

Why Algeria needs a supply side economic policy?

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Abstract:

Algeria implemented a demand side economic policy during the period of 2001-2014, and it led to positive results in economic growth and employment in a comparison to the period of 1995-2000. However, its effects on the national economy were in the short run and don't achieve a valuable contribution to build a real economy that can create wealth and jobs in the long run. The facts in the national economy show that the main problems in the Algerian economy are structural rather than be summarized in a decrease in aggregate demand. The supply side economic policy then is the right choice, it should be based on developing competitiveness level and resources allocation efficiency by reforming the products market, and raising labor productivity with the rate of participation by reforming the labor market.

Keywords: Economic policy, demand side policy, supply side policy, Algerian economy, structural imbalances.

الملخص:

طبقت الجزائر خلال الفترة 2011-2014 سياسة اقتصادية تركز على دعم الطلب الكلي كان لها آثار إيجابية على النمو الإقتصادي والعمالة بالمقارنة مع الفترة السابقة لها 1995-2000. لكن هذه النتائج كانت على المدى القصير فقط ولم تساهم في بناء اقتصاد حقيقي يقوم على خلق الثروة ومناصب العمل على المدى الطويل.

تشير الوقائع في الإقتصاد الجزائري أن أهم الاختلالات التي يعاني منها هي اختلالات هيكلية أكثر من كونها اختلالات مرتبطة بانخفاض الطلب الكلي. وعلى هذا الأساس، تبرز سياسة جانب العرض كأفضل خيار بديل لسياسة جانب الطلب التي سبق تطبيقها، أين يتوجب أن تركز على تطوير مستوى التنافسية وتحسين عملية تخصيص الموارد من خلال إصلاح سوق السلع والخدمات، إضافة إلى ضرورة رفع مستوى إنتاجية عنصر العمل مع معدل المشاركة من خلال إصلاح سوق العمل.

الكلمات المفتاحية: السياسة الاقتصادية، سياسة جانب الطلب، سياسة جانب العرض، الإقتصاد الجزائري، الاختلالات الهيكلية.



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1. INTRODUCTION

The subject of economic policy occupies a great importance in the economic literature, because of what it shows about the economic decision making mechanism that plays a key role in affecting the development of the economic activity.

Development of macroeconomic theory was the departure point in the appearance of economic policy subject, that was “Jan Tinbergen” a Netherland economist the first who took it in a serious study in 1952 in his book “*on the theory of economic policy*”, where he defined economic policy as a decision system that reflect the nature of the relation between instruments that are a controlled variables and targets which are the final desires of decision makers. His book then was followed by whole researches that studying the different sides of economic policy which became a wide range subject in economic theory.

The orientation of the economic policy until now still one of the most subjects that are putting under discussion between economists and politicians and also in the media, it's revolves around the main orientation of economic policy to achieve economic growth, either be a demand-side policy which reflect the Keynesian principles or be a supply side policy which reflect the classical principles. In this context, after a decade of economic and social deterioration that was due to the 1980s oil prices shock effects and the hard security situation that characterized the 1990s decade, Algeria opted to go for the application of a demand side economic policy since 2001, by implementing three public expenditure programs with more than 400 billion US dollars especially to improve the economic and social situation and make a big push for the Algerian economy to grow and achieving prosperity.

In this paper we are looking to study this debate between the two sides of economic policy directions and their theoretical and practical basis, and to examine the demand side economic policy that is implemented in Algeria and whether there is a necessity to an alternative direction of economic policy, we hope that this will help the policymakers to understand the different aspects of each view and then progressing their vision to the process of how economic policy works and how it can makes the economy growing and taking the path to prosperity.

