

Is an exit from the rentier economy possible in Algeria? An analysis in terms of institutional choices

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Summary: This article aims to outline several key components of a policy aimed at breaking with rent dependence in the specific context of Algeria. Broadly speaking, such a policy entails a complete reconstruction of the institutional architecture governing the domestic mobilization of external rent. This involves combating the tendency toward overvaluation of the national currency, gradually rehabilitating market exchange and productive activities, and allocating public expenditure according to a logic of accumulation rather than distribution.

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Introduction :

In a rentier regime such as the one operating in Algeria, raising the question of institutional change is only meaningful if it helps define the contours of an economic policy that breaks away from dependence on rent. Clearly, maintaining populist–clientelist institutional choices prevents the gradual emergence of a new accumulation regime.

However, while analyses on this subject have consistently highlighted the incapacity of the institutional configurations typical of the rentier regime to generate new economic dynamics that break with the rent logic, they also point out that beyond the political sphere, which is often partly responsible for this deadlock, it is the dependence of these institutional configurations on the rent circulation circuit that prevents or hinders transformation of the growth regime. Without political will capable of severing the umbilical cord that binds institutional regulation to the rent circuit, the evolution of the economic regime towards revitalizing productive activities, alongside a gradual erosion of incentives for rent-seeking behavior, will remain problematic.

Broadly speaking, the dependence of partial economic regulations on the rent circuit manifests in specific configurations.¹ These configurations give rise to a rent-capturing system, a system in which the behavior of actors and economic agents is guided primarily by a rent-seeking logic. This logic ultimately contaminates the functioning of the entire economy and causes a crisis whenever the volume of external rent decreases.

From an economic standpoint, a policy that breaks with rent dependence inevitably requires a complete overhaul of the institutional architecture that governs the mobilization of external rent (Section 1). Within this overhaul, the question of choices regarding the national currency's exchange rate takes on particular importance (Section 2). However, this question should be addressed with an awareness of the principle of complementarity that links institutional trade-offs together—hence the need to consider these trade-offs as components of a mode of regulation whose purpose is to sustain the reproduction or transformation of an accumulation regime (Section 3).

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I– An institutional matrix guaranteeing the “proper” use of external rent:

In Algeria’s economic debate, the question of how oil revenues should be used curiously attracts little attention. Paradoxical as it may seem, mobilizing rent for economically productive purposes is a topic of limited interest, even within academia.² Yet how this resource is used inevitably raises legitimate questions about the country’s ability to free itself from dependence on the hydrocarbon sector and to find a remedy for what amounts to a true resource curse.

What would the institutional components of an economic policy capable of curing the country of its oil addiction, which has persisted for at least five decades, look like under current conditions? This question can only be answered in general terms. Indeed, economic, social, and political processes are so complex that any analysis must be cautious. One should refrain from pronouncing sweeping “musts” or “suffices,” and instead try to sketch the determinants of alternative economic regimes through necessarily new institutional configurations. From this perspective, one can assert that a policy breaking with rent dependence would involve defining an institutional matrix that shields the national economic space from external competition while ensuring that it does not destroy the efficiency of the internal incentive structure.³ The latter, largely shaping the economic choices made by various growth agents, remains the primary source of economic performance.

The internal incentive structure must have a configuration that stimulates productive activities at the expense of rent-seeking activities. In particular, it is essential to protect the domestic economy from the well-known Dutch disease. Exchange rate policy, an essential component of the national economy’s mode of international integration, must primarily aim to support growth in domestic productive activity. This requires active management of the real effective exchange rate of the national currency, the only way to counteract the effects of Dutch disease. This is a prerequisite for the success of any effort to improve national firms’ competitiveness and, therefore, the success of any diversification policy. Since oil addiction can occur through other channels, it is also crucial to ensure that the state’s budgetary trade-offs do not favor populist–clientelist distribution practices over the economic imperative of accumulation. Budgetary expenditures that enhance the economy’s competitiveness (spending on equipment, education and training, health) must take precedence over various distributive subsidies. That said, it should be noted that public investment spending is only one modality among others for using oil revenues. Other modalities, such as taxation, credit, interest rates, and wage policy, all of which mediate the mobilization of external rent to finance accumulation—must be considered in the same spirit.

Moreover, contrary to a widespread belief, “economic patriotism” is not reducible to a sectoral policy that defines “branch strategies” based on theoretical comparative advantages. If the state’s proactive industrial policies have often resulted in costly failures, it is likely because, in designing industrial policies, the technical and physical aspects of industrial activity have often been emphasized at the expense of its profoundly social dimension. Indeed, beyond its morphological aspect, industrialization is above all a social dynamic in which the configurations of social relations play a key role. Importing machines is not enough; one must also build the corresponding social relations of production.

An economic policy that breaks with rent dependence should also be framed within the broader external context, characterized by an unprecedented deepening of international economic relations, commonly referred to as “globalization.” The challenge, in this case, is to align domestic economic policies with the opportunities and constraints of international integration. Globalization does not preclude the possibility of credibly pursuing industrialization on a national basis.

