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THE ROLE OF VIOLENCE WITHIN THE ALGERIAN ECONOMY[1]

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Algeria's economic crisis parallels and is an intrinsic part of its political crisis over the past decade. It consists, furthermore, of an interrelated crisis over control of the economic rent and the activities of an informal parallel economy originally based on smuggling and now sustained through violence which is legitimised by Islamist rhetoric. Economic reform, therefore, cannot be meaningfully achieved until appropriate institutions are constructed and a dysfunctional state has been successfully reformed

The crisis in Algeria, now a decade old, is not merely a consequence of the interruption of the December 1991 elections by an army-backed coup because of a fear that ***the Front Islamique du Salut*** (FIS) might achieve power. In reality, it is also the consequence of the way in which the Algerian state began its independent existence. It is also the case that there is a close inter-relationship between the history of the Algerian state and the crisis that now faces the Algerian economy. Indeed, the arbitrary political power exhibited by the Algerian state is mirrored by the occult control of the economy exercised by unaccountable elites and the army leadership. There is thus a close interrelationship between the refusal of the regime to concede power through transparent political reform and the corruption manifested within it, despite repeated attempts to achieve effective economic restructuring.

In a similar fashion, the growth of a parallel economy as a result of privileged access to political power – either through Algeria's single political party until 1989[1], the *Front de Libération Nationale* (FLN), or because of the roles played in the war for independence – coupled with the development, at the end of the 1980s, of smuggling as an alternative to non-existent employment for Algeria's burgeoning youthful population – the *trabando* economy, is intimately connected with the development of violence after 1992. This, in turn, is legitimised within demotic culture by a tradition of the use of violence as a legitimate means of acquiring economic resources that goes back to pre-colonial days. As a result, economic activity in peripheral regions of urban settlement is therefore dominated by violence which, today, is dignified by its appeal to an Islamist rhetoric, although, in reality, it is simply related to economic benefit.

Both manifestations of violence, however – the violence of the state in defending itself against the Islamist onslaught and the popular urban violence exploiting an Islamist legitimisation – could only prosper within the context of a state which was essentially dysfunctional. The charismatic nature of the independent Algerian state and its claim to revolutionary legitimacy to mask the arbitrary power of the army at its

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core have undermined its institutions. As a result of the political role of a single political party supporting a hegemonic presidency in the context of an economy dominated by the state sector and organised according to a socialist concept of economic order, restraints on state power did not exist. The outcome has been that, despite the democratic interlude between 1989 and 1992, the fundamental interests of the ruling elites, the *mafia*, have not been threatened. Furthermore, because Algeria depended on oil and gas revenues, rather than productive economic activity, both to support state service provision and to fund development, the elites were also able to capture control of rent for personal advantage (notably through over invoicing of imports). Furthermore, because of the state's control of external trade, the private sector that continued became tributary to the state itself, depending on it for inputs and for a domestic market in which it could operate.

The inefficiencies inherent in this pattern of economic behaviour became evident at the end of the 1970s but economic liberalisation instituted in the 1980s merely reinforced the economic power of parasitic economic elites in the private sector without providing genuine economic stimulus. The collapse of oil prices in 1986 led to unsustainable debt service obligations to which the state responded by compressing imports and thus stimulating social discontent. This erupted in the October 1988 riots and, although rapid political reform followed, economic change was hampered by vested elite interest and the growth of the parallel economy to compensate for the deficiencies of the state-directed economy itself. Consequently the effort by the Hamrouche government in 1990-91 to create a dynamic that would lead to structural change in the Algerian economy failed as it could not create a political base to overcome these vested interests. It was only in 1994 that the Algerian regime faced the unpalatable truth that it could not continue its economic path without external aid, as well as the conditionality that comes with it, and turned to the IMF.