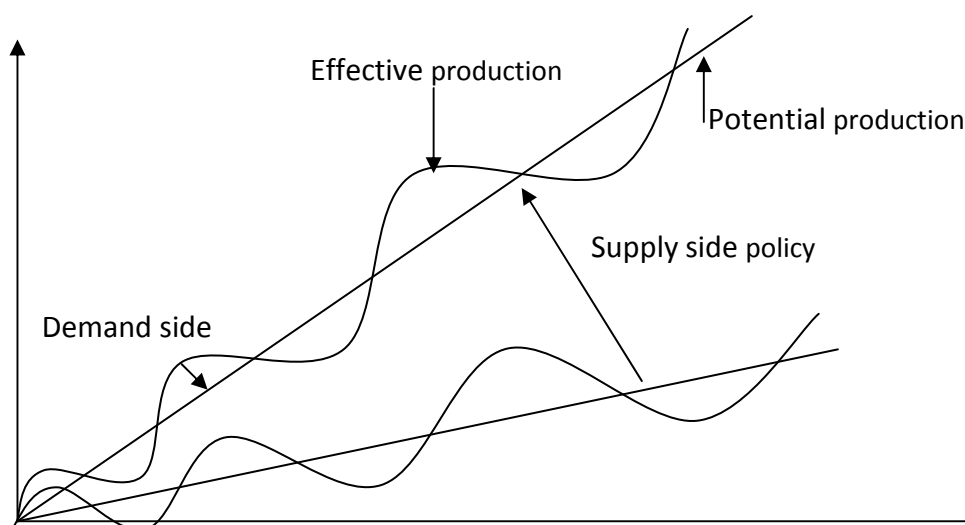
2. ECONOMIC POLICY ORIENTATION: AN OLD ISSUE AND A WIDE DEBATE

Economic growth is the main target of any economic policy. It's reflecting a wide vision about the economic situation. In this sense, economic thought told us that the orientation of economic policy to achieve a high growth rates is an unresolved issue, this is so clear and be reflected from details of the debate between the supply side economists, who are suggesting that the economic policy should focus to increase the economic incentives and hence lead to the development of the aggregate supply to achieve a sustainable long run growth, and the demand side economists who are confirming that the economic policy should target the stimulation of the aggregate demand which lead to a high growth rates and stabilize the economic activity.



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Figure 01 : Supply side policy VS demand side policy



Source: Agnès Bénassy-Quéré et autres: « politique économique », édition de Boeck université, Belgique, 2004, p 42.

2.1. Demand side economic policies

Demand side economic policies are policies which aim to affect the total aggregate demand in the economy which is the engine of growth. This kind of policies is Keynesian in its economic background. Keynesian economics is a theory of total spending in the economy, its analysis is founded on the idea that the level of production and national income and employment depend on the level of aggregate demand, and that easy money with expanded budget deficits by stimulating demand, can increase output and employment. This may have been absolutely an appropriate emphasis during the depression years of the 1930s when Keynes developed his influential theory (Feldstein, 1986; Lee, 2012).

Keynesians focus on the gap between potential GNP (the value of output the economy is capable of producing) and actual GNP (the value of output actually being produced). If demand is less than the full employment potential of the economy, the problem is seen as one of inadequate demand and the Keynesian response is for government to reduce taxes or increase spending or both in order to increase the current rate of expenditure. If demand exceeds the full employment potential of the economy, however, inflation will result and the appropriate response is to combine tax increases and spending cuts to reduce demand (Lee, 1983). Demand management form is not confined in fiscal policy, but it can be in a form of monetary policy by increasing or reducing the availability of credits that is directly affecting the private demand and hence the aggregate demand according to the economic situation.

Keynesian demand management policies are based especially on two principals:

- _ Rigidity of price and wage: especially because of the menu costs (see Goldberg and Hellerstein, 2007; Mankiw, 1985) and the fear about the coordination failure (Blinder, 1994) for the price rigidity, and because of the implicit contract and efficiency wages (Stiglitz,



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1984) and the effect of wage level of efforts (Campbell and Kamlani, 1997) for the wage rigidity.

_ Effective demand: the sum of both private consumption and investment that results from the expectations of economic agents is considered as an essential factor that explains the labor market changes and the involuntary unemployment that characterized it (Dalziel and Lavoie, 2003)

The power of demand side policies came from the concept of “the multiplier” which is first appeared by “Richard Kahn” on 1931 in his article “the relationship of home investment to unemployment”, it is defined as the change in output due to the change by one unit in one of the components of aggregate demand. Any new spending leads to new incomes of new workers that lead by their marginal propensity to consume to other new incomes and so on until the last new worker get an income which is equal to his consumption. This means that consumer spending is the main determinant of multiplier process and the rise in value of the marginal propensity to consume lead to a larger value of the multiplier (Kahn, 1931).

Confirmation of the correctness of the Keynesian policy prescriptions came unintentionally with World War II. Increased demand from warring nations in Europe and American re-armament expenditures brought huge increases in output and corresponding increases in the effective demand for labor that finally ended the mass unemployment of the Great Depression. This was an incentive for policymakers in the world to adopt Keynesian demand policies in their economies which were the dominant nature of economic policy from the 1940s to the 1960s.

But as a result of the defeat in resolving the crisis of the 1970s stagflation crisis, Keynesian policies faced many criticism when many economists noted that the demand side management policies that dominated the applied economic policies especially during the 1950s and 1960s, contributed to what economic activity suffered from: unemployment, inflation, weakness in investment and thus lower rates of economic growth and the growing phenomenon of "parallel economy" (Pasour, 1982; Fazzari, 1995).

2.2. Supply side economic policies

Supply side economic policies are policies which aim to affect the productive capacity of the economy, and hence affect the long run growth of the output. The stagflation crisis was the main cause that led the policymakers especially in the United States and Great Britain to make a shift in economic policy direction by implementing supply side policies which are related to the principles of the classical economic thought. In the American economy, the president Reagan implemented during the beginning of the 1980s an economic program that was based on tax cuts (see Blanchard and al, 1987), while the prime minister Thatcher in the British economy implemented a supply side program that was based on: curbing union powers, privatization and deregulation and the reduction and reform of taxes and social security benefits (Kent Matthews, 1987).