In the new international context, marked by deepening international economic relations, many consider such an endeavor highly risky, if not futile. Globalization is often presented in this respect as a factor that inhibits any attempt to define an autonomous national trajectory. But what is the reality? It seems important to observe that globalization often manifests more as a discourse praising a political project whose realization, like any project, is uncertain. In many “heterodox” analyses, globalization is understood as the discourse through which social and economic groups benefiting from external liberalization seek to secure from governments and states revisions to economic legislation on labor, taxation, competition, and so forth, essentially domestic institutional arrangements favorable to preserving their group interests.⁴ From this perspective, globalization paradoxically appears, above all, as a domestic issue. “*Globalization*,” writes Bresser-Pereira,⁵

“has advanced economically, socially, and culturally, but has made little progress politically”.⁶ He adds, “In today’s globalization, the constituent economic elements of capitalism are not only firms operating internationally but also, if not primarily, Nation-States. Globalization is therefore the stage of capitalism where, for the first time, Nation-States cover the entire globe and compete economically through their firms.”⁷

Furthermore, the experience of the past four decades shows that far from leading to the generalization of a single model of capitalism, the deepening of international economic relations has actually strengthened national institutional arrangements (and thus accentuated national specificities). This strengthening of national institutional arrangements, evidenced by the coexistence of contrasting national trajectories, helps explain why globalization has not resulted in the synchronization of macroeconomic cycles, contrary to the predictions of economists and financiers who believed that accumulation now operates on a global scale. The 2008 financial crisis illustrates this point: while growth stalled in advanced economies, China and some so-called emerging countries continued to record enviable growth rates.

In the face of globalization’s constraints, the range of policy choices available to the state remains broad, especially since, contrary to the teachings of orthodox international trade theory, international relations are not limited to market exchanges but often involve decisive state-to-state negotiations. As with money and budgets, nearly all components of a country’s international integration are indeed subject to political trade-offs.

The question of the productive use of rent is at the heart of the issue of growth and development. In the current context, the issue is less about whether it is possible to envisage a productive use of oil rent without going through the market. For public infrastructure projects, the question does not arise, since the state, through its budget, usually bears the cost directly. But for other activities in the productive commercial sphere, it is different. The industrial project of the 1970s failed miserably, and with the external liberalization of the 1990s, private capital rapidly emerged in search of rents. Its operating principle boils down to a simple rule build a special, privileged relationship with the political elite to capture, directly or indirectly, a share of the oil windfall. This is true for companies active in public procurement as well as for industrial companies whose development depends more on their proximity to the political elite than on efforts to increase productive performance. In the productive sector, whether public or private, the rent-seeking mindset⁸ predominates, even though it has clearly shifted in location and forms of expression.⁹

Far from giving oil rent a new status, the external liberalization that has characterized Algeria’s economic trajectory since the early 1990s has merely reinforced the status quo. This is reflected, to cite just one indicator, in the ridiculously low share of manufactured goods in exports. The country has become a place where the protected sector (services, construction, public works, etc.)¹⁰ thrives, a sector that develops thanks to the recycling of oil revenues, particularly through public contracts, while manufacturing activities have been experiencing a decline that, for now, nothing seems able to halt.

Moreover, it is worth noting that in countries which have succeeded in escaping underdevelopment (South Korea, China, India, Indonesia, Brazil, etc.), institutional transition has always followed the sequential model of “primitive Taylorism – peripheral Fordism – autonomous Fordism.” In this perspective, the availability of external rent seems, when the wage-labor configuration aligns with that required by the industrial machinery complex, to allow for a reduction in the intensity of labor exploitation. In principle, the presence of external rent is not incompatible with the establishment of a “Taylorist” wage-labor relationship; it can even promote it, given that under the current configuration of the international division of labor (IDL), it is increasingly difficult for a poor, lagging country like Algeria to trigger a productivity increase except through a surge in the rate of labor exploitation.

Establishing a “Taylorist” configuration of labor relations, which is a prerequisite for restoring the wage-labor relationship as a central institution in economic and social regulation and, consequently, for initiating a real break with the rentier regime, remains for now a purely theoretical possibility. In reality, there are many indications that such a development is highly unlikely. For the moment, it must be acknowledged that the presence of externally sourced rent, which moreover is entirely under the State’s control, makes the likelihood of such a break occurring more than uncertain, for reasons that are more political than economic. Without strong

political involvement, and thus State commitment, it is improbable, paradoxical as it may seem, that an institutional arrangement conducive to a break with the rentier regime can be established.

Finally, by way of conclusion for this section, it should not be forgotten that applying the remedy whose economic content has been briefly outlined above requires a proactive policy, one that is not necessarily popular but whose time horizon must inevitably be medium- and long-term. The effects of a policy of structural change, when it affects the configurations of major formal economic institutions, usually take time to materialize. This creates recurring risks of backtracking when political will gives way to short-term political temptations.

Paradoxically, the success of institutional transition towards broader access requires State intervention. The uncontrolled liberalization of recent decades has only deepened the country's dependence on hydrocarbons. To have a chance of ending this dependence, the State's intervention must, of course, take forms different from those used in the 1970s and 1980s. While it is now acknowledged that one cannot command the price system without obeying it, State intervention cannot be reduced to blind and naive compliance with market laws. To take just one example, it is clear that the issue of the national currency's exchange rate requires, in the case of a rentier accumulation regime, a specific State intervention that must necessarily run counter to the prevailing liberal discourse. The same applies to the management of currency, the budget, and other areas of regulation, which must always operate in accordance with the principle of complementarity linking partial regulations together.

Therefore, the prospects for an institutional transition capable of overcoming the rentier foundation of the accumulation regime depend more on the content of the strategies implemented than on the degree of liberalization. In this regard, it can be observed that the "reforms" carried out so far clearly have a configuration that prioritizes the short-term objective of ensuring a certain viability or stability for the existing economic regime. Yet this stabilization, which in reality amounts to a temporary consolidation of the country's external financial position, does not appear capable of addressing the internal economic and social problems, the most pressing of which are unemployment, food and technological dependence, and industrial decline.

The quest for short-term viability for the economic regime does not, however, shield it from structural crises, and the State's institutional choices are often the root cause of an "endogenous" crisis.

