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Algeria reform or ajustement ?

Introduction

After my departure from Japan in March 1989, I stayed in Rabat, Moroccan capital about 9 months, and from this January I am living in Algiers, the capital city of Algeria. It is for me the third long stay in Algiers, first in 1968, and then in 1974. Among while, I have made several short visits in 1978, 1981, 1984 and 1989.

Please let me talk some of my first impressions at Algiers. Firstly, the shortage of daily goods in Algeria ; After settling at an apartment belonging to my Algerian friend living in Paris, I began to prepare my installation, to buy necessary goods for living and cooking, I had to face with many difficulty to find ordinary goods. I remembered suddelenly that the first Arabic expression that I learned at Algiers in 1968 was "ma ka'in sh" (there is nothing), the expression that the shop keepers use to answer the client's question "have you butter ?". "have you vegetable oil ?" and so on ; Algerian people are suffering the shortage of goods for every day life, unbelievable situation in Japan affluent, sut also in Morocco, because you can find there many goods that you don't find in Algeria. That is the reason why we meet many Algerian "tourists" who are doing shopping in Moroccan markets especially at Oudja, bordering town and at Mellilia, free port under Spanish domination. Why is there such difference between Morocco and Algeria ? If you compare the GNP of two countries, Algeria is higher than Morocco by Three times. Probably, we have to discuss the matter later. In brief, this critical situation in Algeria is the

result of economical and financial crisis caused by the decline of Oil price and the depreciation of US dollars.

Secondly, I was astonished in Algeria by the phenomenon of "Islamic revival" especially among young men wearing long wear and beard, young women with hijab (neckerchief) and long dresses quite different from traditional Algerian style. They are crowded in front of the Mosque on Friday's prayer time, so overcrowded they can not enter in the Mosque. The loud speaker of the Mosque transmits not only "azan" (appeal for the prayer) but also the sermon of "Imam", quite strange phenomenon in radical/radicalist Algeria, where the ideology of Nationalism and Socialism could mobilize the population for so many years.

Thirdly, in spite of those and quite critical social situation, the political climate is rather very good ; the waves of strikes are prevailing, Secondary School Teachers, Bread shops, Gasoline station are on strike, but people are discussing quite openly the politics, the political jokes hardly heard at the time of president Boumedienne are very common in everyday conversation. The mass media, even the official newspapers talk much about the political activities of the opposite political parties recognized from last year. Concerning the political situation, I want to add a comment on the Moroccan situation. Where Multi-party system is in practice after the independence, exceptional case in Arab countries. The first Arabic expression that I had to learn in Morocco is "al-sahib al-jallala" (His Majesty) only because the king is omnipresent in every where, he governs not only as a constitutional King. But also as "amir al-munimim" (the Commander of the faithfuls), he exercises the strong influence on the spiritual life of people, the phenomenon of Islamic revival is by far less remarkable in Morocco. Political freedom is widely recognized except for three questions ; Islam, king and the West Sahara. Three slogans you may find every place in Morocco will be the best expression of this situation ; Allah, al-watan, al-malik. Compared with the king, Chadli Benjedid, Algerian actual President does not appear so frequently, perhaps quite

intentionally to maintain his power and place as arbitrator.

The topic that I am going to discuss in my paper, is the reform of Algerian economy, because either in the official document or the public jargon, use of the term "adjustment" is always carefully evaded and the term "reform" is preferred to describe the same policy. It seems to me that this point will merit a special attention in comparing Algeria and Morocco. Concerning Algerian case, I want to put the focus of my observation on the reform of the public sector, especially that of the public enterprises, because of its importance in present Algeria.

Firstly, I want to talk briefly the historical background so as to see how the public sector has been created and developed through the decade 1960s'. I shall examine then the structure of the public sector and her place in Algerian Economy and the background of Economic reform. Finally I shall try to talk about the process of the reform from the phase of "restructuration" to that of "autonomy". The conclusion should be tentative and provisional one, because the process of reform is still undergoing and it is too early to do any concrete remark, and then present stage of my research in Algeria do not allow me to do any concrete contribution on the matter.

