IFIs afterwards.[143]

But in any case there was persistent concern sparked by the attitude of international creditors towards Tunisia. These elements are

[142] Vandewalle, D. "From the New State to the New Era: Toward a Second Republic in Tunisia", in *The Middle East Journal*; Autumn 1988; 42, 4; pp. 602-620.

[143] Ben Romdhane, M. "Fondements et Contenu des Restructurations face a la Crise économique en Tunisie. Une analise critique", in *Annuaire de l'Afrique du Nord*, Tome 26, 1987.

fundamental to understanding the trajectory of the process of structural redefinition in Tunisia between the second half of the 1980s and the early 1990s, as well as the results of this process. As it will be possible to see further on, while taking into account the differences with the Moroccan case, in Tunisia too it is possible – analysing the medium-term effects, and considering the persistent need for assistance, even in a context produced by the centrality of the EU as a reference institution – to question the efficacy of the reforms, which, once again, were linked to an agenda, objectives and needs that were external to the countries affected and tended to favour international capital; both as creditors, as in Morocco, and as investors, as will be clear from the analysis of the Tunisian case.

3.1 How to secure a structural adjustment process: Government-led stabilisation in 1984-86 and WB use of "quick disbursement loans with structural characteristics"

In fact, despite the very high ratio of foreign loans to debt service (which reached 95% in 1982-86, compared to 64% between 1976-81), in light of its structure, the foreign debt was not considered an immediate concern by the IFIs, although it was an important drain on foreign resources – as well as highlighting the changes in international capital markets after 1979.[144] Indeed, even if the share of short-term borrowing had increased slightly since 1980, Tunisia's overall foreign debt remained mostly long- and medium-term: 60% of foreign loan disbursements were from official sources, and nearly 31% on concessional terms.[145] Overall, the borrowing terms were thus

[144] By contrast, making it clear how different the points of view were, the Banque Centrale de Tunisie considered the foreign debt as the main threat to the Tunisian economy, probably because 95% of the loans taken out abroad were used to repay the debt, which as seen gave rise to strong future difficulties. Conseil d'Administration de la Banque Centrale de Tunisie "27éme Rapport d'Activité. Excercise 1985", Banque Centrale de Tunisie, 1986, p. 6.
[145] Over 70% of official disbursements came from bilateral sources, about 20% from the Bank Group, and 10% from other multilateral sources.

relatively favorable, averaging 8% interest and 15.3 years maturity, and debt service requirements were projected to increase only slightly.[146] Differently from Morocco, for Tunisia a debt spiral remained only a threat, and the country never sought debt rescheduling and, throughout the period taken in consideration, always serviced its external debt on schedule,[147] which was an important factor in determining the direction of restructuring and constituted the fundamental assumption behind the IFIs' intervention. Nevertheless, both the impetus towards liberalisation that animated the major international economic actors and the general context characterised by the solution that emerged in 1985 to face the global debt crisis were decisive in determining the IFIs' intervention in Tunisia – the fear, as stated in the ITPAL project in 1987, was that in light of the decline in oil production and balance of payments problems, "financial markets, already concerned by the worsening debt problems of the developing countries, would revise their ratings of Tunisia's creditworthiness."[148] This intervention can be understood as aimed at redirecting the measures taken during the Sixth Plan (1982-1986), stabilising the economy and reducing current account liabilities, thus radically changing – in some sense through imposition, as will be seen – the structure of the Tunisian economy.[149]

In the course of Sixth Plan, substantial changes occurred in the economic policies followed by Tunisia. Given the difficulties analysed above, from 1984 the Government, in consultation with the IFIs, applied strong stabilisation measures aimed at reducing the balance-of-trade and budget deficits[150] while compressing aggregate de-

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[146] *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986, p. 13.
[147] G.Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993, p. 2.
[148] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, p. 3.
[149] *Ibidem*.
[150] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, pp. 2-3.

mand; measures of an expansive nature were abandoned, investments were reduced, and the cancellation of food subsidies led to major "bread riots" in 1984, brutally repressed before the momentary reinstatement of the subsidies.[151] Together with the events of 1978 and 1980, the events of January 1984 evidenced the crisis of a political system unable to mediate the tensions of a society in which rapid change was intertwined with and partly determined by exogenous factors. However, the events of 1984 must necessarily be related to the uprisings triggered by the common stabilisation measure, as in case of the Moroccan urban revolts of 1981. The revolts of 1984 – which starting in the south and spreading in the cities[152] would continue during the month of January despite the institution of martial law and curfews – exploded in reaction, showing the effects of more than a decade of increasing inequality exacerbated by rapid population growth and the impossibility of the state to perform the equalising function that it had performed, albeit in an increasingly inadequate way, until that point.[153] The events of 1984 symbolised the narrower margin for state regulation of economic flows, translated not only into the reduction of food subsidies but also into the impossibility of pursuing the Sixth Plan for eco-

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[151] The price of bread was raised gradually starting in the months immediately following the revolts of 1984, maintaining the price of the loaf but reducing its weight by 15%. From 1985 to 1987 the subsidy on vegetable oil was reduced 64 percent and on fertilizers 17 percent (as we shall see, the latter as a consequence of the ASAL). Although there were increases in the subsidies on sugar and milk, total subsidies declined from 3.5 percent of GDP in 1985 to 2.8 percent in 1987. *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 17.

[152] This is a recurring element in recent Tunisian history, perhaps due to the strong regional disparity and the importance of internal migration: the most intense protest movements often started from the southern and poorer regions of the country – where the contradictions of the economic system created in those years are more strongly manifested – and then spread. Sometimes protests in the cities remained confined to the points of outbreak, but when protests exploded in the most depressed regions, they almost always spread to the coastal cities. So it went in 2008, with the Gafsa revolts, and with the Jasmine Revolution; and the same dynamics can be observed in the protests of recent years.