"Every economy has the crisis of its own structure. Moreover, one must not confuse the factors that trigger a crisis with the crisis itself," writes C. Ominami in his pioneering work *The Third World in Crisis*.¹¹ This is especially true of the Algerian economy which, since the early 2000s, despite immense revenues from oil exports, paradoxically struggles to restart. Thus, while there are ample financial resources, they coexist with a continuous and seemingly unavoidable decline in productive activities (particularly in industry) and a worsening unemployment problem.¹²

Clearly, referring to the typology of crises developed by the Regulation School,¹³ this paradox appears to express a crisis of the mode of regulation that has been operating since the mid-1990s. This is an interpretation that emphasizes the institutional factor.¹⁴ This factor is crystallized primarily in the persistence of rent-seeking behaviors among all actors in the accumulation process.

The crisis of the mode of regulation, characteristic of the country's economic trajectory since the early 2000s, has a macroeconomic dimension that manifests as a blockage in transforming savings into investment.¹⁵ Indeed, the surplus of savings over investment, observed throughout this period, has not alleviated the microeconomic financing constraint. At the enterprise level, recourse to external financing (bank and other financing) accounts for only a small portion of operations and investments (25% and 30% respectively). Furthermore, despite the macroeconomic context of excess savings over investment, the "credit to the economy/GDP" ratio remains low, averaging no more than 25%.

These figures clearly show the difficulty of productively absorbing savings. This results in a paradoxical situation where substantial but idle financial resources coexist with under-investment by firms.

Under these conditions, the weak mobilization of resources available in public banks for investment purposes resembles the underutilization of production capacity seen in the public industrial sector. Not designed to take risks, public banks tend to focus on lucrative, low-risk markets.

Compared to the situation during the “statist” phase of the development experience, when, due to insufficient domestic savings, the State resorted to monetary financing and external borrowing to carry out large-scale productive investment programs, the situation since the 2000s is its complete opposite. In the context of savings surpluses that have characterized the Algerian economy since the early 2000s, the question arose as to whether a budgetary policy of demand-led stimulus could foster the emergence of a growth process independent of the hydrocarbon sector. The answer to this question lies partly in the configuration of institutional compromises embedded in the economy’s mode of regulation.

In other circumstances, the blockage in transforming savings into investment would rightly have called for Keynesian policies (fiscal or monetary). However, these all rely on the existence of a local supply that is available and efficient, which does not appear to be the case in Algeria, where supply structures remain rigid and inefficient. In an article titled *Keynes is Dead*,¹⁶ A. Benachenhou concluded that, for Algeria, a recovery policy cannot be a demand policy, but must be a supply-side policy, a conclusion that aligns well with institutional analysis.

Moreover, the issue of the blockage in transforming savings into investment is closely linked to the logic underpinning the behavior of accumulation actors, a logic that largely derives from the institutional environment, whose main function is to define the constraints and incentives that frame and regulate such behavior.

II– The question of the exchange rate:

As with the question of how oil revenues should be used, the topic of exchange rate policy does not attract much interest in economic debate either. When this issue does come up in the public sphere, it is often in the form of calls or appeals from various economic stakeholders (unions, business associations, etc.) advocating for a revaluation of the national currency’s external value. Moreover, the notion that there is, in Algeria (and more generally in developing countries), a tendency towards an overvaluation of the national currency remains relatively new, necessitating careful examination and clear argumentation.

How should the issue of managing the Algerian dinar’s exchange rate be addressed, given the country’s specific economic conditions? Should the State favor a policy of undervaluation or, on the contrary, of overvaluation of the national currency? It is futile to seek an answer to this question solely in economic theory. The usefulness of theory lies in providing the necessary insight into the possible consequences of a political decision in this area. Economic theory does not tell us what course of action to take regarding the exchange rate; it does not say whether one should devalue or revalue the national currency at a given moment. This is a political choice, that is, the outcome of political deliberation.

There are several reasons that generally argue for a devaluation of the national currency. The most commonly cited is the level of the country’s foreign exchange reserves. From this perspective, a devaluation would merely be an adjustment, a reaction dictated by a situation of imbalance. However, using the level of foreign reserves to justify an exchange rate decision reflects a purely accounting approach, whose risks and consequences are all the greater in the context of an economy with a particular mode of international insertion — namely, a rentier economy.

It should be recalled that the exchange rate is, above all, an indicator of competitiveness; among other things, it defines an economy’s or country’s capacity to integrate actively into the international division of labor. A developing country that aspires to catch up economically and has some degree of technical and entrepreneurial capability must take on the challenge of industrialization and exporting. However, such an endeavor faces a major obstacle: the tendency toward overvaluation of the national currency, a tendency that even theory often overlooks.¹⁷ As previously noted, the issue of exchange rate policy differs depending on whether one is dealing with a developed productive economy or the specific case of a developing economy that reproduces itself based on external rent. In a developed market economy, the exchange rate question involves the distribution of national income among the various economic actors, essentially between workers and capital owners. In this context, exchange rate decisions (revaluation or devaluation) significantly affect the terms of income distribution between production and accumulation actors (capitalists and workers). Revaluing the national currency may benefit some social groups and harm others; the same applies to devaluation.

The case of a rentier economy like Algeria's is particular in many respects. Indeed, the State's choices regarding the exchange rate regime and the setting of the exchange rate are inherently political. Since most of the country's foreign income takes the form of mining rent, of which the State is the sole owner, this political dimension is reinforced. As the bulk of national wealth is derived from a transfer (external rent), the issue of its distribution among different actors takes on a different dimension. It is no longer about claiming a larger share of income generated by domestic social labor in return for individual effort, but rather about capturing a portion of wealth originating from the export of a natural resource, on grounds that have little to do with economic principles of productivity or effort.

