The Performance of Social Welfare Programs in Morocco: Successive Reforms, Oblivious to Eventual Social Impacts

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Abstract: ***The present paper aims to analyze Morocco's performance in terms of social welfare programs when it comes to mitigating the repercussions of many large scale reforms that consecutively took place in the last few years, as well as assessing the impacts of such reforms that would eventually generate a rise in price levels of fuel and other basic goods, thus causing a serious deterioration of the purchasing power and social conditions of low income households. Failing to implement effective accompanying measures in favor of vulnerable social classes, cutting energy subsidies, adopting a new foreign exchange rate regime, and undergoing the consequences of emerging international geopolitical tensions such as Iran's new sanctions jeopardizing petroleum price levels on international markets, are all very important factors to take into consideration when anticipating the establishment of necessary measures to successfully avoid social stress, anticipate drastic price jumps and fully seize the advantages offered by these policy changes that the country is going through in its attempts to reinvent a new economic model that would guarantee sustainable growth, social well being and shield Morocco from agitating shocks.***

Keywords: social welfare, reforms, inflation, subsidies

1. Introduction

Social welfare is the cornerstone of every successful experience of sustainable economic growth and sociopolitical stability. It is no secret that developed countries prioritize their people's well-being when it comes to elaborating policies that influence vital aspects like education, healthcare, purchasing power and other primordial criteria to provide decent social conditions to citizens, especially those in need.

In the case of Morocco, the government struggled over the years to implement suitable social programs to reduce poverty rates, increase purchasing power and improve social conditions for Moroccans. However, this certainly did not stop the country's ambition to aim for development and emerging as a potential economic power in Africa, which is certainly a very legitimate and noble endeavor. The last few years proved that the country is on track to engage in large scale reforms that are crucial in strengthening public finances and achieving the goal of having an open and resilient economy, such as removing energy subsidies and reforming the foreign exchange rate regime; however this does not imply an improvement on a social level. On the contrary, these reforms could cause severe fluctuations of the cost of staple goods in light of a complete absence of any effective social measures to mitigate negative impacts, especially in the short and medium terms.

It is indispensable to adjust many variables and policies that are certainly unfit for the current courageous, yet reckless, economic approach Morocco has engaged in. The government needs to seriously consider changing national wealth distribution model to achieve a certain level of equity and fairness between the different regions of the country, and aim to reduce the huge gaps and dispersion between social classes, as it is definitely no longer acceptable to have such inequalities rattle the country's stability and the people's well-being. As well as implementing adapted social programs that meet with people's needs and expectations.

2. Results and discussion

Morocco, on the rails to an economic prevail, yet deep social stress and dysfunctional inequities threatens its stability:

It is totally reasonable to engage in radical reforms to unburden public finances and clear the accumulated deficits over the years; however, it is also understandable for people to reject and protest the changes and decisions that may affect their interests and well-being in the absence of any accompanying social measures. Therefore, finding middle ground solutions to avoid any tensions should be a top priority for the government.

In fact, the repercussions of the removal of liquid petroleum subsidies started to surface in 2018. As oil prices increased on international markets, Morocco witnessed serious social agitations in protest of some drastic price jumps, fueled by the random prices displayed by distributors all over the country, benefiting from the lack of governmental control that keeps these companies profiting from increasing prices above the calculated ceiling prices. This led people to engage in a successful boycott for some of the companies that possess huge market shares, and thus control price levels on a domestic scale.

These events reopened once again the debate regarding the accuracy of the structural reforms that the compensation fund (the public institution in charge of stabilizing staple goods' prices in Morocco) underwent in the last few years, along with few other major reforms that followed and would eventually lead to further price increases.

Factors menacing the price stability of staple goods:

1) Foreign exchange rate regime reform:

Adopting a flexible exchange rate regime was another step forward towards achieving an open economy, built on competitiveness and resilience. A reform that would relieve financial authorities in charge of managing foreign exchange reserves, since this new floating regime would serve as tool to reduce trade balance deficits by decreasing imports' volume, as a result of an eventual depreciation of the Moroccan dirham. This would be persuasive enough for consumers to opt for national products since imported goods would comparatively cost much more. Unfortunately for Morocco, imports supply a large share of the domestic demand of staple goods, which means the prices of these products will increase significantly. A constraint that begs the question of what measures the government has taken to anticipate an eventual drastic change of prices? The answer is simple; currently the government does not see fit to accompany this reform with any further measures, allowing market forces to take over gradually, and for people to progressively adapt to a new reality.

2) Energy subsidies removal

Another reform that impacted the economy and low income households was the subsidy removal for all sorts of liquid petroleum products in 2015, a brave decision that saved the government a lot of money that could be reallocated to support other social sectors. However, there were no considerable social programs implemented to support vulnerable social classes at all, except for a few marginal programs with insignificant effects and results. Unfortunately, the government failed once more to attenuate the negative impacts of this reform.

3) International geopolitical tensions affecting oil prices on the markets

As we all know, OPEC countries play a crucial role in defining price levels when it comes to oil, as their production levels and their policies in terms of supplying the markets (that sometimes can be merely political) have a direct impact on inflation, as it is the case with the endless Iranian issues with U.S.A and its allies, using oil prices as a tool to destabilize each other by widening the gap between supply and demand. These kinds of situations affect mostly countries like Morocco who depend strictly on importing these goods. The recent sanctions imposed on Iran caused a considerable oil price increase and these back and forth critical tensions do not seem to end anytime soon.