[153] El-Manoubi K., "Etat infra-rentier, endettement extérieur et mouvement suburbains en Tunisie", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, vol. 22, 1985, pp. 587-600.

nomic development (1982-1986) without exacerbating the social conflict.[154] These stabilisation measures, together with the protests, made clear that the national "social pact" on which the PSD government had been based since independence was definitely crumbling;[155] the party, having alienated the popular masses and the trade union, thus needed to find support in the business classes that benefited from deflationary policies.

The change of policy was tangible. In 1987 real wages were 15% below the level of 1984;[156] investment fell from 32% of GDP in 1984 to 22% in 1986. During the same period, the Tunisian dinar depreciated; the effective exchange rate declined by about 28 percent, boosting exports and further discouraging imports and consumption. Moreover, in 1985 most export licenses were eliminated and there was a partial elimination of export taxes together with a variety of measures regarding customs formalities, export financing, repatriation of earnings, and the extension of quantitative restrictions to imports.[157] These measures were the result of the rapid deterioration in the Tunisian balance of payments, forcing the government to resort to emergency measures in 1985, which, by their nature, led to a stalemate in the talks with the IFIs that had been begun in 1984 on two sectoral loans in the agricultural and industrial sectors. At first these had suggested stabilisation measures; the limitation of imports, however, went beyond what was considered desirable by the IFIs, eventually becoming a central issue in the subsequent restructuring process.

The effects of the emergency measures were mitigated by the

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[154] Ben Dhiaf I., "Chronique Tunisie 1984", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, vol. 22, 1985, pp. 865-901.

[155] E.Murphy, *Economic and Political change in Tunisia: From Bourguiba to Ben Ali,* New York, 1999.

[156] *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986, p. 6.

[157] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, pp. 3-4; *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, pp. 2-3; G. Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993, pp. 3-4; 30-41.

drop in oil prices in 1986 – which, as we have seen, had a positive impact on the dynamics of the Moroccan economy in the late 1980s. This diminished the aggregate impact of the measures on the current account. Although imports decreased by 10% in value between 1984 and 1986, the dollar value of exports was 2% less than in 1984 given the 15% deterioration in the terms of trade[158] mostly due to oil prices (Figure 2). Anyway, 40% of the decrease was ascribable to the contraction in public and private enterprises' investments (30.4% less in real terms in 1986 than in 1984) and a 12% decline in the volume of consumer goods imports in 1984-1986. The resource gap narrowed from 11.7% of GDP to 6.1% in 1985 and 3.6% in 1986.[159] As WB recognised in hindsight, during 1984-1986 "Government's stabilisation measures […] reduced the imbalances in the budget and the external current account and […] established the conditions for carrying on the liberalisation program begun in 1986,"[160] consequently constituting the "stabilisation phase" preliminary to reform.

Even so, during the summer of 1986 Tunisia experienced a crisis of foreign reserves, which fell to just four days' worth of imports.[161] The government had no choice but to appeal to the IFIs, with which, as we have seen, consultations had been commenced for two sectoral programmes in 1984, but which over time had grown eager to advance from stabilisation to the restructuring[162] of the Tunisian economy – moreover in an overall context marked by the beginning of the Uruguay Round. In this sense the exogenous crisis of 1986 represented the perfect occasion to switch from "policy-level" changes to a comprehensive structural adjustment.[163]

[158] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 4.
[159] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, p. 3-5.
[160] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 4.
[161] E.Murphy, *Economic and Political change in Tunisia: From Bourguiba to Ben Ali*, New York, 1999.
[162] We refer to statements in the reports for the period 1986-1988 mentioned herein.
[163] *Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, pp. 3-4.

TABLE 3
IMF Loans and World Bank Adjustment Loans to Tunisia (disbursed) - 1980-1993

Institution	Loan	Starting	Ending	SDR	Dollars
WB	ASAL	9/86	10/89	–	150
IMF	SBA	11/86	5/88	103,6	–
WB	ITPAL	2/87	12/89	–	150
WB	SAL	6/88	6/91	–	150
IMF	EEF	7/88	7/92	207,3	–
WB	ASAL II	6/89	6/94	–	100
WB	PERL	7/89	6/93		130
WB	EFRSL	12/91	12/94		250

Source: IMF history of Lending Arrangements; *Tunisia - Economic and Financial Reforms Support Loan Project* (English), Washington, D.C., World Bank Group, 1991.

The IFIs' response consisted of two sectoral loans – formally the same ones discussed in 1984-1985, but suitably reformulated – provided by WB, and an IMF SBA. The particularity of the intervention – which as far as we know is a unique case – consisted in two characteristics, clearly intended to transform an intervention of immediate and momentary support of the Tunisian reserves into a process of structural adjustment, given that stabilisation measures, usually in the form of Stand-by Arrangements, had already been implemented in 1984-1986. The first particularity of the direct involvement of the IFIs in Tunisia (revealing the change in intervention strategies at the time) lies in the precedence of the WB over the IMF intervention; in this case an unusual if fundamental feature was that the two sectoral WB loans were designed as quick disbursement loans[164] in

[164] For both ASAL and ITPAL, with the same formulation in the projects: "in order to accelerate disbursements, a revolving fund (special account) with an initial deposit of US 35.0 million (corresponding to four months' payments expected to be made through the revolving fund) would be established at the Central Bank. Replenishment would be made either once a month or when half of the revolving fund has been utilized." *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986, p. 54; *Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, p. 46.

order to cope with the balance-of-payments pressure that lay behind the Government's request for support.[165] The second consisted in the fact that the loans included measures of a systemic nature that went far beyond their supposed sectoral character – as was recognised and clearly stated by the WB itself. In fact while the foreign exchange provided by the loans would be used to finance general imports[166] in a moment of acute difficulty, the sums provided were tied to conditions concerning structural macroeconomic reforms and therefore not, as was usual in these procedures, funding the same measures covered by conditionality.

