

The economics of Algeria since independence

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This article presents an economic picture of Algeria since independence. Three periods are distinguished: colonial legacy, the post-independence period and the period from the “events” to the recent time. One result of this article is that the paradigm inherited from colonisation failed since Algeria has still not converged to high standard of living, despite the hydrocarbon rent.

Algeria became officially independent on the 5th of July 1962, after a war against the French who began to colonize the country in June 1830. The political independence thus involved the end of 132 years of domination of the French rule of law on the Algerian territory. This “guerre d’indépendance” which lasted eight years, from 1954 to 1962, became famous not only in the Arab countries but also in the whole Third world. The name of Algeria is thus often associated with politics, Algeria being seen as an Arab country that succeeded its revolution against an imperial power. The political troubles that Algeria experienced in the nineties, to be precise since the event of the 5th of October 1988 to the beginning of the new twenty-first century, reinforces the tendency of observers to analyse the situation of Algeria only with political glasses, sometimes omitting the economic structure. Besides, as regards the economics of Algeria, what is mostly noted is that this country produces oil and gas and is an active member of the OPEC.

The perspective adopted in this article is different: the idea is to present a picture of Algeria from an economic point of view, leaving politics in the background. This posture does not involve that politics is unimportant. On the contrary, one should not forget that politics is often constrained, or even controlled, by economics. Another feature of this article is that it will try to

Fifty years after independence was declared, it is clear that this development paradigm inherited from colonisation is still running. It is also clear that Algeria still has not converged on the standard of living in developed countries.

place the colonial heritage in connection with the economic evolution that Algeria experienced since independence. The article includes the following. The second section is a reminder of the direct weight of the colonial heritage in the Algerian economic system. The French Department presents the characteristics of a Third World economy. The third section draws then a picture of Algeria’s economic evolution after independence. The colonial heritage led Algeria to adopt state-controlled development policies based on government-owned companies.

Colonial Heritage and structure of the Algerian economy

This section is about the colonial economy structure. The Algerians inherited this structure when the country became independent. In particular, the features of the Algerian colonial economy did have consequences on the existence or absence of an economic elite able to assume the socialist development strategy that would be adopted by the independent Algeria.

In 1954, there were 984,000 “European” inhabitants, 94% of which were French (Tabah, 1956).¹ There were 8,700,000 “Muslim” emigrants, including those who lived in Metropolitan France (*ibid.*).² With the margin of error and population growth from 1954 to 1962, the “European/Muslim” population ratio was estimated to be 1 in 9.

When the French colonisation was over, Algeria was an underdeveloped colonial economy. The significant elements of this colonial economic underdevelopment are the following.³

Firstly, Algeria was an economy which exported little and imported a vast amounts of goods even to satisfy its basic needs. In other words, Algeria depended strongly on foreign countries, and was impacted by very unfavourable terms of exchange. Besides, the “standard” rules of colonial trade were observed: export prices were higher than the market price of agricultural products, and in compensation, import prices of products made in Metropolitan France were higher too.

Secondly, the Algerian colonial economy was a rural Third World economy. Most of the population worked in the agricultural sector. M.A. Berque (in Guillot, 1960, p.11) inventoried mostly small farmers in the “Muslim rural population”, i.e. farmers on a patch of land that was not profitable enough to meet their basic needs. Guillot (*ibid.*) specified that these figures are only indications. Many property owners and, of course, khammès, rented their own workforce while cultivating their patch of land. Besides, in what category should Algerian peasants (“fellahs”) be placed? Small property owners, tenant farmers? It should be noted that the “Muslims” owned small areas of land. The survey by Bourdieu, Darbel *et al.* (1963) confirms this first result: 49% of the “Muslim” active population worked in the agricultural sector.

Thirdly, the Algerian colonial economy was characterised by a labour market segmented in two main categories. On the one hand, the “Europeans” labour market, and on the other hand, the “Muslims” labour



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market. The “Europeans” *labour* market was standard, as it included fixed jobs (state workers, fixed contracts, etc.) and casual work (seasonal workers, the unemployed). The “Muslim” work market was essentially composed of casual workers (Bourdieu, Darbel *et al.*, 1963).