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To a significant extent, 'supply-side' issues were downplayed or ignored because of the belief that the major challenge for policy-makers was to sustain aggregate demand along Keynesian lines (Krueger, 2010), the experience of the 1930s had temporarily made it easy to forget the importance of the supply factors but by the 1970s they were returning to the mainstream of economics.

Martin Feldstein (1982) described supply-side philosophy as a retreat from the Keynesian ideas that have dominated economic policy from the 1940s to the 1960s. "The supply-side revolution", as Feldstein called it, rejects the Keynesian emphasis on expanding demand to raise income and also rejects the Keynesian fear of saving where they noted that more saving mean less consumption and thus a low value of the multiplier. Identifying himself with the supply-side movement, Feldstein said "we recognize that more saving is a prerequisite for the increased capital formation that can raise productivity and the standard of living" (see Bedwell and Tapp, 1982).

Feldstein traced the supply side theory origins back to two centuries to Adam Smith's view that a nation's wealth and prosperity depend ultimately on its capacity to produce (Bedwell and Tapp, 1982). Smith also believed that the free market— without government interference— will in general see that capital resources and labor are allocated to their most productive uses. This view dominated economic thinking until the depression of the 1930s "diverted attention from the long-run problem of creating productive capacity to the short-run problem of maintaining demand."

Supply side policies begin from the point which is called the "Say's law", it's a principle that means "supply creates its own demand". From this, supply side economists suggest that the incentives play a crucial role in developing economic activity, this is being cleared from the Laffer curve that showed a tipping point which determine when people work less and when they work more, this is essentially due to the availability of incentives or not (Bartley and Shlaes, 2004) . Supply siders noted three principles for any supply side policy which are: low tax rates, low inflation rates and less government intervention. It is important therefore in any discussion of supply side economics to distinguish the traditional supply side policies that characterized most economic policy analysis before the 1930s which is based on the necessity of the capital accumulation, technological progress and market freedom, from the new supply side policies that came in the 1980s and based on the reduction in the tax rates according to what's called "Laffer curve" (Feldstein, 1986). Based on the grounds that the supply side policies are the policies which aim to affect the supply side of the economic activity that relate directly to the productive process, Supply side policies are as follows: privatization policy, trade openness policy, R&D policy, Labor market policy, Competitiveness policy, Tax policy, Industrial policy and agricultural policy.

3. DEMAND SIDE ECONOMIC POLICY IN ALGERIA

Algeria experienced a difficult economic situation during the 1990s, which is the result of the decreasing in oil prices in 1986 that led to an inability to pay external financial



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commitments. This situation puts Algeria in front of the inevitable resort to request the assistance of the International Monetary Fund that continued until the end of the 1990s, when Algerian economic policy shifted to focus on stimulating aggregate demand because of the accumulation in financial revenues as a result of the increasing in oil prices since the beginning of the 2000s.

3.1. Impacts of demand side economic policy in Algeria (2001-2014)

Since 2001, Algeria is implementing a demand side economic policy through the adoption of three public expenditure programs for the period of 2001-2014 which are: the economic recovery plan (525 billion DA), the complementary program to support growth (4202,7 billion DA) and the five year program (20412 billion DA). These programs based primarily on developing infrastructure and improving the standard of living of the population, and this is due primarily to the significant damage of the socio-political and economic crisis decade during the 1990s, that led to a reduction in public expenditure under conditional austerity measures by the International Monetary Fund in the form of the 1990s standby programs and the structural adjustment program.

We will highlight the different impacts of the three public expenditure programs during the period of (2001-2012) through three key indicators.

3.1.1. Economic growth rate:

The growth rate of real output as table 01 shows seen rising to high levels in the first five years in the beginning of the expansionary fiscal policy, but it dropped since 2006 by nearly a half. The estimation of the average real GDP growth rate in the period of 2001-2014 is 3.4% which is in low levels in a comparison to the potential of the Algerian economy.

Table 01: Real GDP growth rate 2001-2014

years	2001	2002	2003	2004	2005	2006	2007
RGDP growth rate	2,6	4,7	6,9	5,2	5,1	2,0	3,0
years	2008	2009	2010	2011	2012	2013	2014
RGDP growth rate	2,4	2,4	3,6	2,9	3,4	2,8	3,8

Source : Bank of Algeria annual reports : 2005 ,2009 and 2014.

More precisely about the sources of this growth in real GDP, the largest proportion of it is generated from both the construction and services sectors, where the services sector benefited from the evolution of the transport sector as a result of the development in the infrastructure of roads and railways, as well as the development of the trade sector as a result of the improving in standard of living of the population and hence the rise of aggregate demand, while the construction and public works sector benefited from substantial financial allocations



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adopted for it after the great freeze of the 1990s as a result of the austerity policy pursued along that period.