It is therefore arguable that precisely on the eve of a turning point of such magnitude – 8 July, only two months before the beginning of the disbursement of the first WB loan – the Mzali government was replaced by the technocratic government led by Rachid Sfar, after two scandals that forced the former Prime Minister to flee abroad. Already in the days leading up to the replacement of Mzali,[167] the composition of the government was significantly altered: it was in this context that Bourghiba, overcoming his historical distrust of the military, gave Ben Ali the Ministry of the Interior with the task of conducting an anti-corruption campaign and pursuing the Islamist forces more decisively,[168] positions that allowed him to accumulate power and pursue party members.

The first loan disbursed was the Agricultural Sector Adjustment Loan (ASAL) whose disbursement began on September 3 1986, "designed and implemented virtually simultaneously"[169] with the In-

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[165] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, pp. 2; 6.

[166] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987; *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986.

[167] The two scandals, whose basis in fact was hard to demonstrate, were linked to the existence of an information service run by the former PM's brother-in-law and to the protection and abetting of the Bouslama publishing house, publisher of Islamist texts.

[168] Larif-Beatrix A., "Chronique Tunisie 1986", in *Annuaire de l'Afrique du Nord*, Editions du CNRS, Tome XXV, 1986, pp. 795-804.

[169] *Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1987, p. 5.

dustrial and Trade Policy Adjustment Loan (ITPAL) as part of a "general macro-economic restructuring program,"[170] already exhaustively described in a medium-term perspective,[171] which was to have come into force at the same time as the first but which was activated in February 1987.[172] The IMF's Stand-By Arrangement, whose disbursement began in November 1987,[173] given the excellent collaboration between the two institutions in Tunisia, was aimed at temporarily providing a framework for the structural intervention that was being set up[174] but was not sanctioned before an agreement was reached between WB and the government on the overall strategy.[175] The IMF's role consisted primarily in enforcing stabilisation measures in the monetary field, such as the transition towards the use of interest rate policies as a policy instrument and the institution of a currency basket to which to peg the Tunisian currency, an essential step toward an economy driven by market dynamics. After 1985-1986, real interest rates rose by 3 to 5 percentage points. As of 1 January 1987 interest rates were liberalised on about 75% of all lending operations and over two thirds of commercial bank deposits, as agreed with the IMF.[176] The path opened by the IMF with the SBA became one of the pillars of the adjustment strategy. On the basis of the measures reinforced by the SBA, ASAL I aimed at liber-

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[170] *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986; *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987; *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. 5.

[171] *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986, pp. I; 7-16

[172] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. 5.

[173] IMF, *History of Lending Arrangements - Tunisia*, https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=970&date1key=2017-07-31.

[174] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, pp. 8; 30.

[175] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. 5.

[176] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, pp. 6-7; 33-34.

alising prices and investments, reducing incentives in agriculture whilst initiating the privatisation of commercially viable services and at the same time pursuing an increasingly export-led model,[177] with a reduction of support to state-owned corporations.[178] Given the importance of the agricultural sector (13% of GDP, 35% of employment and 8% of export earnings),[179] ASAL I had important effects on the Tunisian economy as a whole, affecting food prices and the structure of agricultural property and consequently impacting on a large part of the population, as confirmed by King.[180] Together with SBA and ITPAL, the ASAL was part of a veritable "restructuring program," which went far beyond simply overcoming the import restriction measures applied in 1985 and which, given the particular and rapid manner in which it was launched, focused on the two-year period 1987-1988 although formally covering the entire period of the Seventh Plan (1987-1991).[181]

The real centrepiece of the process of converting the two sectoral loans being discussed since 1984 into a structural adjustment process, however, was the ITPAL, which, as WB pointed out in 1992 "was really a SAL supporting macroeconomic policy measures and sectoral measures aiming at removing administrative obstacles and stimulating trade."[182] The scope of the interventions and the number of areas covered by the ITPAL conditions, in fact, were so great that "the 'Industrial' denomination would seem to have been somewhat inappropriate."[183] The ITPAL had three main objectives:

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[177] Pursuing a model first established during the 1970s with scanty results. During 1977-85 agricultural exports fell by 1.4% per annum as a result of the EEC enlargement to countries producing the same goods, and the "food gap" widened to 20% of the overall trade deficit in 1985 (from 5% in 1976). *Tunisia - Agricultural Sector Adjustment Project* (English), Washington, D.C., World Bank Group, 1986, p. 19.
[178] *Ivi*, pp. 22-47.
[179] *Ivi*, p. 19.
[180] S.J. King, *Liberalisation against Democracy; The Local Politics of Reform in Tunisia*, Bloomington, 2003.
[181] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, p. 42.
[182] *Ivi*, p. 41.
[183] *Ivi*, p. 5.

1) increasing efficiency in resource allocation through price decontrol,
2) reducing government spending for public enterprises and removing restrictions on private sector activity, and
3) developing labour-intensive sectors by making labour less expensive relative to capital, through wage restraint[184] and reducing employers' social security contributions.[185]

The three objectives – each a condition for the others – constituted a major departure from past Tunisian policies and a shift towards comprehensive new structural arrangements in line with the mainstream theory legitimated by the need to cope with current-account deficit, the related decline in net petroleum income and high unemployment. It is necessary to underscore that point 3) was not only a reversal of the industrial and labour policies pursued up to then, which had aimed at specialisation in high value-added products and capital-intensive sectors in light of high unemployment and rapid labour force growth (3.3% per year),[186] but also the necessary condition for (1) and (2) given the reduction of state intervention in the economy (and the necessity to service the debt, which amounted to 27.9% of GDP in 1986, with no rescheduling)[187] and the central role that, in the new context, would be played by the relationship between interest rate and marginal return on capital – and therefore the cost of productive factors – and the need to attract foreign investment. How the ITPAL represented a "radical and far-reaching shift"[188] beyond the limits of a sectoral loan is evident when the two

[184] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. V.