The “Muslim” active population was structured in the following “social types” (Nouschi, 1965): peasants, workers or subaltern workers, small craftsmen and shopkeepers, and the unemployed, mostly permanently (Ouzzir, 2009).⁴ There were no “Muslim” executives. The survey by Bourdieu, Darbel *et al.* (1963) estimated that only 2.6% of the Muslim active population were executives, mostly medium-ranking, whereas there were more than 25% of European executives.⁵ “Consequently, all that was left for the colonial population was the primary sector, less profitable, and the lower jobs in the secondary or the service sector.” (Nouschi, 1965: 1251).

Darbet and Rivet (1962) estimated that, in the agricultural labour market, 35% of agricultural employees worked permanently. Two thirds of the agricultural employees were therefore precarious. Half of them worked less than 100 days a year; which helps understand the gap between the “Muslim” and “European” agricultural incomes. In 1954, the average individual income of “European” farmers was thirty-five times higher than the average individual incomes of “Muslim” farmers (Bonin,

2009). The situation was improved after the First World War, with an emerging peasant middle class (Henni, 1996) that included, however, very few members (Bonin, 2009). Generally speaking, there were extreme disparities in individual incomes in Algeria at the end of the colonial period, to the benefit of “Europeans”, and to the detriment of “Muslims” (Nouschi, 1965).

From this standpoint, the programme implemented to help the unemployed in 1955, during the colonial period, did not apply to Algerian, so-called Muslim workers, who were threatened by permanent job insecurity (Ouzzir, 2009). Indeed, the conditions of compensation only applied during six months (six months spent in the town covered by compensation, for a job and social security contribution during six months within the twelve months before unemployment registration, Ouzzir, 2009), which could not apply to the “Muslims” on the labour market, suffering endemic unemployment, precarious and informal work contracts, and eventually, an almost nonexistent presence in the targeted industrial and commercial sectors (Ouzzir, *ibid.*).

Fourthly, the Algerian colonial economy was characterised by a weak human capital, in terms of quantity and quality, due to asymmetric school policies which led to very weak education levels in “Muslims”, despite a relatively lower education level of “Europeans” compared to the Metropolitan French (Darbel and Rivet, 1962).⁶

Indeed, education in the colonial regime was segmented. Tuition to the “Europeans” was similar to Metropolitan France, whereas as the “Muslims” had a different education system (Institut d’Étude du Développement Économique et Social, 1962). The colonial heritage of this school policy adopted in 1892, after the Third Republic general school laws were voted, is clear: under-educated Muslim population. In 1944, only 8% of Muslim children ready to start school did attend school, against 90% of European children (Institut d’Étude du Développement Économique et Social, 1962).

Because of the colonial organisation of activities, there was no economic elite. In other words, there was no entrepreneurship, as there were no Algerian entrepreneurs, in particular “Muslim” entrepreneurs. When the war of independence started, the INSEE 1954 census indicated that there was no such thing as Algerian entrepreneurship. Was there at least a shopkeeper’s upper class?

The survey led in 1960 by statisticians of the INSEE (Darbel and Rivet, 1962) seemed to reveal an increase in the number of shopkeepers. Indeed, from 1954 to 1960, the employment grew essentially in administration and business. However, the authors indicated that the “new” Muslim shopkeepers were precarious: “surprisingly, a high percentage of craftsmen earn less than 50 NF [New Francs] a month.” (Darbel and Rivet, 1962, p. 88). Moreover, “Muslim” shopkeepers worked mostly in the informal sector⁷.

“Muslims” shopkeepers and craftsmen kept their rural or pre-industrial profile, at best, which was solid ground for creating a lower-middle class necessary to fund an industrial development strategy (Bonin, 2009). According to the estimations of the report by Maspétol (1955), the upper class (the “well-off”) was composed of less than 15,000, mostly “non-Muslim” people in Algeria. Generally speaking, the average yearly income of “Muslim” Algerians was estimated to be one of the lowest in the world at the end of the colonial period (Tabah, 1956). The average yearly income of “Muslim” Algerians was 2.55 less than the average yearly income of “Europeans”.