1. Formation and development of the public sector

Before the independence of Algeria in 1962, Algerian Economy had been imprinted by following features :

1) Colony of settlement. European inhabitants settled after French occupation in 1830, amounted to one Million, 10 % of the total population, had in their hands all the important economic activities.

2) Dual economy. European settlers had been engaged in export oriented agriculture (Wine and orange), mining and service sector depending on preferential relation with France. While, Algerian native population depended on non-commercial agriculture and hand craft

activities. Two economic sectors called "modern sector" and "traditional sector" had coexisted with very limited relationships.

3) Underdeveloped economy. Development of the industry was very limited and the agricultural production had not developed enough.

4) Colonial capitalism. The economy had been based on capitalistic principle but the role of government had been limited to the maintenance of security and tax collection, served mainly for the benefit of the settlers.

Those features of the economy formed gradually through 19th and 20th centuries under French colonial domination, had prepared the historical background for the creation and development of public sector after independence ; four remarks about this point.

1. After the First World War, we can notice the process of quite limited process of industrialization for local market, in the field of food processing and building materials owned by foreign companies. The Second World War and the discovery of Oil in 1950s' accelerated the industrialization and changed drastically the basic condition of the colonial economy.

2. Also after the First World war, the economic infrastructure, such as road and ports, had been developed slowly by public investment of colonial government. The economic role of the government had been increased through the nationalization of railway and mining activities, and the government had founded public organization (such as **Office du Blé**) and the cooperatives so as to prepare the war economy.

3. Because of the colonial situation mentioned above, recovery of economic sovereignty had been recognized by Algerian nationalist leaders and people as a goal of national movement through "nationalization" in broader sense. Economic development and amelioration of living standard perceived as "national goal" served to

mobilize the people against colonial domination and vested interests of foreign settlers and companies ; those factors prepared also the future background of "providential state" concept after Independence.

4. Through the national movement and the struggle for power, the growing influence by left wing nationalists prepared socialist ideological bases for nation building after the independence.

We may observe four stages in the process of formation of the public sector and its development in independent Algeria.

1) First stage : succession of state and the formation of public sector. Political independence in 1962 accompanied necessarily transfer of the public sector to independent government ; firstly, central and local administration, and then several public organizations created under the war economy.

2) Second Stage : departure of the settlers and nationalization of their property. The massive departure of European settlers opened the way for the nationalization of their property by independent government. For the most part agricultural farms but also the small scale business. The government applied the system of "Self Management" to those newly nationalized sectors, this system is characterized by two principles ; State ownership and workers' self management.

3) Third Stage : nationalization of enterprises and the foundation of National Companies. From 1966, the government began to nationalize the large scale industrial and commercial enterprises owned and managed by the foreigners. The government took over the strategic sectors, like banks and insurance companies, mining, manufacturing industry, import and export services. And then the government created one National Company getting together several enterprises engaged in the same activity. And contrary to the previous stage, system of "National Company" had been applied to those big business ; state ownership and the direct state control over

the economy. Most significant case of this stage is the nationalization of two french Oil Companies in 1971. The goal of nationalist ideology had been attained and the socialist ideology institutionalized by the law of 1971 on "Socialist Management" of the company.

4) Fourth Stage : Rapid economic growth and the proliferation of upper and down stream units under a National Company. In the decade 1970s' government engaged in large scale development strategy by its First Four Years Plan (1970-73) and Second Four Years Plan (1974-77), characterized by four features :

1 – Heavy industry oriented development strategy (such as iron and steel, petro-chemical industry).

2 – National companies extended their capacities of production depending largely on public investment based on Oil Revenue.

3 – Some times, this prepared favorable conditions for the spontaneous creation of up stream and down stream units under each National Company.

4 – Developmentalist ideology is complemented by socialist one by the issue of 1971 law above mentioned by which the government tried to realise the co-existence of State control and workers's participation to the management, but in fact it was the "bourgeoisie bureaucratique" who took power under the nominal ideological inclination to socialism.