On the other side, either The agricultural sector or public and private industries didn't achieve a substantial and high growth rate that can confirm their leading role in Algerian economic efforts to break the dependency to the hydrocarbons sector, the agricultural sector has suffered from bad weather conditions and fluctuating over the lack of long-term vision based mainly on exploiting national assets, whether physical or natural to achieve food self-sufficiency.

On the other hand, the rapid growth in the nonhydrocarbon sector (6,2 percent on average over the period 2005_2012) is achieved especially by the massive transfers of resources from the hydrocarbon sector, this is the result of the large hydrocarbon revenues from high international oil prices. This means that there is a high correlation between the nonhydrocarbon output and oil revenues, and hence the nonhydrocarbon growth is vulnerable to malfunctions at any time due to its dependence to the international oil market that is sensitive to any event in the world.

The economic activity in Algeria during the 2000s is characterized by:

- _ Huge public expenditure (capital) as a result of the improvement in the financial position as oil revenues increased continuously during the 2000s;

- _ Labor intensive that was socially justified more than economically, because the public sector which dominated during this decade was working with a social background and without an economic background. As a result, it employed a large share of employment especially to reduce the unemployment rate which was 28,6% in average during the period of 1995-2000.

The accumulation of human capital (Labor intensive) consistently provided the most important contribution to real GDP growth, while the contribution of labor quality was positive but relatively limited. Physical capital accumulation contributed negatively to real growth during the 1990s, as a result of its low level as a result of the hard security and political situation. During the next decade, the contribution of physical capital accumulation picked up due to the huge public expenditure programs that is implemented during the current period, and significantly contributed to substantial growth. Finally, TFP growth was negligible, becoming episodically negative toward the end of the period.



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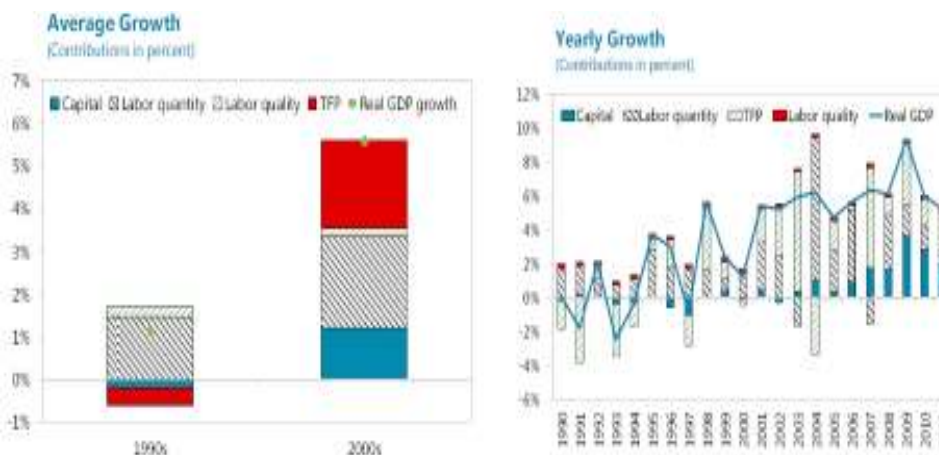
Figure 02: Overall growth decomposition in Algeria



Source: Amina Lahreche et al (2012), “Algeria; selected issues paper”, International Monetary Fund, country report N° 13/48, p 6.

With regard to the nonhydrocarbon sector growth which is the target of the economic policy, human capital accumulation was a major source of that growth, with TFP growth providing a significant positive contribution in the 2000s in a comparison to the 1990s. Rapid employment growth was also the main contributor to growth, while labor quality had a marginal impact, and this can be explained because the larger share of employment in the Algerian economy is in the public sector which doesn't care about labor quality as much as it is interested about labor quantity.

Figure 03: Overall nonhydrocarbon sector growth decomposition in Algeria



Source: Amina Lahreche et al (2012), “Algeria; selected issues paper”, International Monetary Fund, country report N° 13/48, p 7.

3.1.2. Unemployment rate:

Public expenditure programs in Algeria had a positive effect on employment rates that were dropped as table 02 shows by more than 16% between 2001 and 2014. The large increase in the volume of employment was on both the services sector, with an increase between 2001 and 2014 by 4268000 workers, as well as construction and public works sector with a growth



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in employment during the same period by 1085000 workers, while the agricultural sector was volatile in the volume of employment Between the rise and the fall with just about 192000 workers. Industry sector both public and private, is growing in size in the last two years of employment where it reached an aggregate of 1337000 workers compared to 503000 that was on 2001.