In a rentier regime, the approach to exchange rate policy is a core element of the economic and political project that the political authority intends to implement. Often in such regimes, distributive logic prevails, resulting in a structurally overvalued local currency, a situation made possible by the availability of external rent. For essentially political (clientelist) reasons, the State uses the national currency's value to meet various social demands placed upon it. The distributive logic intrinsic to rentier regimes favors an overvalued exchange rate, while undervaluation, though rarely observed in rentier economies, tends to counteract this distributive logic.

"The fundamental problem of any economic policy," writes Bresser-Pereira, "relates to the issue of controlling the most strategic variable in an open economy: the exchange rate".¹⁸ The experiences of certain emerging countries show that the State intervenes heavily in determining the external value of the currency, often in the direction of undervaluation.¹⁹ In practice, devaluation usually appears as a measure aimed at remedying an imbalance in the balance of payments, but this is not the case in Algeria. Structurally, the Algerian economy seems to struggle to recover from the ailment that has plagued it for years: oil dependency. The boom of the 2000s only worsened the situation by removing the economic constraints that might have restrained the populist temptation to resort to easy solutions in the country's economic policy management. As a result, the country has ended up becoming a space where external openness (notably through tariff dismantling and the overvaluation of the national currency) has taken on the appearance of outright economic capitulation. Thus, the exchange rate policy had the effect of channeling domestic demand towards foreign production to the detriment of domestic production, which consequently became severely stifled. It also undoubtedly contributed greatly to ensuring that the allocation of domestic production capacities favored activities sheltered from foreign competition (such as services, transport, construction, etc.) to the detriment of industrial and manufacturing activities in particular.²⁰ Similarly, the overvaluation of the national currency encouraged the large-scale development of over-invoicing practices for imports and under-invoicing for exports.²¹

This situation is reminiscent of that already predicted and extensively studied by the inescapable theory of Dutch disease.²²

In a country endowed with abundant natural resources like Algeria, institutional decisions regarding exchange rates occur in a complex setting because they must address not one but two exchange rates linked to two equilibria: the "current" equilibrium, which balances current account transactions intertemporally, and the "industrial" equilibrium, which makes exposed sectors economically viable and competitive using the best available technology. Thus, there are two rates: the current rate, ϵ_c , and the industrial rate, ϵ_i . The greater the gap between these two rates ($\epsilon_c < \epsilon_i$), the more overvalued the currency, and the more severely the country suffers from Dutch disease. This echoes the core idea strongly argued by Bresser-Pereira and also by Elsenhans²³: when Dutch disease afflicts a country, even goods produced with the best available technology will not be economically viable and competitive on the international market. Neutralizing this disease, by equalizing the current and industrial rates ($\epsilon_c = \epsilon_i$), requires active, and therefore managed, exchange rate policy.²⁴ A "competitive" exchange rate must do more than balance the current account intertemporally; it must ensure a minimum level of competitive viability for economic activities exposed to international competition.

Moreover, the approach to exchange rate policy must, of course, not be considered in isolation from the complementarities that exist among the institutional components of economic regulation. For example, it is pointless to try to strengthen the external competitiveness of the national economy through an appropriate exchange rate policy if, at the same time, other regulatory choices (wages, competition and market access, budget, taxation, tariffs, etc.) are not aligned in the same direction. The exchange rate applied to the national currency is one of the factors that shape the configuration of the intended domestic economic order, but it is not the only one. The exchange

rate is just one element among others in the broader issue of resource allocation and the policy aimed at improving the external competitiveness of economic sectors exposed to international competition.

The exchange rate issue therefore cannot be reduced to a trivial search for a hypothetical virtual equilibrium in the foreign exchange market. The economic history of countries that have managed to integrate more or less actively into the international division of labor shows that exchange rate policies, just to focus on this topic of interest here, are guided by medium- and long-term economic objectives, that is, development goals. Choosing an exchange rate regime that promotes national growth is one of the pillars of development.²⁵ In this regard, it is easy to observe that today's global economic landscape is full of examples where the exchange rate, the subject of fierce struggles between competing economic powers, is more than ever used by nation-states as a means to preserve or enhance the external competitiveness of their economies. In short, the exchange rate is far from being merely a market variable intended only to act as an equilibrium price ensuring the optimization of portfolios on an international scale.

III – The Industrialization as a component of an active integration policy into the international division of labor (IDL):

It is now widely accepted that for a country whose economy depends on external rent, a policy aiming to foster active integration into the IDL requires a proactive approach to exchange rate management. An overvalued currency is a configuration that annihilates any ambition to embed domestic productive dynamics into a logic of competition on external markets.

Discussing active integration into the IDL inevitably brings up two topics that recur frequently in economic debates: industrialization and its corollary, diversification.

Currently, Algeria's situation is such that it is more accurate to speak of deindustrialization rather than industrialization, hence the legitimate question whether, in the present context, deindustrialization is a fatality. The answer to this question is not straightforward.

Algeria's recent economic history is that of a resounding failure of its industrial project. Launched in an international context marked by a boom in external resources, the industrialization effort ultimately turned into a flagship failure, to the point that today, some economists question whether it should even be labeled an industrial project at all.²⁶

This economic history is, however, not unique to Algeria. It is the story of almost all rentier countries that have attempted industrialization. This is a striking fact of economic history; which economic theory refers to as the "resource curse." Yet, a retrospective look at the country's economic trajectory shows that, from a "morphological" point of view, deindustrialization is not a fatality. Throughout the 1970s, the period of the first oil boom, the country was able to mobilize the resources from hydrocarbon exports to set up a genuine industrial base, whereas since the early 2000s, despite its vast resources, the country has struggled to find an antidote to the deindustrialization trend in which it seems irreversibly trapped. This contrasting development demonstrates that, beyond its morphological aspect, industrialization (or deindustrialization) is above all a social dynamic in which the concrete forms taken by social relations (i.e., institutions) play a key role.