Centralized planning system have not fonctionned as formalized by its planners. The results of this "voluntarist strategy" had been very disfactory ones, either in terms of physical production, productivity, efficiency, or profitability. The important trade imbalance caused by massive imports, not only of capital goods to realise this strategy but also of consummers goods to meet with the growing domestic demands, had resulted in the accumulation of external debt and the financial crisis, especially in 1978 and 1982. But two times the

"kamikaze" (devine wind) blew to increase oil revenue and saved Algerian Economy from its bankrupt. As we see later, this devine wind does not blow three times when the decline of oil price menaced Algerian Economy in 1985, and she is still suffering its aftermath until now.

II. Public sector in Algerian economy and its performance

From legal point of view, the public sector in Algeria before reform is composed of five branches :

- 1 – Central and Local Administration.
- 2 – Public Organization ("établissements publics") mainly in public services.
- 3 – National companies ("société nationale") prevailling in industry.
- 4 – Self-managed Firms, only in agriculture and small scale service business.
- 5 – Local government owned enterprises created in the 1980s'.

The role of the first and second categories in investment and employment is very important, but we should like to focus our observation on the third and fourth categories. If we measure the importance of the public sector in GNP in the late 1970s'. It occupied more than 60 % in Algerian economy, expecially in strategical sectors like hydro-carbon industries and transport/communication (more than 80 %), followed by manufacturing industry and construction/public works (around 70 %) on the contrary in tertiary sectors like commerce and service, and primary sector (agriculture), the private sector prevailed with more than 60 % for the former and 80 % for the latter. If we compare those figures with those of employment, the percentage of the public sector was slightly less higher in total, while in tertial and primary sectors the relative importance of the public sector is higher than in GNP composition.

Let us examine now the structure of public sector. Before the reform in 1980, the number of National Companies counted about 100, while Self-managed Farms about 2000. If we observe in detail the structure of the big National companies, we can do following remarks :

- 1 – Big scale and had many units under its control.
- 2 – The field of activities was not limited to production and distribution of some specified-monopolized products, but covered other related activities, such as engineering, consulting and even transport.
- 3 – Almost every company located to Algiers or other coastal towns, not only its headquarters but also affiliated units.
- 4 – They had joint-venture business companies with multinationals.

Those National Companies were placed under the direct control of the Ministry concerned through nomination of board of directors, budget control and other bureaucratic procedures, but in the same time they could enjoy many advantageous treatments from the government, such as special credit allocation for investment, priority in allocating hard currency for imports, possibilities of direct negotiation and contract with foreign operators, and so on.

The remarkable development of public sector, especially that of National Companies is nothing but the result of the strategical choice of Algerian government to speed up the industrialization process before the use up of oil resources and that depending upon foreign technology and foreign money borrowed at financial market. We can see now clearly that it was also the result of rapid economic growth realized under Oil boom.

The negative result of such rapid growth resulted in the bad performance of National Companies and then the heavy burden on public budget, because the deficit of Companies were made up by subsidies.

The factors of bad performance are pointed out as follows :

- 1 – Low level of capacity utilization.
- 2 – Introduction of the latest equipment without necessary preconditions of supply and maintenance.
- 3 – Lack of cadres (executives and engineers) and skilled labor.
- 4 – Lack of linkage with up stream and down stream sectors.
- 5 – Over-investment on equipment and employment.
- 6 – Lack of competition protected under monopoly system.
- 7 – Lack of autonomy of the management.

It is quite clear that we can not attribute all those deficiencies only to micro-economic level, but also macro-economic problems ; the central planning system were introduced in 1970 but the planning Agency had not effective power in the planning, especially in the allocation of capital and human resources. Contrary to general understanding in Japan, Algerian planning system did not work on directive model like in socialist countries of Eastern Europe, but rather on indicative model comparable to that of capitalist countries including Japan.

But, the importance of the public sectors in algerian economy could have given the possibility of more effective control over the economy, if the planning Agency could have controlled the activities of National companies through the implementation of the individual annual planning system. While, this project legally put into effect in 1974 were not applied in practice, again because of rapid economic growth, the managers of National companies could make important decisions without the consentment of the planning agency and sometimes even without having the authorization from Ministry concerned. Some big scale companies like SONATRACH (oil) and SNS (iron and steel) were considered to be "the State in the State". To procure limited human resources, those Companies provided its employee with higher salaries and important fringe benefits (housing, car) without paying attention to its financial outcome. Because of the big scale of National companies, their bad performance had inevitably given direct and negative influence on the performance of National

economy.