[185] *Ivi*, p. 48.

[186] At the time the labour force growth was higher than the population growth (2.5% the annual average over the decade) as a result of the efforts made to reduce the birth rate since the 1960s. For this aspect please refer to: M. Ben Romdhane, *Tunisie: état, économie et société: ressources politiques, légitimation et régulations sociales*, Paris, 2012.

[187] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. 4.

[188] *Tunisia - Fourth Economic Competitiveness Development Policy Loan* (English), Washington, D.C., World Bank, 2005, p. 1.

pillars of its conditions are analysed: the adoption of a "new investment code acceptable to the Bank" and the submission of a draft VAT law to the Tunisian National Assembly, which being attached to ITPAL[189] therefore also applied before the activation of SAL in 1988 (and were a condition for the effective granting of the loan),[190] another peculiarity of the Tunisian structural adjustment. The introduction of VAT represented a pivotal element at least in two respects. The first was the necessity produced by VAT itself to restructure and integrate the whole taxation system, creating the momentum for a comprehensive tax reform that would eventually become effective in January 1990, encompassing both corporate and personal taxation and serving the restructuring strategy of diminishing tax progressivity.[191] At the same time the average tariff rate fell from 36% in 1986 to 26% in 1992,[192] a result of the priority accorded to tariff reduction over the removal of quantitative restrictions in order to proceed rapidly with the ITPAL, a decision that would have a lasting impact on the trade liberalisation process.[193] The second way in which the fiscal reform determined the direction of the adjustment process was through government revenues. The tax reform, in fact, only shifted the weight of the tax burden to the benefit of holders of capital without increasing revenues, thus necessitating a lowering of the ratio of government expenditure to GDP and hence reducing budgetary expenditures, which required further structural reforms, to cut the wage bill, downsize the civil service and substantially cut subsidies

[189] *Tunisia - Industrial and Trade Policy Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1987, pp. 47-48.
[190] *Tunisia - Structural Adjustment Loan Project - Performance Audit Report* (English), Washington, D.C., World Bank Group, 1993, p. 28.
[191] The existing schedular, general income and solidarity taxes were abolished and supplanted by a single personal income tax (the income brackets reduced from 18 to 6 and the maximum tax rate was cut from 70% to 30%).
[192] G. Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993, pp. 8-10.
[193] *Tunisia - Structural Adjustment Loan Project - Performance Audit Report* (English), Washington, D.C., World Bank Group, 1993, pp. VI-VIII.

and transfers, the last being reflected in public savings. With the same budgetary purpose, the policy was to reduce the direct and indirect share of government in investment from the 56% registered during the Sixth Plan. In this respect too, the contrast with Morocco is striking: concomitantly with the implementation of the ASAL, in fact, greater importance was attached to maintenance programs on existing capital and infrastructure and there was growth, albeit limited, in capital expenditure – in 1987-92 it was on average 5.2%, admittedly lower than the average annual inflation rate of 7.2% – with government investments, reviewed by the WB, redirected to support private sector investment and, although to a much smaller proportion, to health and education.[194] In this respect, both as consequence of a difference in the two IFIs' plans and as a result of government priorities of regime consolidation, indirectly accepted by WB, the share of investment would not decrease further.

In short, by reshaping the two structural programmes for which consultations were started in 1984 and after the halt in 1985, with ASAL and especially with ITPAL, the IFIs managed to transform an intervention in support of foreign exchange reserves into a longer-term structural adjustment process. As the WB put it: "Together with ASAL I, ITPAL, accompanied by stabilisation measures supported by IMF, was instrumental in assisting from the start Tunisia's adjustment program. ITPAL was then continued through a SAL in 1988, ASAL II and a PERL in 1989."[195]

3.2 The Tunisian long-term structural adjustment from the SAL to Barcelona: what kind of success?

As noted, ITPAL marked a real pivot in the relationship between the IFIs and Tunisia, opening and tracing the course of Tunisia's eco-

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[194] G. Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993, pp. 8-10.
[195] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, p. 43.

nomic restructuring. The intervention of the IFIs having now been transfigured into an extensive programme of economic reform, implementing changes that necessitated its continuation (and at the same time required loans on concessional terms), a series of WB programmes were developed that affected not only the Seventh Plan (1987-1991) over the following decade, as initially planned, but also the Eighth (1992-1996) and then continued uninterruptedly until 2010 with the four ECAL loans (ECDP IV maintained the numbering and was explicitly indicated as the last of the ECAL series),[196] which were conceived and implemented to support the now EU-led process of adaptation to the established rules of WTO via adaptation to the Euro-Mediterranean free trade area that was envisaged. The necessity of a prolonged effort toward adjustment, although going beyond the period considered here, is no less decisive in judging the effectiveness of the IFIs' interventions, as would be shown. With this in mind, we can trace, for analytical purposes, two macro-periods: the first from November 1987 to 1994 – with the end of the EFRSL and the conclusion of the Uruguay Round; the second, of which only some functional aspects will be treated more extensively here, from the signing of the Barcelona Treaty through the entire Ninth Plan virtually up to 2010.