The economic evolution after independence

Algeria's development strategy in terms of economic policy adhered to collectivist planning. It implied that economic independence was a condition to political independence. This tradition, that followed a geopolitical alliance with the Eastern Block, China, and Cuba, had to insure the transition from colonised Algeria to a country integrated to worldwide economic exchanges.

Algeria's socialist development strategy

Algeria's development strategy was organised through agrarian revolution (Kielstra, 1978), reminiscent of the Russian and Chinese agrarian revolutions. The Evian Agreements had guaranteed land property to colons: any compulsory purchase of their land would go with a "previously fixed compensation". A few months later, the Tripoli Programme (1962) planned an agrarian reform including the compulsory purchase of large estates, and the creation of state-owned farms and production co-operatives. There was a mass exodus of Europeans, who abandoned the colonial agricultural estates; which made the Evian policies obsolete, and the Tripoli projects timorous. Indeed, when Algeria became independent in 1962, Algerian agricultural employees organised committees of self-management of the abandoned farms (declared unclaimed on 29 August 1962), quickly legalised by the Algerian authorities. In October 1963, the Ben Bella government made nationalisations on all unclaimed goods, to extend self-management further, as the whole agricultural sector once owned by the Europeans was now self-managed. Ben Bella's government (1962-1965) immediately gave much ideological importance to this sector, presenting it as a new system based on the self-management of Algerian agricultural workers. Nevertheless, self-management soon appeared to have failed economically, for various reasons (no qualified executives, bureaucratisation, vote-catching), and also because self-management started being brought under state control, so agricultural workers were not pushed much to productivity (Gauthier, 1978).



After advice was given by economists in line with a Perroux-type tradition, the most famous of whom was Gérard Destanne de Bernis, then professor in economics at the university of Grenoble, Algeria finally chose the strategy of industrialising industries, to insure "methodically the conquest of its real economic independence" (Destanne de Bernis, 1971, 545). The starting point was the definition of Perroux-style industrialisation as "the re-structuring of an economic and social whole under the pressure of a coherent machining system" (Destanne de Bernis, 1971, 547). The objective was then to implement a coherent industrial structure (*ibid.*).⁸

Algeria thus opted in 1962 for a development strategy based on industrialization of the country. Indeed, industrialization had always been a political objective in Algeria. For instance, the 1976 National Act clearly identifies an industrial development strategy for Algeria: to support the industrial sectors, especially the chemical, steel and hydrocarbon industries, which are supposed to have external effects on other sectors, either agricultural or industrial, and to try to reduce the mass unemployment inherited from the colonial period. The industrialisation strategy was based on industrial sectors at the origin of the industrialisation process: the chemical industry, hydrocarbons industry, goods industry, and iron and steel. These "industrialising industries" were supposed

to have downstream effects in chemistry and mechanical industry producing equipment goods (tools, engines, machines, etc.). These industries were also supposed to have effects in agriculture, as they supply downstream the products necessary to agricultural material (iron and steel) and fertilizers (chemical industry).

Until 1967, the structure and the organisation of the Algerian economy, especially as regards the monetary and banking system, corresponded to the norms of a market economy. The choice of centrally planned command economy as a system for organising the development of the national economy was made in the first four-year plan, 1970-1973. This Soviet-type planning was formulated in physical terms. This economic organisation led to huge investments that surely explain the good performance of the Algerian economy after independence.