Subsequent economic restructuring in accordance with IMF and World Bank prescript – as enshrined in the "Washington Consensus" – radically improved the macro-economic picture. However, in micro-economic and social terms the reforms did untold damage with up to 450,000 persons losing employment and with increases in absolute levels of poverty. This, in turn, fed the political crisis that by then had become a virtual civil war. Furthermore, aspects of essential economic reform and restructuring that might have helped eventually to ease the social crisis were blocked because of the vested interests of both the elites and the actors within the parallel economy[2]. The economic crisis has, in short, become integral to Algeria's political crisis which can now only be resolved if purely political measures are accompanied by appropriate economic change. Indeed, the two aspects of the Algerian crisis are in symbiotic relationship with each other and neither can now be solved alone.

The political background

For the past decade, Algeria has been plunged into a crisis that effectively amounts to a virtual civil war. Since the army-backed coup in January 1992, which followed the first round of the December 1991 legislative elections – after which the *Front Islamique du Salut* (FIS) was set to win an absolute majority of the seats in the National Popular Assembly – there has been an ever-increasing gulf between government and population. Indeed, the suspension of the electoral process as a result of the coup has contributed to a situation in which the Algerian state itself has now become virtually dysfunctional. Even though violence may have declined in the wake of the six-month-long partial amnesty between June 1999 and January 2000, the underlying problems of popular disengagement from the political process have not been addressed, as regime and government continue to operate as if the attitudes of the population itself were irrelevant to the political process.

This political crisis may have been at its most acute during the past decade but it has a far longer pedigree. Indeed, its origins lie in the original construction of the Algerian state in 1962, after the war of independence ended with France relinquishing its sovereign control. Nor, indeed, has the crisis been merely political in nature, for political and economic visions were closely intertwined in the initial decisions as to what the Algerian state was to become, an interconnection that has persisted until the present day. Not only was it to be based upon the hegemony of a single political party serving the interests of an elite backed by the army, after Ahmad Ben Bella had seized power in July 1962, but, as laid down in the Tripoli Programme, the economy of the new state was to be based on socialist precept in which the public sector was to play the leading role. In effect, the public sector, itself under tight administrative control, became the core of Algeria's "state capitalism".[3] Development was to be fuelled by rent, as oil exports became the dominant source of foreign exchange revenues. Over time the political elite created by the original army-backed coup was paralleled by an economic elite, itself entrenched in the political and administrative structures created for this hegemonic state system. Increasingly, the two elites were to merge as the technocrats that administered the state and its economy sought benefits in the private sector and as the rewards of power were increasingly expressed in economic terms[4].

Even though one of the fundamental promises of the Algerian revolution – that delayed popular expectations would eventually be satisfied through the redistribution of the benefits of economic development – was honoured more in the breach than in the observance, popular discontent and the contradictions inherent in the arbitrary nature of state power were contained both by the effectiveness of the revolutionary tradition and by the charisma associated with a ruling elite which derived its legitimacy from that tradition and from a much feared internal security service. By the 1980s, however, all these constraints on popular resentment had begun to fade and, as demonstrated below, the inequalities and inequities in the Algerian economic model had become ever more stark. The activities of an economic elite linked to the single political party, together with the growth of a parallel trading economy which depended on political protection and official connivance, were rendered more intolerable by an ineffective economic liberalisation programme under the Chadli Bendjedid presidency during the decade of the 1980s[5].

During the 1980s, Algeria's macro-economic situation worsened, in large part because of the misdirected investments of the 1970s, coupled with the secular decline of oil prices from the highs of the end of the 1970s and the Second Oil Price Shock, particularly after 1985. Equally as significant, however, was the decline in the micro-economic situation as opportunities for migration were blocked off by European reluctance to increase the size of its immigrant labour-force from North Africa and as the economic liberalisation programme enriched the elite without improving the lot of ordinary Algerians[6]. After 1986, in particular, the situation worsened rapidly as oil and gas revenues collapsed under the twin assaults of a Saudi-inspired collapse in world oil prices and a dramatic decline in the value of the dollar, the currency in which world energy trade was transacted. There was a parallel intensification of the Algerian political crisis as well, from the protests in Kabylia in April 1980 which ushered in the "Berber Spring", through the growth in open popular support for a nascent Islamist movement in the large cities, to the 1986 riots in Constantine which turned out to be a precursor to the countrywide protests of October 1988 which brought the era of the single-party state to an end.