The choice to start the first period in November 1987 is due to two factors, closely linked and absolutely crucial for the history of the country and the reform process. As stated by the WB, "political pressures before November 1987 had led to substantial investments in large projects that were not justified economically or socially. These pressures have now been greatly reduced and several projects whose justification was in question have been dropped,"[197] thus enhancing the scheme provided under the ITPAL. What is not made explicit is that precisely November 1987 was marked by Ben Ali's

[196] *Tunisia - Fourth Economic Competitiveness Development Policy Loan* (English), Washington, D.C., World Bank, p. 1.
[197] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, p. 9.

coup d'état, which replaced the old, and increasingly formal, corporatist social pact of the *Bourghibiste* state – worn out by the measures implemented and turning eventually into an obstacle to reform – with a regime whose presidency made the approval of international financial institutions and the support of Western countries (bordering closely on outright connivance)[198] one of the main sources of legitimacy.[199] Internally, the coup did not provoke reactions. More than the presumed constitutionality of the transfer of power – Article 57 of the Tunisian Constitution was invoked in this sense – the ability to act as a catalyst in what had become a blocked system was decisive. Ben Ali was able to present himself as an advocate of a democratic process to be built in a short time and at the same time as the main guarantor against the rise of the Islamists and to reassure the members of a system of political power and patronage put under steady pressure by the continuous upheavals experienced in previous years. At the same time, he was able to represent the interests of the business classes, as demonstrated by his ability to push ahead with the liberalisation of the economy and at the same time delay the removal of import restrictions, as will be seen. In a complementary move, in early 1987 the UGTT, after having been hit by numerous arrests, was brought back to the role of passive concertation that it would continue to play over the following decade. Six months after the coup the proposition of an SAL was presented, and eventually accepted in June 1988. The Loan – the second factor – was "the third in a series of adjustment operations in response to balance of payments difficulties encountered in the mid-1980s" and "the core issues for the SAL dealt with deepening the liberalisation of the economy, which linked it directly with the previous industrial and trade adjustment loan (ITPAL)."[200] The areas of intervention were

[198] Beau, N. Tuquoi J-P., *Notre ami Ben Ali: l'envers du miracle tunisien*, Paris, 1999.
[199] *EU policies in Tunisia before and after the Revolution*, European Union, Policy Department, Directorate-General for External Policies, June 2016, Brussels, p. 5.
[200] *Memorandum to the executive directors and the President*, attached to: *Tunisia - Structural Adjustment Loan Project - Performance Audit Report* (English), Washington, D.C., World Bank Group, 1993.

the same envisaged previously: trade and price liberalisation; financial sector and tax reforms, as in future programmes. But, as reflected by the conditions, priority was given to competition in the banking sector, the reduction of preferential credit and the enhancement of market mechanisms in the determination of interest rates as well the reduction of quantitative import restrictions (-15%) over lower tariffs – thus reversing the approach of ITPAL on this matter.[201] The SAL was complemented by a Public Enterprise Reform Loan (PERL), which focussed on two main objectives: to reduce state ownership in goods and services by means of the sale of state-owned enterprises and to diminish Government intervention in the management of those enterprises that would still remain under state control.[202] PERL can be seen as part of a moment of transition in structural adjustment objectives, from removing obstacles to private activity to enlarging the spaces of the private sector and adapting the structure of the Tunisian economy to its needs, also through the reform of the financial sector – objectives that would be covered by the Economic and Financial Reform Support Loan (EFSRL) – while at the same time aiming to create the conditions to attract FDI, to the return to foreign private debt refinancing during the following decade.[203] In this sense it is important to consider that public enterprise reform was highlighted as a key structural reform that would be monitored under the IMF's EFF – a Facility that would enforce the reforms applied between the SAL and EFSRL, as would be seen – and that was prepared in close collaboration between IMF and WB.[204]

However, it should be noted that notwithstanding the fairly common narrative that sees Tunisia as an undisputable success of the IFI reform policies, the last part of the 1980s was a difficult time,

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[201] *Tunisia - Structural Adjustment Loan Project* (English), Washington, D.C., World Bank Group, 1988, pp. 26-29.
[202] *Tunisia - Economic and Financial Reforms Support Loan Project* (English), Washington, D.C., World Bank Group, 1991, p. 25.
[203] *Tunisia - Public Enterprise Reform Loan* (English), Washington, D.C., World Bank Group,1989, p. 5.
[204] *Ivi*, pp. 41-42.

both from the point of view of the progress of the reforms and from the macroeconomic point of view. The outcome was continuation of the reform process and the subsequent decade's developments. From the standpoint of the reforms, difficulties had become evident in the field of trade liberalisation, in particular with regard to the removal of quantitative restrictions on imports;[205] at the same time the drought of 1988-89 produced an absolute increase in expenditure on food subsidies in a context of high international food commodity prices, despite the relative decline brought about by the reforms of the previous years; moreover, the reduction in investment was an impossible objective to pursue, as public investment remained between 24% and 27% of GDP over the period: central government investment from 1983 onwards remained always around 5% while non-central-government investment (mostly by public enterprises) rose from a low of 14% in 1988 to 22% of GDP in 1992.[206] Together with the substantial failure in mitigating the social effects of the adjustment program and the doubts that arose concerning the assumption that employment would be stimulated by export-oriented industries and policies favouring labour-intensive industries, the ITPAL audit report noted not only that job creation in 1987-91 was half of what had been expected in 1987, but also that the budget and current-account results were "less positive than expected" in spite of the "less than expected" decline in oil output.[207] From the macroeconomic point of view, the most important trend in the period was the performance of the current account, which showed a dynamic similar to Morocco's. It dropped sharply from a surplus of 2% in 1988 – the only surplus year – to a deficit of 2.58% in 1989. However,

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[205] *Tunisia - Structural Adjustment Loan Project - Performance Audit Report* (English), Washington, D.C., World Bank Group, 1993, pp. VI-VII; 12.

[206] G. Bell, M. Yücelik, P. Duran, S. Nsouli and S. Eke, *The Path to Convertibility and Growth: The Tunisian Experience*, International Monetary Fund, IMF Occasional Paper, 1993, p. 34; *Tunisia - Structural Adjustment Loan Project - Performance Audit Report* (English), Washington, D.C., World Bank Group, 1993, pp. 11; 34.