So far as the oil revenue could compensate the deficit of National Companies, such situation could have been maintained forever. But already in the late 1970s', trade imbalance and the accumulated debt began to weigh heavily on national economy.

The debt service ratio, maintained at the level of 10 % in early 1970s' have increased to 14 % in 1974, 19 % in 1977 and attained to 25 % in 1978, even to 39 % in 1979.

From 1978, the government began to revise its development strategy and had to introduce the austerity policy beginning from the reduction of imports and the postponement of big plant projects.

III. Political change and the economic reform

"restructuration" and "autonomy" of enterprises

I hope that the economic background of the reform is quite clear now, suffice it to say that the decline of oil price have accelerated the process of reform. Here, we have to take into consideration the political factor. The strategy of economic development, based on nominal socialist principle, heavy industry oriented, importance of National Companies as its executors, had been planned and put into effect by Boumedienne Regime especially by his Minister of industry, Belaid Abdelsalam. After the sudden death of the former president, his successor Chadli Benjedid elected through "Democratic Procedure", began to introduce a new style of politics, by liberating political, criminals and pushing forward the liberalization process of the system. The economic reform especially so called "restructuration" is one the most important component of this policy. Let's skip the process of implementation of this reform begun in 1980 and see only its results of this reform.

1. "Restructuration" of the enterprises implies the division of big National Companies into smaller units, for example, the biggest SNS

(iron and steel) has been split into 17 public enterprises, SONATRACH (oil) and SNMC (construction materials) respectively into 12, and SONACOME (machine constructor) into 11 units.

2. First logical result of this division is the increase in number of enterprises ; the total number of the enterprises amounted to more than 2,000 units, of which 460 national (state owned) public enterprises and 1,579 local (owned by prefecture or local communities) public enterprises.

3. Second result is the reduction of the scale of enterprises and this, according to two principales, functional division, i.e. Specialization by activities and geographical division, i.e. localization and sometimes relocation of headquators to local and inner town (decentralisation).

4. Division of National Companies and its reorganization into public enterprises accompanied other measures so as to accomodate economic and financial environment.

5. In the agricultural sector, the Self-managed farms were divided into smaller units and reorganized into the cooperative farms (7 members in average). In wchich state continued to own the land but other means of production could be owned by members and transferable to the third person. Some part of nationalize land (belonged to settlers or Algerian land owners) had been transfered to the private sector.

6. Those measures accompanied other measures to promote the private sector by giving financial facilities and releasing strict price control. Although, official documents do not describe this transfer by the term "privatization" because the principale of hegemony of the public sector over economy had not been modified. The strike of gasoline stations above mentioned is the typical case where the managers reclaim the privatization and the government refuses it.

The economic results of the reform, i.e. the impacts of "restructuration" on performance of public enterprises are not so

clear, except for fragmentary informations about some cases. The managers in general make complaint against this reform because of the loss of "scale of economy" and the reduction of bargaining power with regard to foreign partners.

Meanwhile Algerian economy had to face with more serious crisis caused by oil glut. The radical decline of oil price together with the effect of the depreciation of US dollars, have reduced the export revenue by 57 % from 1985 to 1986 and related state revenue by 46 %. Direct result was, of course, the aggravation of twin deficits of trade balance (export, covered only 85 % of import) and state budget (revenue covered 81 % of expenditure). With the view to cover increasing debt services (accumulated debt is estimated to 20-24 billions dollars), the government had to cut down firstly investment budget (by the reduction and/or postponement of plant projects), and then ordinary budget, especially non-productive and nongenerating hard currency sector, such as education and social security, subsidies to basic food-stuffs, and also freezing the salaries.

This austerity policy accompanied the substantial reduction of imports and devaluation of Algerian Dinars, together with the effect of speculation have accelerated shortage of food-stuffs and basic consumption goods, logical consequence of those factors were inflation and the social unrest.

One thing merites to notify ; inspite of the fact that the government applied ajustment programs, sometimes in concordance with the World Bank and the IMF to finance the programs, the term "ajustment" was not utilized by official documents, and also, the government asked to reschedule the debt on case by case bases, but does not want to accept the global negotiation for the reschedule.