Indeed, industrial decline occurs within a new institutional environment whose configuration proves to be a blocking factor, preventing the emergence of any industrial dynamic. The stagnation observed in the industrial sector in recent years appears to be the result of an institutional regulation characterized by a risky combination of naïve external liberalism and sterile internal statism.

This regulation is also marked by a strong dependence on the circulation circuit of rent, a dependence reflected in the specific configurations mentioned earlier: the overvaluation, in real terms, of the national currency; the predominance of a clientelist wage relationship, especially in the public sector; reckless opening of the country's economic borders, tariff dismantling, and public spending allocation that runs counter to the economic logic of supporting productive activity, etc.

In short, the institutional environment stands out as a key element in explaining the country's industrial trajectory.²⁷ Some of its core characteristics offer a fertile framework for understanding the phenomenon of deindustrialization, strongly confirming the basic diagnosis that

it is the institutional environment that generally frames, stimulates, and/or blocks industrial dynamics.

It should be recalled that these characteristics relate, among other things, to the minor status of the wage relationship (which is, as we know, the primary form of labor mobilization in an industrial society) within economic regulation; to the obvious incompatibilities among partial regulations, which reflects the absence of an industrial project; and to the clear inability of the “new” mode of regulation to foster and “steer” an industrial dynamic, due to the manifest incompatibility between its constituent elements.

In other words, the inconsistencies that characterize the attempted economic reform undertaken by the State during the 1990s stem precisely from the fact that it was conceived from the outset within a framework that completely disregards the social determinants of production. By restoring the market primarily from the perspective of circulation, the new configurations merely change the mode of internal appropriation of external rent. They do not remove the obstacles facing local productive activities, and consequently, internal accumulation. The persistence of these obstacles, whose origins lie in the mode of economic regulation, prevents the development and expansion of productive activities.

As already noted, it is important to remember that in a rentier regime like Algeria’s, the base rent has the capacity to dictate, through the institutional forms of regulation, the behavior of agents and actors so that they tend (and have an interest) to transform every opportunity into a site and form of rent capture. Rent-seeking behavior is the outcome of the institutional environment. Consequently, the primary challenge of industrialization in a rentier country is to ensure that high returns stem from industrial activities. In other words, it is about building an incentive-based institutional matrix that would rationally push entrepreneurs toward productive activities in general, and industrial ones in particular.²⁸ Only such a matrix can bring about the transformation of the productive system and its leap toward establishing a diversified, export-oriented industry that generates permanent jobs (Bénissad, 2018). Creating opportunities that are profitable for entrepreneurs depends on the formal and informal agreements that make up national development strategies. “The national development strategy [which is nothing more than a set of institutional arrangements] is the key component of the framework for achieving growth. To invest, private entrepreneurs depend less on the security of property rights and contracts than on the presence of profitable opportunities”.²⁹

In this sense, reviving industrial activity today does not seem to be a feasible goal if its realization continues to be envisaged exclusively through the public sector. Continuously permeated by clientelist logic, the public sector remains fundamentally unable to build the internal organizational arrangements that would allow it to survive in an external institutional environment that is highly hostile. Without budgetary subsidies, the public sector is not viable, especially in an environment where, due to heightened competition, organizations are forced to operate at the margin.

Furthermore, the experience of certain countries that have successfully industrialized has shown that an active, state-led industrial policy is entirely compatible with mobilizing the private sector. Many national trajectories demonstrate that while the state must influence the orientation of the productive system, this does not necessarily require direct control over production, as has often been attempted in many developing countries through the creation and maintenance of a large state sector. In some cases, it was precisely the private capital–State alliance that served as the trigger and driving force for economic take-off.³⁰ The real challenge here is to neutralize the effect of external rent on the domestic productive system. However, advocating for such an alliance in Algeria’s current context clearly underestimates the weight of ideological conformism in the decision-making process. A major obstacle to economic and social change, this ideological conformism is most glaringly manifested in the maintenance, at the cost of billions of dollars in subsidies, of a moribund public industrial sector.

What has been said about the public sector can also be extended to foreign capital. Experience shows that liberalizing market behavior through openness to foreign capital is not sufficient to produce a competitive industry capable of positioning itself in the international market. Statistical studies increasingly show that, contrary to popular belief, FDI does not spur growth; sometimes, the reverse is true.³¹ It would also be naïve to believe that FDI is destined to modernize local productive structures, a task that only a genuine national industrial strategy can accomplish.

What about diversification?

In Algeria, as in many rentier states, the theme of diversification occupies a special place in the economic debate. In such countries, the resource curse affects all the levers of economic activity, so that the economic reproduction of the entire society becomes heavily dependent on the availability of external rent.

Diversifying the economy is an old goal in Algeria. The industrial project of the 1970s aimed precisely to put the national economy in a position to meet the population's basic needs. Launched in a favorable context marked by a boom in external resources, the project to build a diversified production capacity quickly began to show signs of fatigue (in the 1980s) and sank into a clear decline (in the 1990s and 2000s), further aggravated in recent years by a rushed opening and the state's withdrawal from the industrial sphere.

But diversification is not limited to the GDP structure. It raises, above all, the question of how the national economy is integrated into the global market. Indeed, it is in the structure of external trade, especially exports, that this integration is most objectively reflected. From this perspective, the country's economic trajectory does not seem to indicate a virtuous trend toward active integration. On the contrary, the rent-based foundation of the growth regime has never been as firmly entrenched as it has in recent years.