This parallelism was no accident. Indeed, there was a symbiotic dialectic between the worsening political situation under the Chadli Bendjedid regime and the intensifying economic crisis. The ostentatious increase in private sector wealth as the result of economic liberalisation, the growth of the parallel black market economy under the protection of state patronage and the worsening employment situation for the mass of the labour-force inevitably increased popular disaffection. The innate repressive tendencies of the regime were consequently intensified, not least because the regime resolutely turned its face against genuine political liberalisation, seeking instead to play off Berber-led demands for cultural and political change against Arabophone and pro-Islamist antagonism towards the Berber minority in the country. Such political tensions were, in turn, intensified by the growing economic hardship after 1986 when worsening terms of trade led the regime to compress imports[7] in order to avoid increasing current account deficits and the danger of a default on debt repayment[8].

The political consequences of this economic crisis lie at the roots, therefore, of the catastrophe that Algeria has faced during the past decade. Not only did the crisis stimulate popular disgust with the failure of the Algerian state to fulfil expectations and thus persuade urban-based communities, in particular, to seek alternative political dispensations rooted in political Islam, but it also threw into high relief the elite beneficiaries of the economic reforms of the 1980s. In addition, this new elite could no longer lay claim to the original revolutionary tradition in mitigation of its advantages but was increasingly seen, instead, as linked with the former colonial power. The army command, in particular, was seen as being increasingly under the influence of such groups and, as it took increasing prominence in political life after 1990 once again, it was no longer able to mobilise the revolutionary tradition to legitimise its rediscovered political role[9].

For most Algerians, in short, the combination of the political and economic crises and the profound inter-relationship between them was encapsulated in the way in which they perceived the ruling elite. The elite had long been a *nomenklatura* but, because of its economic advantage and its arbitrary, uncontrolled political power, it was also a *mafia*. In addition, the increasing linkages between the elite and the former colonial power, France – the Algerian army command, for instance, was now largely derived from Algerians who had served in the French colonial forces before they had defected to the *Front de Libération Nationale* (FLN) towards the end of the war for independence between 1954 and 1962 – was codified in the popular belief that Algeria was increasingly administered by the so-called *hizb fransa*, the Party of France, that was paralleled by and integrated into the *mafia* and the *nomenklatura*[10]. Objective political and economic realities were not, in themselves, important in this analysis; perceptions alone set the scene for popular disaffection. Furthermore, the links between the economic and political crises were clear, so that a resolution of the political situation inevitably meant addressing the economic crisis as well.

Ironically enough, this was true, both for the FIS and for secular groups that wished to restructure Algeria in the wake of the January 1992 crisis. For the FIS, the economic crisis was part of the generalised moral crisis that had generated the political crisis as well. Redistribution of wealth and legitimate, morally and doctrinally acceptable government were profoundly interlinked, even if the movement never developed a detailed programme for economic reform. For secular groups within the elite, economic reform was necessary for many reasons, not all of them so praiseworthy. For the modernists, the Algerian economic collapse was symptomatic with the bankruptcy of the socialist vision associated since the Tripoli Programme with the original revolutionary political ideal. State capitalism was an economic and political failure so that genuine development and economic success depended on vital economic reform. The argument was heightened by the political consequences of Algeria's massive foreign debt burden, although irredentist sentiment against the idea of loss of economic sovereignty delayed Algerian acceptance of IMF- and World Bank-style economic restructuring until 1994, when a debt restructuring programme was implemented under IMF auspices – although the parallel institutional reforms necessary to achieve genuine economic reconstruction still remain uncompleted[11].