This fact shows very clearly how the Algerian government is eager to maintain her national sovereignty in economic policy, and she preferred to suffer the payment of the debt services, attaining more

than 50 % of the export income, even if the risk of social unrest is eminent, she does not want to accept the interference of international institutions or foreign governments to internal affairs. This may not be so wise, but it is the philosophy of Algerian government, and besides, it seems to be widely supported by people.

The year 1988 was the crucial one from several point of views. It began by the adoption of series of laws by the National People's Assembly that defined several measures to make into effect the "Autonomy" of public enterprises :

- 1 – Management of the enterprises by Board of Administrators composed of 7 to 12 members (2 of which are the representatives of workers).
- 2 – Creation of 8 holding companies (fonds de participation) in 8 branches of economy so as to replace the direct State control system.
- 3 – Decentralization of planning system through implementation of individual annual plan to each enterprise in coordination with sectorial and national plan.
- 4 – Reorganization of Ministry of Planning into National Council of Planning.
- 5 – Distribution of hard currency budget by local chambers of commerce.
- 6 – Replacement of formal relationships between the public enterprises by contract system.

The operation is not over still now, then we can't estimate the results. But, one thing is clear : success of those measures depends upon the objective conditions or economic environnement. Let us examine for example the measure (6).

Galleries Algériennes is the largest public deparment store chain in Algeria and before the reform, it could supply with the TV sets or refrigerators from ENIE or ENIEM (called SONELEC before

"restructuration") without any difficulty on fixed conditions of margin and payment, but after the reform, those conditions must be negotiated on equal bases. When I visited this department in October 1988, I was very much impressed to have noticed the empty display stands. And I understood quite well the reason when I got informations about "Autonomy" by a member of National Council of planning ; in the goods shortage economy, sellers can always impose their conditions to buyers (sellers' market) then the negotiation can not be done on equal basis.

Concerning point (5), in the situation of the general shortage of hard currency, how can the chamber of Commerce manage to distribute it ? Even for the Central Bank, or the Ministry of Finances, it is quite impossible to find the suitable solution.

In the international relations, the year 1988 was quite fruitful one for Algerian Diplomacy, for example, Arab Summit in June (so called Intifada Summit), followed immediately after by Maghrib Summit that opened the way to the Maghrib Union. But such diplomatic achievement could not prevent the Urban Upheaval of October.

I happened to be at Algiers in October 1988 during the first half of Urban Upheaval. I have not enough time to discuss the matter in detail, then just a few quick remarks :

- 1 – Background of this unhappy incident was generalized difficult economic situation, especially food shortage and unemployment.
- 2 – Concerning the first half of the movement, it was a typical spontaneous demonstration, changed into upheaval of young generation who wanted to express their dissatisfactions.
- 3 – However, second half of the movement, the angry mass had been organized by Islamist party to protest against the brutal oppression by public forces.
- 4 – It is worthwhile to mention the quick responses by the government, first by immediate measures to appease social climate,

and then announcement of substantial political reforms and its implementation.

1. Separation of the state and the party on October 25.
2. First Amendement of the constitution on November 3.
3. Cabinet resthuffle on November 6 (Merbah Cabinet).
4. Party's Congress on November 27.
5. Second amendement of the constitution on February 23 that opend way to multi-party system.
6. Adoption of political associations law on july 5, 1989.
7. Adoption of election law on 19 july.
8. Cabinet reshuffle on September 9, 1989 (Hamrouche Cabinet)
9. Extraordinary Congress of FLN in November.

Economic situation is still very bad, the social tension is quite high, but political situation is moving very quickly in Algeria ; by now about 20 political parties officially recognized, began their activities among them besides the FLN (governmental party), FIS (Front du Salut Islamique), Islamic integrist party and RCD (Rassemblement pour la Culture et la démocratie), kabyle cultural identity party will merite special attention. Algerians are now enjoying the political spring waiting for coming local election in june, 1990.

This is the general impression that I have had my skin before my departure from Alger on March 1990. Thank very much for your attention.

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Notes

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