Table 02: Unemployment rate 2001-2014

years	2001	2002	2003	2004	2005	2006	2007
Unemployment rate	27,3	25,7	23,7	17,7	15,3	12,3	11,8
years	2008	2009	2010	2011	2012	2013	2014
Unemployment rate	11,3	10,2	10	10	11	9,8	10,6

Source : Rapports annuels de la Banque d'Algérie : 2005 ,2009 et 2014

The demand side policy that is implemented in Algeria since 2001 was effective in reducing the unemployment rate as nominal evaluation, but from another side, we can say that this decline in the unemployment rate hides behind many of negatives remarks. The implementing policy affected just the employment in the non productive sectors unlike the productive sectors, and this is mean that a main result that was looked from this policy was missed, because if the policy led to a rise of employment in the productive workers, this could lead to a positive effect on the national output and hence to a high growth rate more that what was achieved as table 01 showed before.

3.1.3. Imports value

Table 03 shows the trend of Algerian imports value that was increased significantly between 2001 and 2014, where it has doubled more than six times. The rise in imports value during the period 2001-2014 was focused in particular on: semi-manufactured goods, which rose from 1.7 billion dollars to 12,3 billion dollars, industrial materials rose from 3,2 billion dollars to 18 billion dollars, foodstuffs rose during the same period from 2,3 billion dollars to 10 billion dollars.



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Table 03: imports value 2001-2014

(Unit: billion dollars)

years	2001	2002	2003	2004	2005	2006	2007
Imports value	9,4	12,0	13,3	17,9	19,8	20,6	26,3
years	2008	2009	2010	2011	2012	2013	2014
Imports value	37,9	37,4	38,8	46,9	51,5	54,9	59,6

Source : Rapports annuels de la Banque d'Algérie : 2005 ,2009 et 2014

The growing value of imports focused in particular on: semi-finished products, industrial products, foodstuffs and consumer products as illustrated in figure 06. The rise in imports value is mainly due to weakness of the productive system in the Algerian economy, which couldn't meet the growing demand that was resulted from the implemented public expenditure programs. This was a key problem that led to a low response both in output and employment, which were able to grow higher than what was achieved if the production system was flexible and efficient.

3.2. Why the Algerian economy still weak?

The demand side economic policy that is implemented in Algeria led to positive results in economic growth and employment in a comparison to what was achieved in the hard period of 1995-2000. But behind those results, the current demande side economic policy led to many imbalances that are putting the Algerian economy in a hard situation. These imbalances are as follows:

3.2.1. The absence of a real economic sector: the expansionary public expenditure in the Algerian economy did not led to a creation of real productive economic activity, it led to a high rates of economic growth in the short term only, and the evidence is that the big share of that growth was mainly due to the non productive sectors which are the services sector and the infrastructure and major public works sector, while the productive sectors like the agricultural and industrial sectors didn't achieve an acceptable growth rates that can help us to estimate a dynamism in the GDP growth rate in the long run as a result of this demand side policy.

3.2.2. The increase in the size of non-productive labor: The big share of the rise in the volume of employment is in the infrastructure and major public works sector, which means that is a temporary growth of employment and will not have any future positive impact on economic growth or employment rate. This growth of employment will disappear with time when the projects of construction and infrastructure are completed, and will not contribute directly in the GDP accumulation because it is based on the non productive sectors.

3.2.3. Lack of competitiveness: One of the substantial effects of the demand side policy in Algeria is the weak competition in the local economy. According to the 2012 WEF Africa



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competitiveness report, Algeria has a bad situation in which related to the Intensity of local competition, where it was ranked in the 144th rank. This can give us an explanation of the supply weakness of the Algerian economy.

This situation was a result of four factors that appeared due to the economic policy that is based on the aggregate demand expansion. First, the demand side policy means more intervention of the state in the entire economy, and led to a domination of the public sector in many sectors, this situation kill the competitiveness in the local markets because of the big advantages that the public sector benefits as a result. These advantages are: the priority in obtaining loans, the priority in the acquisition of projects and the support that it has from the public authorities in many areas without any economic logic which can be a reason for it. Second, a growing of quick profit mentality among the Algerians led just to a grow in the quick profit activities that not help in building a competitiveness framework, and the absence of the investment mentality also led to a less private sector contribution in the economic activity dynamism and hence to a weak competitive among the economic operators. Third, monopolistic practices of some big companies don't help smaller companies to compete and grow, this is especially in their relationships with high state officials. Fourth, the growing size of the parallel economy and the absence of a strong desire from the authorities to reduce its expansion affected negatively the development of both the size and number of enterprises which led to less dynamism and competitiveness in the Algerian economy.

3.2.4. The absence of a productive flexible and efficient system: The high import value during the period of the expansionary public expenditure policy confirms that the system of production in Algeria is neither flexible enough nor efficient in its performance. A large part of the demand that was generated by the expansion in public expenditure was met by imports instead of the local productive system, which means that if the local productive system was more flexible and efficient, the economic activity in Algeria was able to grow faster and employ more workers during the previous years.