[207] *Tunisia - Industrial and Trade Policy Adjustment Loan Project - Audit Report* (English), Washington, D.C., World Bank Group, 1992, P. VII.

marking a difference with Morocco, the downward curve did not moderate, registering -3.7% in 1990 and -3.5% in 1991, then falling to -7.12% in 1992 and -9.05% in 1993, before recovering to -3.43% in 1994 and then fluctuating during the 1990s between -4.29% (1995) and -3.8% in 2000.[208] These data are used both to assess the medium-to-long-term impact of reforms based on the promotion of an export-led model aimed at achieving a trade and current account surplus (even with a growing debt service ratio of around 26% at the end of the 1980's),[209] and to show the context in which the EFSRL was activated and dispel the idea, repeated by the IFIs, that the 1991 current account crisis was due to the effects of the Gulf War, which interrupted a positive trend – as the WB wrote, "1990 promised to be the first fully normal year since the early 1980s, until the onset of the Gulf crisis,"[210] thus ruling out policy ineffectiveness or failure.

The peak in the current-account deficit, in 1991-1994 – the period covered by EFSRL – can be seen as the end of the period that began in 1986, the first phase of adjustment. As before, EFSRL "was aimed at providing quick disbursing assistance to overcome the fall in foreign exchange earnings (estimated at 5% of GDP) caused by the Gulf war, while supporting the implementation of major reforms."[211] Given the situation, the loan was supplemented by 218.3 million SDRs provided by the IMF's EFF in 1988, which Tunisia refrained from drawing until May 1991, so in July the IMF prolonged the extended facility to a fourth year.[212] The EFSRL was the largest loan in this period ($250 million). It covered the same areas as its predeces-

[208] World Bank, World Data: Current account balance (% of GDP) - Tunisia, Morocco https://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS?end=2013&locations=TN-MA&start=1978.

[209] *Tunisia - Public Enterprise Reform Loan* (English), Washington, D.C., World Bank Group, 1989, p. 4.

[210] *Tunisia - Economic and Financial Reforms Support Loan Project* (English), Washington, D.C., World Bank Group, 1991, p. 4.

[211] *Tunisia - Economic and Financial Reforms Support Loan Project - Completion Report* (English), Washington, D.C., World Bank Group, 1995, p. I.

[212] *Tunisia - Economic and Financial Reforms Support Loan Project* (English), Washington, D.C., World Bank Group, 1991, p. 20.

sors and envisaged the "the virtual completion of the liberalisation of external trade and prices, along with institutional reforms to assist the correct functioning of markets" – in which "virtual" means the reduction of the quantitative restriction of 30% under the conditions for effectiveness and second tranche release, according to the same schema as SAL: that is, financial market and bank regulatory reform; a reform in the system of incentives to cut budget costs; a reform of social security for the same purpose; reform of labour law to enhance labour mobility; and, lastly, the establishment of coordinated external debt management, to enable Tunisia to resort increasingly to international financial markets,[213] thus continuing along the path initiated at the end of the '80s. As had happened before, however, the trade liberalisation agenda was the Achilles heel of the loan, and a waiver on the matter was granted, given the prospect that the conditions would be satisfied in the near future, in the context of the GATT Agreement, which Tunisia joined in 1994, and the free trade agreement with the European Union signed on 12 April 1995.[214]

These two events mark a turning point in Tunisia's protracted economic adjustment process, initiating a phase of reform directed to trade. Tunisia would have to comply with the WTO regulation by 1st January 2005, while the deadline for compliance with the Barcellona treaty requirements was set at 1st January 2008.[215] This pivot was the result of two converging factors. The first was WB's desire to reduce its exposure in Tunisia (guaranteed medium- and long-term external debt peaked at 24 percent of GDP in 1992), in relation among other things to the competing needs of Sub-Saharan Africa and Eastern Europe; by restricting the possibility of resort to official financing, this would have necessitated further reforms in order to borrow from private lenders.[216] The second factor was that both the

[213] *Ivi*, p. I; 18-20.
[214] *Tunisia - Economic and Financial Reforms Support Loan Project - Completion Report* (English), Washington, D.C., World Bank Group, 1995, p. 3.
[215] "*Trade Policy Rewiew Mechanism, Report By the Secretariat*" WTO (Document: WT/TPR/S/152), 7 september 2005.
[216] *Tunisia - Economic and Financial Reforms Support Loan Project - Completion Report* (English), Washington, D.C., World Bank Group, 1995, p. 3.

EMP and the WTO were intended as vehicles for reform; in particular the Association Agreement with the EU (AAEU) provided for a precise programme of reforms to be undertaken over the following 12 years and for the instruments to ensure that these commitments were respected. The idea, hence, was that "a free-trade agreement can provide the stimulus and discipline to speed up the pace for reform," especially if, as in the case of the AAEU, it is supported by financial programmes aimed at guiding reforms through the mechanism of conditionality.[217] It should be noted that the complete disbursement of the financing, in spite of non-compliance with the conditions, can be read as a sign of the IFIs' support for the new regime, which could not alienate the sympathies of the social partners already naturally favoured by the reforms, i.e. the entrepreneurial side, which would benefit not only from the tax reform and the three-year pacts signed since 1991 between government, employers and trade unions to hold wage increases below productivity gains in a general context of deregulation, but also from the retention of some protective customs duties. Just at this time the regime was building its support, involving not only the upper classes with non-wage income but also the poorer sections of the population through an emphasis on the nation's Islamic identity – such as the decision not to join the American-led coalition in the Gulf War – and assistance measures, albeit in a context of cuts to welfare and social security programmes.