Indeed, this development strategy had been financed with the oil rent that allowed a dramatic increase of investment in capital in the years following the independence of Algeria. The average investment rate was equal to 28.3 % between 1970 and 1973 and even rose to 40.4 % between 1973 and 1978, reaching a peak of 47.8 % in 1978 when it was one of the highest rates of investment in the world (World Bank, 2003, p. 12). In that perspective, Algeria embarked in the 1960s

on an import-substitution strategy that led to the rapid development of a public manufacturing sector. From independence to the 1990s, the economy was under the control of state enterprises. Therefore, employment was mainly public and industrial. About 1300 local public enterprises and 400 national companies accounted for about 80% of value added and 75% of employment in the manufacturing sector in 1993. Moreover, public sector employment at the end of 1991 accounted for 70% of industry, more than half of construction and 30% of services (ibid.).

The events

In the 1990s and the beginning of the 2000s, the political and social context – what Algerians discreetly call the events (*'les évènements'*) – and the low oil price undermined the degree of freedom of the authorities. Indeed, Algeria suffered from a series of political troubles from 1988 to 1998, which certain observers described as a civil war. These events followed years of economic downturn which the country experienced in the eighties after the oil price slump that caused a deterioration of Algeria's deficits and public debt. The sub-period was characterised by high inflation and unemployment combined with low growth. Inflation was caused, with a lag of up to twelve months, by an increasing budget deficit linked to an excessive growth of the money supply. The Algerian authorities were then unable to continue sustaining the manufacturing public sector. Consequently, as was the case in many transition economies, by the 1980s, Algerian public enterprises were incurring major losses that caused a rise in industrial unemployment.

During this period, Algeria suffered from two IMF stabilization programmes: a macroeconomic stabilization programme from April 1994 to March 1995 and a structural adjustment programme from April 1995 to March 1998. These programmes were designed to revitalize the Algerian economy which was then experiencing a recession with huge unemployment, a large deficit on the balance of trade and high inflation. Indeed, at the end of 1993, the Algerian economy was in bad shape: recession, unemployment close to 30 %, a budget deficit equal to 8.7 % of GDP, a rapid growth of the money supply (+21 %), a deficit on the



balance of trade exacerbated by a fall in the exchange reserves until they could cover only six weeks of imports, and a debt burden of 82 % of GDP. To achieve macroeconomic stabilization, the 1994 programme relied on strong fiscal adjustment supported by tight monetary policy, exchange-rate adjustment and a strict incomes policy. Algeria obtained a rescheduling of its external public debt at the Paris Club and of its external private debt at the London Club. Algeria obtained multilateral loans from international institutions, notably the World Bank and the IMF. The structural adjustment programme, which operated from April 1995 to March 1998, followed the aims of the macroeconomic stabilisation programme: to promote growth by liberalising the economy (privatisation, reduction of tariffs, control of wages, decreases in investment expenditures). The first objective of monetary policy was to fight inflation. Under the supervision of the IMF, the Bank of Algeria ran a restrictive quantitative monetary policy limiting the growth of the money supply through the control of its internal assets. The inflation rate decreased enormously from 30 % in 1995 to 5.7 % in 1997 (Greater Algiers index). On the other hand, the GDP growth rate declined to 1.2 % and the unemployment rate rose to 28 %. The tight Algerian monetary policy at this period, together with a strict fiscal policy and sustained by the rises of the oil price and of the exchange rate between the dinar and the dollar, led to a stabilisation of the price level during this period at the cost of high unemployment and low GDP growth.

It should be noted that these programmes also aimed to revive Algeria's transition process from socialism to a market-oriented economy.

The 2000s

The factors that constrained the country were relaxed in the 2000s: the 'events' came to an end, the dinar was more stable (against the dollar), the oil price increased and that led to a positive balance of trade and a banking system with excess liquidity. Algeria experienced stable and moderate inflation until the last two years. A revenue regulation fund (FRR) had been created following the rise in the oil price. This fund had been designed to reduce the public debt and to protect public expenditures from fluctuations in the budget surplus due to unpredictable variations in the oil price.