4) Domestic management of national wealth distribution on the different regions of the country

The concentration of wealth has been a serious predicament in Morocco, while some regions continue to benefit from relatively important investment budgets destined to: developing economic growth, improving infrastructures, increasing territorial attractivity and encouraging touristic activities, some other regions have been completely marginalized, feeding the huge gaps between the different regions of the country, and aggravating social inequities between the social categories.

According to statistics released by the high commissioner of planning (HCP) in 2016:

- 58.2% of the national wealth is concentrated in only three regions (3 out of 12 in total);
- Only 4 regions spend 62.9% of final household consumption.

These numbers illustrate a very poor planning of a fair and just wealth distribution. Furthermore, the same regional study publish by the HCP showcases how only 6 out of 12 regions scored higher rates than the average rate of national economic growth (1.1%). The regions of Dakhla-Oued-Ed-Dahab and Laâyoune-Saguia al Hamra occupied the top two positions, scoring 7.6% and 7.1% respectively, while some regions like Béni Mellal-Khénifra registered a rate of (-2.2%). However, the top two southern regions benefit from tax exemptions and preferential levels of subsidies.

Also, the said southern regions came on top at GDP per capita ranking as well, as the average national GDP per capita reached 29 390 MAD in 2016, Dakhla-Oued-Ed-Dahab reached 76 013 MAD at the top position, followed by Casablanca-Settat with 46 088 MAD, and Laayoune-Saguia al Hamra came in third position with 42 721 MAD. The dispersion of GDP per capita is increasing, as the average gap went from 11,018 MAD in 2015 to 11,335 MAD in 2016.

The obvious gaps between regions is proof enough of how huge are the differences between the social classes in Morocco, the numbers do not justify the governmental policy as they keep allocating more budgets for subsidies destined to relatively wealthy regions.

The government should consider a better and more efficient approach to achieve a certain level of balance, equity and more accuracy when targeting the most vulnerable categories.

5) The rest of subsidized staple goods might be next in line to undergo price liberalization:

The government is on the way to the next stops of the subsidy system reform, as the government is working on a new configuration to find new alternatives to the current policy with its current parameters, this means that butane gas, sugar and national soft wheat flour are next in line to undergo the series of reforms introduced to the compensation fund in the last decade.

The recent social instability that the country went through is proof of how dangerous purchasing power jeopardy can be. It is a very serious matter that can trouble the country's aims to the establishment of social equity and well-being. An energy price jump (moving from approximately +/-8,4 MAD to +/-10 MAD) caused mayhem, a butane gas price liberalization moving from 42 MAD a canister to 140 MAD would be completely devastating (the compensation fund is currently allocating approximately 100 MAD a canister).

Same goes for sugar and national soft wheat flour; with the subsidy suppression the prices would considerably increase impacting the whole economy, especially firms using these staple goods as raw materials. Inflation rates would soar and purchasing power would sharply go down. This could be devastating for low income households knowing that the government is not doing enough in terms of accompanying these reforms with social measures to mitigate the negative effects, as past experiences showed.

This delicate situation demands deep and careful deliberation before moving forward to the next stage of implementing any changes.

A passive government facing a multitude of failing social programs:

All budgetary advantages aside, Morocco’s ambitions to establish an open economic model required a number of reforms that affected deprived social classes in terms of purchasing power, especially when taking into consideration that no new programs were launched to anticipate the repercussions of these new economic strategies and the fact that the ongoing ones are failing to fulfill the ultimate mission of reducing poverty rates in the country.

To put an end to this vicious circle where millions are being spent on these programs in vain, on July 29, 2018, the king of Morocco (the highest authority in the country) made a clear statement in his speech regarding the unacceptable failures of many social programs led by different ministerial departments consuming huge budgets. He stated and I quote: *“The magnitude of the social deficit and the ways of achieving social and territorial justice are among the main reasons that prompted us to call, in the opening speech of Parliament, the renewal of the national development model. it is senseless that more than one hundred programs of support and social protection, which are being allocated tens of billions of dirhams, are scattered between several ministerial departments and multiple public stakeholders. In fact, these programs are lacking in coherence and fail to target the categories that are actually eligible”.*

This much needed wake-up call triggered the ongoing implementation of a new initiative called the **"Unique Social Register",** which is a new system that aims to induce a gradual increase in the performance of social programs in Morocco in the short and medium terms. The said register consists of a national registration system for families eligible to benefit from welfare programs following strict criteria in the targeting process, by using new available technologies to increase accuracy and transparency.

What alternatives are there to consider?

The State can choose one of many scenarios, however the most likely to take place would be direct financial aids to low income households, especially since the government has been given the royal directives to establish a new system to identify them exhaustively and accurately. This would save the public finances a great deal of money and might even reduce the expenditures (by adopting a direct financial aid system) compared to the current amounts allocated to the compensation fund.

The likely problems in regard to this new formula are, firstly, the accurate identification of those who should benefit from the direct financial aids, in other words, will the "Unique Social Register" be effective or will it join the previous failed programs. The accuracy of this new system is crucial to the success of fair wealth distribution approach.

3. Conclusion

In the last few years, the country witnessed huge reforms that undoubtedly helped unburden the public finances of the arrears accumulated over the years. As the new floating foreign exchange rate regime will balance foreign exchange reserves deficits, and the complete suppression of the subsidies allocated to LPP saved the State a considerable amount of money, clearing huge deficits after an alarming streak of arrears. However, these positive results come at the expense of other important matters like social welfare.

With a very large category of people in the country living below the poverty threshold or slightly above it, the repercussions of the current governmental policies on a social level should be taken very seriously, to forge a solid vision of implementing rigorous social programs to enhance these poor and vulnerable families’ purchasing power and to improve their social and economic conditions.

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