In sum, the IFIs, and in particular the WB, found in the EU a partner with which to collaborate in the pursuit of "structural reform and progress towards a functioning and competitive market economy."[218] The EU had the political and economic clout, as well as the financial and organisational capacity, to go ahead with structural

[217] Susan Fennell S., Alonso-Gamo P., Sakr K., *Adjusting to New Realities: MENA, The Uruguay Round, and the EU-Mediterranean Initiative*, International Monetary Fund Working Paper, 1997, pp. 4-5.
[218] European Union: European Commission, European Neighbourhood Policy: Country Report, Tunisia-SEC [2004/ 570], 12 May 2004, Brussels, p. 14.

programmes, as would be demonstrated by the Mesures d'Accompagnement (MEDA), those of the European Neighbourhood Policy (ENP) and those conducted by the European Investment Bank (EIB) over the next two decades. In every case, as demonstrated by the ECAL programmes, and differently from Morocco, the financial commitment of the World Bank was not reduced and in some cases increased,[219] even though the Bank played only an accompanying role in the course of reforms led by the EU and required by the rules of the WTO and the Mediterranean free trade area, in particular during the 1990s, when – as compliance with WTO and EMFTA rules improved – Tunisia was repeatedly and increasingly affected by the dynamics of international markets (Figure 3). Tunisia remained seriously exposed to exogenous factors, and after 1994 it returned to the international markets to borrow, but already by 1998 – as a result of the international economic turmoil – Tunisian bond quotes declined and the country had to give up international borrowing and instead tap its scanty foreign exchange reserves. And the same happened again in 2001;[220] and in the 1990s and the 2000s the flows of FDI remained strictly related to the privatisation of state-owned enterprises that had already been restructured. Summing up, the combination of these factors makes it possible at the very least to question the proclaimed "success" of the intervention of the international financial institutions in Tunisia.

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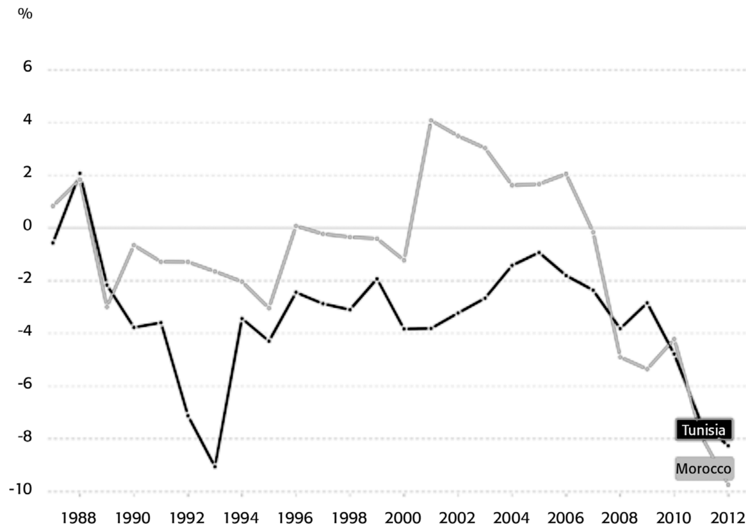
[219] A comparison of these nominal amounts with those of the programmes conducted in 1987-1996 shows just how important the programmes were: ECAL I, $250 million; ECAL II, €210 million (€130 million from WB and €80 million from EU), and AfDB, $140 million; ECAL III, €577 million (€281 million from WB, €216 million from AfDB and €80 million financed by the EU); ECDP IV, €310 million (€116.1 million each from WB and AfDB, €70 million from the EU).

[220] Conseil d'Administration de la Banque Centrale de Tunisie "43éme Rapport d'Activité. Excercise 2001", Banque Centrale de Tunisie, 2002; International Monetary Fund. Tunisia - 2002 Article IV Consultation-Staff Report and Public Information Notice on the Executive Board Discussion, IMF Country Report 02/122, Washington D.C.

Figure 3
Current account balance between 1987 and 2012
(% of GDP) - Tunisia, Morocco



Source: World Development Indicators.

Conclusion: Moroccan and Tunisian adjustment in the long term

In the course of this contribution we have seen how strongly the structural adjustment paths that began in the '80s were characterised by different objectives and consequently different actions between Morocco and Tunisia, two countries which are often analysed on the assumption of their essential similarity, with the risk of mistaking analogies, largely to be attributed to the international economic dynamics of the period and the reform agenda that followed them, for similarities. In the case of Morocco, the intervention of the IFIs, characterised by discrepancies between the measures required respectively by IMF and WB, resulted in a significant share of national income and the state budget being reallocated to debt service, causing economic stagnation, deterioration of fixed capital and lack of diversification of the economy from which the country suffered during the 1990s. In the case of Tunisia, by contrast, the intervention of

the IFIs was characterised by insistence on the element of reforms and liberalisation of trade and capital flows – an insistence that posed as fundamental condition continued servicing of the debt and therefore the continuing transfer of national income abroad. It is therefore possible to see a connection between the reduction in growth of the Moroccan economy and extreme exposure of Tunisia to external shocks during the 1990s and the structural adjustment reforms. Moreover, the same movement towards trade liberalisation in Tunisia, first projected and then realised following accession to WTO and the Barcelona agreement, impacted on Morocco as well in the course of the '90s.

In this sense, the cases of Tunisia and Morocco are complementary, showing the dual approach followed by the IFIs in middle-income countries at that time, an approach consisting in the two elements of stabilisation and reform, in different proportions as we have seen, but in any case related to the priority of ensuring and enlarging the space for the remuneration of private international capital. In the case of Morocco, the external debt crisis developed at the most critical moment internationally, when difficulties for international creditors were visible, and the solutions adopted were aimed at protecting their interests. In the case of Tunisia, a few years after the IFIs' intervention in Morocco, the balance-of-trade crisis – which threatened to turn into a debt crisis precisely because of the effects of the response to the debt crisis of middle- and low-income countries in previous years – was used in order to initiate a broader process of reform and liberalisation along the lines of the international economic system that was emerging at the end of the decade of transition represented by the 1980s.