These results confirm that the demand side policy in Algeria is ineffective because the first and the main condition to implement it is no more exist. There is no reason to stimulate demand and there is not a local productive system that can react to this aggregate demand rising, so any stimulate of demand without an efficient local productive system lead to a rise in imports and hence a decrease in the multiplier value and this is a reason to note that this kind of economic policy in Algeria is ineffective at all.

3.2.5. Weak labor productivity: labor productivity in Algeria had a modest growth during the period 2001_2014 where it raised from 9871 dollar to only.....dollar. this growth was weak for a period of more than 10 years and was not enough to creat a dynamism in economic activity and support high real growth rates.

The low growth of labor productivity is a result of:

- _ The lack of an incentive environment to work in the public sector;
- _ The hard situation of private sector in the economic activity;
- _ The weak quality of higher education.



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4. SUPPLY SIDE POLICY; THE RIGHT CHOICE

The continuation of the demand side economic policy as the main form of the economic policy in Algeria is not a right choice for the Algerian economy, and it looks as a current sedative for the different problems that it suffers from.

The rise in imports value from 9 billion dollars in 2001 to about 60 billion dollars in 2014 puts us in front of the necessity to wonder about the feasibility of the expansion in public expenditure if the demand that is derived from that expansion was met by imports and not by the local production system. As a result, we suggest that the problem of economic activity in Algeria is a weakness in the aggregate supply more than a decline in the aggregate demand, which mean that the Algerian economy need many structural reforms that change the structure of the economy and hence focus on allocative efficiency that lead to more potential output. This means that the right choice for the economic policy in Algeria is the supply side economic policy that should be based on the following supply axes that are requiring more policy focus as it is the only way to achieve a sustainable economic growth and a development path in Algeria:

4.1. Reforming product market

The main objective of reforming products market in Algeria is the liberalization of economic activity in order to increase competition among economic agents and improve efficiency in resource allocation and productivity levels in this market. This process can be achieved through many channels:

4.1.1.Promoting economic freedom: According to the 2016 economic freedom index of heritage foundation, Algeria has a score of 50,1 in the 154th rank among 177 countries, and it is ranked 13th among the 15 countries in the Middle East and North Africa region that has a score of 62,6. A faster accumulation of knowledge would notably require a larger openness to both trade and foreign direct investment (Erich, 1997), which still in low levels because of the protectionism view of the Algerian policymakers. The figure 01 shows us both the low level and the declining path of economic freedom in Algeria.

The promotion of economic freedom can be achieved especially through:

_Developing an attractive propriety rights system: The propriety rights system encourages agents to innovate and invent and hence lead to economic growth and prosperity in economic activity (see O'Driscoll and Hoskins, 2003). According to the 2016 economic freedom index, Algeria has a score of 25 compared to 38,8 as an average score for MENA region, which mean that the implementation and enforcement of legislation protecting copyright and related rights, trademarks, patents, and integrated circuits are inconsistent and not enough to push innovation and make positive effects on the Algerian economy. This is one of the most challenging issues that are emerging for the Algerian authorities to do for the development process.



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_ Reducing the restrictions on investment: Economic theory suggests that in order to maximize opportunities and incentives for expanded economic activity, productivity gains and job creation, it must be a free open investment environment. An effective investment framework will be characterized by transparency and equity, supporting all types of firms rather than just large or strategically important companies, and will encourage rather than discourage innovation and competition.

The status of investment freedom in Algeria is degraded sharply, where its score in the 2016 economic freedom index is 30 compared to 52,5 as an average score for MENA region. This situation is a result of the public investment domination, limiting advantages for the big strategic firms, restrictions on ownership of industrial property and prevents foreign investors from owning the majority share in investment projects through the implementing of the “49/51” rule.

_ The Simplification of administrative procedures related to the establishing of new Enterprises and the starting of projects: the aversion from investment in Algeria is due especially to the complexity of the doing business procedures. The cost of creating a business is high because of the large number of procedures and the length of time it takes to start a business (Amina lahreche et al, 2013). According to the 2016 World Bank doing business report Algeria is ranked on the 163th rank, it shows how investors in the Algerian economy find many difficulties that are related to: the beginning of business (145th), dealing with constructing permit (122th), registering property (163th), getting credits (174th) and enforcing contracts (106th).

4.1.2. Making reforms in the financial system: Access to finance is ranked as one of the main impediments to businesses, and seems particularly to affect very small enterprises with limited balance sheets (Amina lahreche et al, 2013). Either in the banking sector or the financial markets, reforms lead to a development of the financing process through the available financial resources or the presented financial services, all of these can stimulate investment and production. Financial sector in Algeria still repressed, stock market is almost no exist and banking sector with 27 banks and financial institutions is dominated by the 6 public banks that acquires almost 90% of the market, and by its density where we find 1083 public banking agency with just 343 private banking agency from the total of banking network in Algeria. In the same context, the low of banking density ratio in Algeria by 1 banking agency for 25700 people and a 48% of total loans for economy to the nonhydrocarbon PIB confirm that the financial system performance in the Algerian economy is still weak and need an emerging crucial reforms to activate its contribution for economic development.