The Algerian authorities committed to a new economic strategy whose objective was to liberalize the economy. The new reform strategy initiated in 1994 was geared toward the creation of an open, market-oriented, private sector-led economy in Algeria. At the end of the nineties, this new strategy benefited from a favorable context because of two main changes. On the political side, and despite the continuing troubles, Algeria benefited from a more peaceful climate than in the nineties. On the economical side, oil prices had been continuously rising from US \$13 per barrel in June 1998 until US \$60 in August 2005. Higher oil prices helped to achieve the objectives of the adjustment programme,

by strengthening the fiscal and external accounts. These changes that Algeria experienced from 1998 to 2005 gave more flexibility and liberty to the government to conduct reforms. In particular, during this period, Algeria launched an Economic Recovery Programme (ERP) for 2001-04. The aim of this program was to stimulate aggregate demand and to absorb high unemployment through public investment in infrastructure and support to agricultural production and to small and medium enterprises. During this period, the official national unemployment rate decreased from 27.6 % in 1998 to 15.3 % in 2005. This decrease of the unemployment rate went with a decline of the share of the industrial sector in the Algerian GDP. The reduction of Algeria's national unemployment rate is mainly due to an increase of employment in the agricultural and construction and public works sectors. Indeed, between 1994-99 and 2000-04, average annual employment growth increased mainly in agriculture and construction and public works, which were among the sectors that benefited most from government investment in the Economic Recovery Programme. Although the share of construction and public works in employment is stable, employment in that sector has grown steadily since 2000, with the increase ranging from 3 % in 2001 to 8 % in 2004, mainly because of the increase in government capital spending. Algeria's economic policy based on a strategy where the authorities developed their public expenditure programs did not benefit the rest of the economy. Algerian public plans had an impact on unemployment, but mainly on informal unemployment through the support of the construction and public work sector, but did not exert positive externalities on industrial employment dynamics. According to the Algerian national bureau, the share of informal employment in total employment increased from 39 % in 1997 to 49.1 % in 2005. Hence, the destruction of capital that has followed the bankruptcy of state-owned enterprises has not been replaced by private investments in the manufacturing sector despite Algeria's strategy to promote private investment in small and medium enterprises.

Conclusion

Algeria's colonial heritage is the result of combined debates on development strategy

and the structures of a colonial economy. The suggested development strategy was a state-owned planning strategy. The government was responsible of Algeria's industrialisation. The colonial heritage in terms of education quite obviously lies in the fact that the human capital available in Algeria at the end of the French period was not sufficient to insure an industrialisation-based development strategy, even including the "Europeans".⁹ As shown, the Algerian colonial economy did not create university elites among the Muslims.

Besides, Algeria did not inherit from colonisation a financial system able to insure the financing of the industrialisation strategy (Bonin, 2009).¹⁰ Also, even though oil was not a prevailing issue in the first years because of French ownership (Destanne de Bernis, 1971), the Algerians turned to the hydrocarbon sector to finance the investment expenses, thus combining and conditioning the Algerian-type industrialisation strategy to the existence of an international currency-producing stock sector.¹¹ One of the fundamental consequences of this development strategy is that it implied an active part from the Treasury (Destanne de Bernis, 1971, p. 560). The weight of this responsibility is still one of the major features of the Algerian financial system.

Finally, the second section reveals that there was no existing network of private companies to support big state-owned companies in Algeria. State-owned companies became the spearhead of Algeria's development strategy (Liabès, 1987). The strategy of industrialising industries brought the creation of heavy industrial poles such as the Al Hadjar iron and steel complex near Annaba, and petrochemical plants in Arzew and Skikda, or big production units such as Sonacome in Constantine, Guelma, and Rouiba. Generally speaking, there were more and more so-called national companies in Algeria in the post-colonial period: SONATRACH, SNS, and around fifty other national companies created between 1966 and 1968 in the banking, industry, transport, and trade sectors.¹²

The colonial heritage thus gave birth to an Algerian economic system characterised by a peculiar economy structure based on close relations between big state-owned companies, large state-owned

banks financed and sometimes saved by the hydrocarbon money. This Algerian-style industrialisation strategy created a system of relations between the industrial complex, political system, and economic elites (Liabès, 1989). Liabès (1989) wrote that, in Algeria, the political and military elites were always allied, sometimes even married, with the public economic elites created by the socialisation of economic activities.¹³ Fifty years after independence was declared, it is clear that this development paradigm inherited from colonisation is still running. It is also clear that Algeria still has not converged on the standard of living in developed countries.