The state's economic choices are not unrelated to this situation. The state struggles to resist the political temptation of resorting to easy solutions, which manifests in the constant tendency to grant the public industrial sector privileged status as a development tool by repeatedly providing it with massive budgetary resources. Easy solutions are also evident in the persistent refusal to liberalize market exchange. The undermining of price regulation through political interference in price-setting has the effect of maintaining an incentive structure that favors imports over domestic production. This structure is further reinforced by the fact that the national currency, the dinar, remains significantly overvalued in real terms. "Economic development," Bresser-Pereira reminds us, "is a process of increasing productivity that takes place within industry, mainly through the transfer of labor from low value-added sectors to high value-added sectors, those that use sophisticated technology and in which wages and salaries are high. There is no sense in a country structurally limiting itself to certain activities because of an overvalued exchange rate".³² The repeated rehabilitation of the public sector and the bypassing of market exchange laws illustrate policymakers' inability to move beyond the simplistic notion that simply bringing together the physical components of the production combination (machines and labor) will automatically generate the expected surplus.

Economic diversification challenges the state in its role as a development actor. It highlights the need for the country to implement a new growth regime whose financing would no longer rely on revenues from hydrocarbon and raw material exports. This, in turn, requires the establishment of a credible social compromise defining the trade-offs and choices, inevitably painful at the social level, underpinning the economic project the nation objectively needs.

The experience of many countries shows today that comparative advantages linked to natural resources do not necessarily block, or fatally prevent, the emergence or development of other comparative advantages. Many agro-industrial countries have succeeded in building competitive manufacturing industries based on agricultural resources (Thailand and Malaysia); other countries have managed, starting from mineral resources, to trigger a diversification of their exports (Iran, Indonesia). The existence of a primary sector exploiting natural resources from which the country collects Ricardian rent is thus a standard scenario and pathway for launching economic development.

Empirical observations increasingly emphasize the fundamental role of institutional mediations in explaining the diversity of national trajectories in mobilizing mineral resources for economic development. More specifically, they reveal that, often, the success of these experiences stems from the nature and content of the institutional compromises that frame the mobilization of external rent, which do not shy away from the imperative to make collective sacrifices when necessary. In Bresser-Pereira's work, these compromises are called the National Development Strategy (NDS). This is defined as "an institution that guides the main political and economic actors in their decision-making processes (...). An NDS consists of a set of institutions defining the rules of the game for economic growth. Some are relatively general and permanent laws expressing basic values and goals; others are institutional reforms corresponding to fundamental changes in economic and social structures; still others are more specific and temporary policies defining the

means to be used”.³³ An NDS is thus a political and social agreement aimed at economic development. It presupposes the existence of a “developmentalist” will. Conceived as a third way between the old developmentalism of the 1960s and 70s and conventional orthodoxy,³⁴ the “new developmentalism” is based on the idea that institutional reform is fundamental to building a national consensus grounded in the understanding that globalization is neither a blessing nor a curse but simply a system of intense competition between nation-states through corporations. It advocates macroeconomic policy based on competitiveness achieved, among other means, by neutralizing the tendency toward exchange rate overvaluation.³⁵

In Algeria, there has been in recent years a clear inability of society to establish an institutional compromise that meets the requirements of economic recovery while simultaneously limiting the temptations for political (clientelist) instrumentalization of external rent. The persistence of the status quo since the late 1990s illustrates this inability to devise a substitute for what L. Addi called in *L’impasse du populisme*³⁶ the “global tacit regulatory compromise”, a compromise that characterized the economic trajectory of the 1970s and 80s and on which the rentier accumulation model was based.

Originally defined in these terms: lax discipline inside the factory, political control outside, this compromise seems to have been reduced, thanks to reckless liberalization that destroyed the factory, to the latter term alone, with the national economic space becoming an open arena flooded by all sorts of foreign goods while, at the same time, production units closed down internally because they could not withstand fierce foreign competition. Among other things, this liberalization policy resulted in an explosion of unemployment, a real social scourge that threatens the country’s political stability.

But this happened because external liberalization was not accompanied by genuine internal liberalization. The mismatch between the external and internal dimensions of change creates such an imbalance that liberalization turns out, in practice, to be outright capitulation. It is indeed difficult to interpret the opening of the national economic space any other way when, internally, most of the institutional arrangements causing the domestic blockages remain unchanged. The absence of a credible national economic project is evident in the incoherent and ambiguous nature of the institutional regulation that has taken shape. By prioritizing external liberalization in various forms (tariff dismantling, extractive FDI, free trade agreements, overvaluation of the dinar, etc.), the state’s institutional trade-offs relegate the internal dimension of change to the background. In doing so, they create the objective conditions for the perpetuation of the rentier regime and, consequently, rule out any prospect of building a diversified economy.

External liberalization has not given the oil rent a new status. On the contrary, it has reinforced the status quo. This is reflected, to cite just one indicator, in the ridiculously small share of manufactured goods in exports. The country has become a place where the so-called protected sector prospers, a sector that grows thanks to recycling the oil rent, notably through public procurement, while manufacturing activities continue to decline, with nothing seeming able to halt this trend in the absence of a structural change that would create incentives for productive activities. Diversifying the national economy aims at nothing less than establishing a new economic order.

It goes without saying that the smooth construction of this new order requires that the distribution conflict be resolved on the basis of renewed legitimacy. When legitimacy is lacking, there is a tendency to resort to short-sighted solutions to settle distribution conflicts. The greater the legitimacy, the greater the chances of reaching a compromise that does not mortgage growth. Beyond allowing conflicts over distribution to be resolved with minimal “damage,” political legitimacy creates the most favorable conditions for building a credible social compromise around the general direction of economic policy.