4.1.3. Promoting innovation

Algerian economy is suffering from weak levels of innovation; it needs a huge push towards more innovation which can be an important support for growth efforts. This can be achieved as follows:



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_ Development of ICT infrastructure: The ICT infrastructure is one of the main pillars of the development in products market. It enhances the technological development that contributes to the development of business activity and production in the products market, as it facilitates the convergence of supply and demand in the market, reduces transaction costs and increases the volume of Competition, which reflects positively on the development of efficiency and productivity.

In this regard, according to the World Economic Forum's World Technology Report where Countries are classified in the so-called "the Network Readiness Index" which aims to measure the development of the ICT sector and assess its impact on increasing productivity and enhancing global competitiveness, Algeria has modest levels in the different sub-indicators of NRI index, especially with regard to the availability of latest technologies sub-indicator and the Protection of intellectual property sub-indicator.

In the same context, the World Economic Forum's competitiveness report points to the same results of the Network Readiness Index, through the technological readiness index that is one of the competitiveness axes. It shows how the Algerian economy is in a non supportive situation towards innovation and technological development. This reinforces the need to pay more attention to the development of ICT infrastructure in Algeria as a major factor of technological development, which is the main engine of economic activity in modern era.

_ Providing financial support from the state to encourage innovation: The State can push towards R&D and thus promote innovation in economic activity through:

_ Supporting scientific research that provides direct economic advantages such as increasing competitiveness or raising productivity: Providing support and motivation whether material or moral to individual researchers to develop applications and discover the latest methods and methods that can be directly reflected positively on the production process, and ensure that they are subject to experimentation and application by enterprises.

_ Provide financial support to enterprises to implement their innovative plans: the state can give support and incentives for the private sector to establish special units for R&D activities through tax incentives or through the direct financial support for the small and medium enterprises to going on their research activities.

_ Strengthen cooperation between enterprises and universities towards the marketing of scientific researches: the State should encourage universities and research institutes to cooperate with enterprises and enter into partnership agreements in order to benefit from the research and its application on the ground. This means creating communication and partnership lines between universities and economic agents in terms of providing advices and solutions that contributes to the technology flow in economic activity. In this context, incentives are provided to economic institutions that wish to enter into cooperation agreements with universities in terms of financing research and development activities that benefit the institution concerned on the ground. The rights of the inventions obtained at universities are also awarded in partnership between researchers and the



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universities On the process of marketing research and benefiting from it by economic institutions, which represents a great incentive for innovation positively affects the development of the products market performance and affects on the other hand positively on the performance of university institutions.

4.1.4. Investment in education and R&D: According to the WEF 2016 report, Algeria is ranked 99th on higher education and training pillar, this rank gives us an important answer about the poor economic performance of the real economy in Algeria. Support an efficient and knowledge-driven economy Policies to enable innovation and increase technological absorptive capacity is also needed to increase R&D investment and support the absorption of existing technologies (Guellec and van Pottelsberghe, 2001). Cooperation between enterprises and universities should be developed to ensure that higher education matches the needs of the productive sector, in addition to providing strong teaching and research resources. Another focus also is needed to improve the jobs/skills match which is not favorable in Algeria where it leads to high unemployment among the highly-educated population (Amina lahreche et al, 2013).

4.1.5. public-private partnership

The Algerian economy is characterized by state control over the financing of both economic and social infrastructure project. The increase in revenues from petroleum exports since 2000 has led to the launching of several major infrastructure projects. However, the fall of oil prices since the mid of 2014 and its negative effects on the petroleum revenues that contributes to about 60% of budget revenues, created a big pressure on the public budget to finance the high value of public spending that is a result of the public sector expanding in the economic activity.

To solve this situation, public-private partnership (ppp) is an effective mechanism to overcome the failures of the public sector in the completion of infrastructure projects and enhance the role of the private sector in economic activity in Algeria. This can be made by:

- _Establishing a legal and legislative framework governing this partnership;
- _Improving transparency in the selection of partnership projects and parties;
- _Determination of the contractual obligations on risks.

4.2. Reforming labor market

The reality of the labor market in the Algerian economy indicates that the high rate of unemployment in Algeria is due to:

- The rise in structural unemployment due to the weakness of the economic activity structure and its non-diversification;
- _ The lack of consensus between the supply of labor and demand in the labor market due to imbalances associated with the education and training system;



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- The rise in frictionless unemployment as a result of the absence of effective channels that can link labor demand to labor supply, and thus rises labor turnover and reduces the long-term unemployment rate.