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Notes:

¹ See Kateb's analysis (1998) on how the French-European relation evolved during the colonisation.

² The Algerian population was distinguished in two categories: the "Europeans", including the "Israelites" since the 1871 Décret Crémieux, and the "Muslims". It should be noted that this distinction follows the opposition between the "French", the "Europeans", and the "indigens", widely used in the early steps of colonisation.

³ Incontestably, French Algeria met the criteria of underdevelopment: illiteracy, undernutrition or malnutrition, infant and adult mortality, health access, the segmentation of society in a dominating elite minority ("the Europeans") and a dominated mass ("the Muslims"). See Guillot (1960).

⁴ "One human type in contemporary Algeria is the *unemployed*. This human type is not occasional, as in European capitalist-type societies. It is permanent, and can be found in *all* Algerian families, in cities as well as in the country." (Nouschi, 1965: 1246).

⁵ We estimate that there were 38,800 medium-ranking executives, and 2,400 senior executives (see Nouschi, 1965 for an interesting new analysis).

⁶ "Whatever happens, one can imagine what a mass return to France of some Europeans would mean. They have a decisive advantage, however, for at least one generation on Algerian soil. It should be remarked that measures are being taken at the certificate of general education level, but it also should be noted that the technical education of either community is insufficient, and that there is not enough qualified workforce." (Darbel and Rivet, 1962, p.79).

⁷ "Newcomers are very likely to be classified among merchants of lemonade by the glass, or even cigarettes as separate items, rather than well-established shopkeepers." (Darbel and Rivet, 1962, 82).

⁸ "The implementation of such a coherent industrial structure can only happen from so-called industrialising industries, meaning industries fundamentally aiming at driving in their localised and dated environment a systematic blackening of the inter-industrial matrix and production functions, through the creation in general economy of new machine lines increasing work productivity and bringing the economic and social restructuration of the whole, as well as a transformation of behavioural functions within that whole." (Destanne de Bernis, 1965, 547.).

⁹ "In terms of professional training, Algeria is unable to provide the required number of qualified workers, middle managers, and executive officers." (Institut d'Etude du Développement Economique et Social, 1962, 38). Besides, the "Europeans" left Algeria when the country became independent.

¹⁰ "The economic history of Algeria implies that, in the end, there never was a true experience of a country-wide private, capitalist, modern bank." (Bonin, 2009, 362).

¹¹ When the country became independent, and following the Evian Agreements, the hydrocarbon resources remained under French control. In compensation, French companies paid an oil tax to Algeria. Such was the case in many

producing countries. According to Destanne de Bernis's estimations (1971), Algeria received less oil taxes than other producing countries. The hydrocarbon sector was nationalised in 1971 by Boumedienne, 9 years after gaining political independence.

¹² The main companies were:

- SONAREM: société nationale de recherches et d'exploitations minières,
- SNMC: société nationale des matériaux de construction,
- SONATRACH: société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures,
- SNEG: société nationale de l'électricité et du gaz,
- SNS: société nationale de sidérurgie,
- SNIC: société nationale des industries chimiques,
- SONACOME: société nationale des constructions mécaniques,
- SN METAL: société nationale des constructions métalliques,
- SONELEC: société nationale de fabrication et de montage de matériels électrique et électronique,
- SONITEX: société nationale des industries textiles,
- SN SEMPAC: société nationale des semouleries, meuneries, fabriques de pâtes alimentaires et couscous.

¹³ "In 1962, old-stock eminent families married their daughters to ALN officers, in Tlemcen, Annaba, and Constantine; they have kept doing so with the children of the same officers and others, recently promoted by the new political class." (Liabès, 1989, p. 151).