There were other, less respectable reasons for accepting the principle of a profound restructuring of the Algerian economy whilst at the same time trying to preserve political control. As described below, the private sector felt profoundly restricted by state control of trade and finance. Furthermore, many entrepreneurs who had exploited their political privileges now sought profitable investment opportunities for which economic reform, destroying state hegemony, was essential. Even the parallel economy sought advantages from the privatisation of the economic process, although it had prospered precisely because it could exploit the differential benefits the state's political hegemony had offered in the past. Its practitioners could see even greater opportunities, particularly in the disjunctures that would occur as restructuring was put in place. There were also those who saw a collapse in political authority as an ideal opportunity to extend economic opportunity, quite apart from the implications of economic reform – particularly those linked to the parallel economy and to the widespread smuggling that accompanied it and provided economic opportunity to the unemployed, particularly unemployed youth. Given the vast range of interests that would be affected by economic reform and by economic chaos attendant upon political violence, it is necessary to see just how well Algeria has done in changing its economic structure from state capitalism to a free market economy and to what extent its success or failure is linked to the political crisis.

The Algerian economy today

Interestingly enough, for most economic commentators, Algeria today has an economy that, having gone through the long, tortuous and painful path of economic reform and restructuring, now stands on the threshold of economic revival. Not only have the elements of a liberal, free market economy been put in place, but Algeria's access to oil and gas revenues, together with the improvements in its external account, should mean that positive development and an appropriate environment for foreign investors has been created. Even though the remnants of the violence that has characterised the past decade linger on, Algeria seems to offer opportunities that will soon be difficult to resist, not just in the oil and gas sectors but in other sectors of its economy as well.

An economy in crisis?

Yet, despite the increasingly encouraging macro-economic indicators - and last year Algeria posted a current account surplus of $9.9 billion and saw its foreign exchange reserves rise by $7.5 billion to $12.03 billion at the end of 2000 and further rose to $15.4 billion at the end of June 2001[12] - scepticism still seems to reign. Foreign investment has stubbornly remained below $500 million annually, even when investment in the oil sector is included and, given the delays in the long-promised privatisation programme[13], foreign investors seem reluctant to take the plunge. Unemployment remains remarkably high - from a low of 23 per cent of the labour force at the start of the 1990s, it rose to 28 per cent in 1998, fell slightly to 26.4 per cent in 1999 and is now believed to have risen again towards 30 per cent[14]. Over 450,000 workers have lost their jobs in the restructuring exercises of the last decade and, even worse, three-quarters of the unemployed are under the age of 30[15].

A somewhat more sour and, perhaps, more accurate vision of Algeria's economic progress is provided by France's authoritative *Nord-Sud Export*, part of the respected *Le Monde* group. In May 2001 it commented:

> The paralysis of the Algerian economy, outside the hydrocarbon sector, can be expressed in one statistic - imports. In 2000, a year in which external revenues beat all records (because of the rise in oil prices), external purchases only amounted to $9.2 billion, $900 million less, even, than in 1995 ($10.1 billion) . The decline in domestic demand - whether in household consumption (where living standards have continued to fall) or in terms of companies (for production and investment) - is evident. Furthermore, there has been no evidence of local production being substituted for imports; agricultural production fell by 5 per cent in value in 2000, whilst, during the first nine months of the year, the non-hydrocarbon industrial production index declined by 0.3 per cent. Even worse, output from all manufacturing industries fell during the same period by 1.4 per cent[16].

It needs to be borne in mind that this comment was made at a critical juncture in Algeria's recent political history; during the riots in Kabylia which resulted in an official toll of 52 dead and more than 1,300 wounded - unofficial but reliable sources claim that over 80 people died. These riots were notable for the fact that they were the first example of public unrest that was not involved with the Islamist crisis for many years. Instead, they were directed against the Algerian regime, both over the issue of Berber marginalisation and over the more general issue of regime brutality towards the civilian population and popular attitudes towards it. It should not be forgotten that the riots of April 1980, also in the Kabylia region, were the precursors of the October 1988 riots, in themselves the first overt sign of the social and political crisis that faces Algeria today.