The importance of implementing reforms in the labor market is that this is a major factor in raising labor productivity and improving the rate of participation. The increase in labor productivity that contributes to the increase in labor demand and a decline in unemployment rate leads to persistent long run growth.

4.2.1. Deregulation of labor market

The importance of labor market deregulation in the Algerian economy is highlighted by the study of (Bernal Verdico et al, 2012), which included 97 countries during the period 1985-2008, where it explained that the rise in the labor market elasticity index has a standard deviation by one point contributes to the decline of the average unemployment rate by 0.9 percentage points, and that the effect is greater if the average data for a period of 5 years where it was estimated at 1.3 percentage points as a decrease in the unemployment rate.

Furceri (2012) explained in his study on unemployment and the labor market in Algeria that the improvement in the labor market elasticity index with a one point in standard deviation contributed to a decrease in the unemployment rate by one percentage point, especially the youth unemployment rate which is more affected by the rigidity of regulations. While labor market regulations increase the likelihood of employees to stay in their jobs, it reduces the chances of finding a job or re-entering the labor market for those in a state of unemployment.

In this context, to improve the flexibility of the labor market that contributes positively to the dynamism of the products market, the following procedures are substantial:

- _ The liberalization of the use of fixed-term employment contracts to support more and more labor market dynamism;
- _ Limiting restrictions on redundancy to liberalize the labor demand;;
- _ Flexibility of working hours to help enterprises adjust with the market developments;
- _ Reducing employment in the public sector as it affects negatively the labor market efficiency.

4.2.2. Improving the quality of education and training

The experiences of many developed economies show that improving human capital formation systems in terms of education and training is of great importance in positively influencing the resilience and dynamics of the labor market, in addition to its impact on the dynamics of the products market by positively contributing to the emergence of projects based



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on the intensity of skilled labor and new technology and thus leading to the development of entrepreneurial activities.

_Developing the education system: The problem in education sector in Algeria is that it is not based on the consideration of human capital as a major factor in the development of economies in the modern era, and that education is the main source of this factor. The social aspect of the education system policy that is based on the quantity of the graduates or School attendants overshadowed the functioning of the education system in Algeria, and negatively impacted the quality of education at its various levels, where it is reflected by the weak outputs of the Algerian education system (weak scientific research, few patents and weak efficiency of the labor factor).

_Enhancing the correlation between the outputs of the higher education system and vocational training with the requirements of the labor market: The labor market needs a specialized labor force in areas that are less within the outputs of the higher education system or the vocational training system, and conversely, there is a low demand on the output of the higher education system. This situation is a result of the incompatibility and the non correlation between the policy of labor market management and the policy of education system and vocational system.

5. CONCLUSION

The orientation of the economic policy to achieve economic growth through stimulating demand or developing supply is one of the most debating topics in economic theory. This debate is reflecting tow different point of view for the economic growth process, the demand side policies reflect the Keynesian approach that is based on demand as the engine of growth, while the supply side policies reflect the old classical approach that is based on supply as the source of growth.

It is not possible to judge the absolute right choice of economic policy among the two sides for any economy in any period, but we can judge the effective policy according to the term of economic policy impacts. The demand side policies are effective in the short run, because its aim is to stabilize the economic activity and reduce the economic fluctuations, while the supply side policies is effective in the long run, because its aim is to affect the structure of the economy and hence improve its productive potentials which lead to a more effective growth.

The demand side economic policy that is implemented in Algeria since 2001 was reflected by approving three great programs that had its positive impacts on economic activity, as a comparison to the 1990s period which was characterized by a hard social and economic situation. But if we look to its impacts in a comparison to what was spent for it, and if we look too to the details of these policy impacts through the growth rate, unemployment rate and imports value developments, and also to the: lack of a real flexible productive sector, the rise of corruption and the lack of competitiveness, we can say that the continuation with this demand side economic policy is not a right choice for the economic policy in Algeria.



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The right choice of the Algerian economic policy is the supply side policy, this is due to the hard situation of the supply factors that are the engine of the production process and the long run economic growth in any country. The Algerian economy cannot look for a sustainable growth if the productive system still weak. It's the main problem that the economic policy should look for and not the stimulation of demand. If the focus still on stimulating demand, it will lead to more imports value as the increasing demand cannot meeting by the local production system, and hence to more deterioration of Algerian economy which is suffering from a misuse of resources and a serious delay compared to other oil exporting countries.

A supply side policy in Algeria should based especially tow pillars ; the first is the reform of the products market to develop the level of competition among the operators in this market and improve the efficiency of the resource allocation process, the second is the reform of the labor market to improve the level of labor productivity and rise the labor participation rate. These key policy factors can be a boost to the long run economic growth in Algeria by their contribution in the productive system development and thus lead to a dynamic development in the Algerian economic activity.

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