Conclusion:

In conclusion, exiting the rentier regime is a project that necessarily requires state intervention. Since this project can only take the form of a systemic and structural reform of the entire economic machinery, profound political and institutional trade-offs are needed. However, the facts show that, all too often, politics proves to be the main source of blockage to any change. In one of his contributions on Algeria’s economic situation, economist Ahmed Dahmani already pointed out that the primary obstacle to the country’s economic recovery lies in the political factor: by freeing itself from the constraints of the conflictual economic dynamic driving civil society,

politics has ended up autonomizing itself, thereby giving rise to practices that, far from fostering wealth creation, have become a real blocking factor, stifling any entrepreneurial initiative.³⁷

Many now consider that Algeria's economy is best understood in terms of a transition to a productive economy. The key issue is indeed to foster the creation, within the national community, of a surplus other than mineral wealth, and this can only result from an appropriate "institutional" compromise, whose configuration largely depends on state action.

Therefore, the questions of industrialization and diversification must be framed within the broader issue of the status of productive labor in an economy where institutional compromises are configured in ways that do not promote the production of value surplus. The project to industrialize the country requires a complete reconstruction of the institutional context. The Asian models, often cited when discussing successful industrial experiences, are, in many respects, examples to follow. Indeed, they rely on developing an industry aimed at a highly protected domestic market, supporting exports through subsidies, ensuring flexibility in the productive system, and, above all, implementing genuine internal liberalization to create a real domestic market.

Referrals and references:

¹ This mainly concerns the real overvaluation of the national currency, the prevalence of a clientelist type of wage relationship, particularly in the public sector, a pattern of public spending allocation that follows more a political distribution logic, the instrumentalization of the monetary variable through the recurrent use of the printing press, and the blocking of regulatory mechanisms through prices.

² The mobilization of rent for economic development purposes is an almost entirely absent theme at scientific meetings organized by university institutions in Algeria. However, many authors show a clear interest in this issue.

³ Quantitatively, this rupture can be captured through the evolution of several simple indicators that could form part of a dashboard for steering an economic breakaway policy, indicators which should include the contribution of the rent-generating sector (hydrocarbons) to the creation of national wealth (GDP), its share in the structure of state tax revenues (oil taxation), and its contribution to the country's export earnings.

⁴ Boyer, R. (2015). *Economie politique des capitalismes - Théorie de la régulation et des crises*. Paris : La découverte.

⁵ Luiz Carlos Bresser-Pereira is a professor of economics. He served as Brazil's Minister of Finance under President José Sarney (1987) and Minister of Federal Administration and State Reform under President Fernando Henrique Cardoso (1995–1999). In his original and aptly titled book *Globalization and Competition — Why Some Emerging Countries Succeed and Others Don't?* he makes a case for a competitive exchange rate policy as the only way to neutralize the effects of Dutch Disease and enable emerging countries to actively integrate into the international division of labor. The same argument can be found in H. Elsenhans's (2023) book *Capitalism and Rent: A Destructive Relationship — Why the Maghreb Does Not Join the Newly Industrialising Countries?* and in R. Ouaisa's (2018) article, "Algerian Middle Classes, Rent, and Political Stagnation," published in *NAQD*, No. 36, pp. 123–145.

⁶ Bresser-Pereira, L. C. (2009). *Mondialisation et Compétition – Pourquoi certains pays émergents réussissent et que d'autres non*. Paris : La découverte, p. 41.

⁷ *Ibid.*, p. 76.

⁸ Expression borrowed from Amarouche, A. (2006). *Etat-Nation et économie de rente en Algérie, essai sur les limites de la libéralisation*. Thèse de doctorat d'Etat, Institut National de Planification et de Statistique, Alger, novembre 2006.

⁹ Today, it is particularly at the level of the banks, through restricted and discretionary access to credit, that rent is immediately accessible. This situation explains why these banks, mostly public, have become a battleground for fierce struggles to capture rent.

¹⁰ The notion of a protected sector is especially used in Dutch Disease theory. It mainly refers to activities sheltered from foreign competition, such as services, construction, public works, etc.

¹¹ Ominami, C. (1986). *Le tiers-monde dans la crise*. Paris : La découverte. 247 pages.

¹² This paradoxical situation has continually fueled economic debate in Algeria. Many indeed find it difficult to understand how such a situation could have arisen and persisted for so long.

¹³ In Regulation Theory, the notion of crisis is inseparable from those of the mode of regulation and the accumulation regime. Thus, in the general typology of crises, two types of structural crises are distinguished, depending on whether their origin lies in regulation or in the accumulation regime: the crisis of the mode of regulation and the crisis of the accumulation regime. In the first case, cyclical developments may be unfavorable but the accumulation regime remains viable. In the second, it is the very principle of the accumulation regime that is called into question once the contradictions among the most essential institutional forms, those that condition the accumulation regime, reach their limits. This distinction may seem abstract. Nevertheless, its relevance becomes clear when one considers concrete regimes, such as that at work in Algeria. For further details, see Boyer, R. (2004). *Théorie de la régulation. 1. Les fondamentaux*. Paris : La découverte.

¹⁴ See Bellal, S. (2015). « Une lecture régulationniste de la crise du régime rentier d'accumulation ». Paper presented at the international conference Research & Regulation 2015, "Regulation Theory Put to the Test of Crises," Paris, June 9–12, 2015. Paper available at: <http://theorie-regulation.org/colloques/colloque-rr-2015/programme-rr2015/> and Bellal, S. (2022). *Rente, populisme et question économique en Algérie - réflexions sur un système en crise*. Tizi-Ouzou : El-Amel. 255 pages.

¹⁵ By way of illustration, between 2000 and 2015, the national savings rate as a proportion of GDP was above 40%, while during the same period the investment rate hovered around 30%.