As to the objectives, the instruments used, and the relationship between IMF and WB in the interventions in Morocco and Tunisia, it can be said that the intervention in Tunisia, with an emphasis on a process of liberalisation and reform under the substantial aegis of the World Bank, embodied the medium-term approach that emerged during the second half of the 1980s, paradoxically showing the policy characteristics introduced in the context of the Baker Plan, of

which Tunisia unlike Morocco was not part. The conflict between the agendas of the two IFIs and the substantial prevalence of the stabilisation measures supported by the IMF over the liberalisation process promoted by the WB in Morocco must instead be traced to three factors. The first factor is simply the initial date of the intervention in Morocco, at a time when the dominant approach was still that of IMF-led stabilisation. This, together with the greater gravity of the Moroccan situation, not only led to massive, repeated IMF intervention during the first part of the decade but also, as a consequence of the loan conditions, made it impossible to make the investments or implement the measures necessary for activation of the World Bank programme even when the Bank's involvement was greater, in quantitative terms, than that of the IMF. In a nutshell, the World Bank programmes were the sufficient reason to implement the reforms, but the necessary reason was missing, namely the possibility of introducing measures contrary to those of stabilisation alone, by virtue of the cross-conditionality with IMF programmes. Moreover, the emergence of cross-conditionality was favoured by the undefined nature of the IMF's role in the context of the Baker Plan, even if it represented a common feature of the time. On the other hand, it is easy to hypothesise that a Fund defrauded of its primacy in crisis management precisely by the Baker Plan may have sought to entrench itself as firmly as possible where the conditions were such as to enable it to remain decisive. In this respect, and for a multiplicity of historical, national and general factors relating to the evolution of the interventions in middle-income countries, Morocco and Tunisia appear more properly as opposite cases. In Morocco the role of the IMF was as important in determining a trajectory based on stabilisation policies as was that of the WB in shaping the Tunisian reforms. However, these differences are to be considered as being of second order. The interventions of the two international institutions were conducted on the basis of a common theoretical and operational perspective, namely a strictly linear conception of the economic development of Third World countries. And it is precisely in the light of this linear conception that we must consider the elements

set out above. The differences we have seen in the conditions attached to financial assistance to the two countries, although significant in their effects, were actually due simply to chronological factors and above all to phase differences between them, part of that linear conception of economic development. These two variables explain the differences in the transposition of the measures, which were designed, moreover, to attain the same macroeconomic objectives in both cases, also in quantitative terms. The differences we have uncovered and underscored here must therefore be seen as differences of "degree" – due, as we have seen, to different factors – and traced back to a single set of measures, translated into conditionality that was invariant with the country on which they were imposed;[221] the objectives, in fact, although transposed in strongly qualitative evaluations, find their actual definition only in an invariable set of quantitative requisites.

At the same time, the political effects of the policies imposed by the IFIs differed between the two countries. In the case of Morocco, a state with a substantially oligarchical structure that was strengthened during the 1970s, the political effects coincided with and confirmed the material interests of the ruling classes, while in the case of Tunisia they brought to light the contradiction between the interests of the different social classes that the post-colonial corporate state had tried, with increasing difficulty, to appease first through Dusturian socialism and then through the dirigisme of the 1970s. The measures adopted up to 1987 manifested the contradiction that Ben Ali's coup d'état dissolved, affirming the interests of those classes that could benefit from structural reforms, privatisations and integration into increasingly competitive international markets.

Moreover, the policies of stabilisation and reduction of investment sanctioned the definitive divorce between the dynamics of demographic growth and the creation of jobs and social spending, a

[221] The mirror-like nature and the profound symmetry between the measures subject to conditionality in the programs for the two countries is clear from a look at the IMF occasional papers on Morocco (1995) and Tunisia (1992), mentioned above.

significant and long-term trend. This relationship, which was connected with the socio-political dividend of independence, ceased to be a decisive factor in the economic policy of the two countries at different times: in Morocco in the early 1960s, with the1965 revolt marking both an early result and a turning point; in Tunisia in the later 1970s, with the changed of policy in correspondence with the end of Dusturian socialism. Starting from these moments – in which the antagonism between the interests of different population groups became manifest with the rupture of the previous situation of seeming unity – the increase in employment and in social expenditure would begin to follow a different trajectory from growth of the working-age population. This dynamic would be severely aggravated by the policies applied during the 1980s, to be a decisive social and political factor for decades to come.

However, in both cases and for the whole period considered here the macroeconomic and development policies adopted were determined by agents external to the two countries, just as the crises affecting them were determined by external factors. At the same time, it is questionable whether the referents of the intervention agenda of the IFIs were essentially external, while the doubt remains that trickle-down may actually apply only to the upper strata of the "reformed" economy. Moreover, as the adjustments occur in a spatially and politically non-insulated area, they must be situated within a historical continuity. Therefore, the balance between adjustment and stabilisation in the two countries was determined not only by the contingency in which the IFIs intervened, but also by the historical paths they followed and in particular by their different investment, social and education policies between independence and the crisis of the 1980s. This theme evokes the political and economic history of the two countries and suggests a critique of the outcome of the reforms, clearly visible in the decades since the two interventions. Both, in fact, have displayed the long-term effect of the economic policies and growth strategies adopted, especially in the field of enduring investments such as labour training and specialisation, fixed capital, infrastructure and aggregate demand, as well as the contra-

dictory relationship between these and the necessity to deregulate and lower the cost of productive factors in order to guarantee the remuneration of foreign capital. In this sense, the continuing exposure of the two countries to external shocks, the transformation of medium-term interventions into an uninterrupted sequence of reforms, stabilisation and support interventions, and the failure to resolve social[222] and development issues should offer powerful reasons for questioning the theoretical foundations for the interventions of the leading international institutions – IMF and World Bank – of which Morocco and Tunisia represent significant cases, and for asking whether downward competition is the best route to development – or indeed whether it is such a route at all.

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[222] The persistence of the social effects throws doubt on the position of Harrigan and El-Said, namely that the effects of the adjustment measures were short-lived and cancelled out by the growth that followed. Harrigan J., El-Said H., "Economic Reform, Social Welfare, and Instability: Jordan, Egypt, Morocco, and Tunisia, 1983-2004", in *The Middle East Journal*, vol. 68, n. 1. 2014, pp. 99-121.

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