¹⁶ El-Watan, edition of 20/01/2009.

¹⁷ Bresser-Pereira, op. cit.

¹⁸ *Ibid.*, p. 75.

¹⁹ China's example is emblematic in this regard. As the world's second-largest exporter and the largest holder of foreign exchange reserves, China stubbornly rejects, despite external pressure, any idea of revaluing the Yuan.

²⁰ And when these capacities are deployed in the industrial sector, it is often in assembly activities with a very low integration rate (examples include household appliances, consumer electronics, and automobiles). These industries, which limit themselves to low-tech production processes, amount more to disguised imports.

²¹ This situation obliges the state to devote considerable time and resources to combat over-invoicing practices. The state's exchange rate policy has ensured that the phenomenon of import over-invoicing (as well as export under-invoicing), an entirely rational economic behaviour, is addressed solely through its legal status as an offense. The state economically creates rents which it combats legally.

²² Many studies have addressed whether Algeria's economic situation falls under the "Dutch Disease". Notable examples include Benabdellah, Y. (2006). « Croissance économique et Dutch disease en Algérie ». *Cahiers du CREAD*, n° 75, pp. 09-41 ; Sid Ahmed, A. (1987). « Du "Dutch disease" à "l'OPEP disease". Quelques considérations théoriques autour de l'industrialisation des pays exportateurs de pétrole ». *Revue Tiers-Monde*, n°112, octobre - décembre 1987 ; Bellal, S. (2013). « Dutch disease et désindustrialisation en Algérie - une approche critique ». *Al-Bahith-Review*, n°12, pp. 01-13 ; Dahmani, A. (2004). « La persistance de l'économie rentière ou la malédiction du pétrole en Algérie », dans *Le Quotidien d'Oran* du 28/01/2004 ; and Nemouchi, F. (2005). « L'économie algérienne et le « syndrome hollandais » », dans *Le Quotidien d'Oran*, du 15/09/2005. Beyond the empirical or quantitative verification of this theory's validity in the case of Algeria, it should be recalled that the Dutch Disease theory implicitly presupposes the existence of

a certain level of industrialization in the country concerned and that, before the mining boom, it was integrated into the international division of labor through exports of manufactured goods (tradable goods). Methodologically, however, this does not seem to pose a major “handicap” since, in the case of countries like Algeria that have undertaken industrialization, the syndrome manifests itself in the inability of any productive process to export. This is indeed a specific characteristic of the non-oil sector, observed both during the voluntarist phase of development policy and in the recent period of external liberalization.

²³ In his works, Elsenhans has strongly emphasized the importance of the exchange rate issue in developing countries. Among others, one may cite : Elsenhans, H. (2023). *Capitalism and rent: A destructive relationship – Why the Maghreb does not join the newly industrialising countries*. Tunis : Arabesques éditions ; Elsenhans, H. (2018). « Global South : Transition vers le capitalisme contre la rente. Chances et obstacles ». *NAQD*, vol. 36, no. 1, pp. 33-73. <https://doi.org/10.3917/naqd.036.0033> ; Elsenhans, H. (2018). « Algérie et énergie : ou les tribulations de l'État rentier ». *NAQD*, (hors-série4) 163-179. <https://doi-org.snd11.arn.dz/10.3917/naqd.hs4.0163>

²⁴ This, it should be noted, is not incompatible with the application of a floating exchange rate regime.

²⁵ Bresser-Pereira, op. cit.

²⁶ “Can we talk about deindustrialization in Algeria, given that this country has never experienced a completed industrialization process comparable to that observed in emerging economies, or even in some developing countries that have succeeded in establishing a manufacturing industry?” Talahite thus asks at the beginning of his analysis of industrialization in Algeria, and he suggests, in response, that it would be more appropriate to speak of “industrial episodes.” See Talahite, F. (2016). “Désindustrialisation et industrialisation en Algérie. Le rocher de Sisyphe.” *Outre-Terre*, no. 47(2), pp. 130–151.

²⁷ See Bellal, S. (2011). « Problématique du changement institutionnel en Algérie – une lecture en termes de régulation ». *Revue Algérienne des Sciences Juridiques, Economiques et Politiques*, n° 01, mars 2011, nouvelle série, pp. 43-71.

²⁸ According to the OECD, a country is considered industrial if manufactured products account for more than 25% of GDP and more than 50% of exports.

²⁹ Bresser-Pereira, op. cit., p. 26.

³⁰ The private capital–State alliance naturally generates rents for the former, especially in the early stages. However, the state is quite capable of controlling the process to prevent monopoly situations from harming the performance of the domestic economy. It is therefore up to the state to define the nature of the rents granted to capitalists to encourage them to develop productive activities.

³¹ Belouard, A N. (2013). « Investissement direct étranger et croissance économique en Algérie : liaison vs neutralité ». *Revue des réformes économiques et intégration dans l'économie mondiale*. Volume 8, n°15, pp. 39-51.

³² Bresser-Pereira, op. cit., p. 112.

³³ *Ibid.*, p. 57.

³⁴ New developmentalism differs from the old in that it places greater emphasis on macroeconomic policy than on industrial policy, and it differs from conventional orthodoxy in that it rejects growth policy based on external savings.

³⁵ According to Bresser-Pereira and Elsenhans, rentier middle-income countries that have already passed the stage of infant industry have more to gain from pursuing a competitive exchange rate policy than from an industrial policy.

³⁶ Addi, L. (1990). *L'impasse du populisme – L'Algérie, collectivité politique et État en construction*. Alger : ENAL. 242 pages.

³⁷ Dahmani, A. (1999). *L'Algérie à l'épreuve, économie politique des réformes 1980-1997*. Alger: Casbah éditions.