In other words, despite the satisfaction felt in Washington and Europe over Algeria's macro-economic performance in recent years, it is evident that, in micro-economic and social terms, the crisis is as bad as ever. Indeed, opposition politicians in Algeria and leading Algerians outside the country argue that it is worsening[17]. For them, the problems are structural and reflect years of economic mismanagement and political corruption, as a result of the dominant role played by the occult and unaccountable economic and political elites, the *nomenklatura* known to Algerians as the *mafia*. Indeed, for them, it is the institutional failure that lies behind the widespread misery that characterises life in Algeria. Whether that be the reason or not, there is little doubt about the misery that Algerians face today.

Wage levels in the country are poor, particularly when contrasted with prices - it was only after an major argument between government and the trade union federation, the *Union Générale des Travailleurs Algériens* (UGTA), that the national minimum wage was pushed up, by one third, to AD8,000 per month ($102 per month at an exchange rate of AD78.62=$1 in the last quarter of 2000) last year. Average wages in 1997, the last year for which a household survey is available[18], seem to have been below $200 per month, at a time when the public sector wage - the usually-accepted guide to national earnings levels - was $136 per month for a worker, for a technician it was $186 per month and for a manager $227 per month. These wages have been increased by 10 per cent since then in response to inflation. However, overall, consumer prices have risen by 66 per cent since 1995, whilst wages have only risen by 44 per cent over the same period - although inflation is now under control, having steadily fallen from 5.7 per cent in 1997 to 0.3 per cent in 2000[19]

Housing is poor and inadequate, with standards worsening - Algeria has four million housing units for its 30-million-strong population and one of the highest occupancy ratios in the world at 7.5 persons per housing unit[20]. Some two million additional units are required but state builds run at just over 130,000 per year, half the required level, and the private but largely publicly-financed *auto-construction* system has fallen prey to massive speculation and scandal. In place of the social housing needed, uncontrolled private construction has benefited the profiteers and speculators of Algeria's parallel, informal economy. Indeed, speculation, scandal and corruption seem to be the *leit motiv* of much of the domestic and external economy.

The privatisation of the import trade in the 1990s, for example, has become a bye-word for this situation. Over 24,000 import-export agencies had been reported by 1997 - they dealt mainly with imports on which commissions are skimmed since exports are virtually entirely confined to the hydrocarbon sector and state control[21]. By now the number is reported to exceed 27,000 and, in the words of one commentator, "Now that administrative barriers have been removed without having been replaced by the rules and institutions of the market, corruption, offences and economic crimes have no limits"[22]. In short, macro-economic rectitude seems to have become a cover for economic failure and exploitation in which, until appropriate institutions can be created, there seems to be no surcease. The explanation for this situation, however, long pre-dates the current crisis.

The underlying crisis

The depth of this crisis can hardly be over-stated. Real GNP declined every year between 1985 and 1995 at an average rate of 0.1 per cent whilst real GNP per capita declined at 2.5 per cent annually over the same period. Apart from a brief rise in 1995 and 1996, as hydrocarbon exports rose and harvests improved, the decline continued up to the year 2000. De-industrialisation followed a similar pattern, with non-hydrocarbon industrial output being 5.5 per cent lower in 1991 than it had been in 1984 and the decline continued up to 1998, falling 20 per cent between 1993 and 1996 alone. Not only did unemployment rise by 190 per cent between 1985 and 1993, but purchasing power fell by 20 per cent between 1989 and 1995 so that, by 1998, 40 per cent of the population was living below the poverty-line[23].

The ostensible cause of this collapse from the mid-1980s until the end of the 1990s lay in Algeria's dependence on oil revenues to provide fiscal power to the state[24]. In essence, it was the state's ability to capture the revenue flows from the sale of hydrocarbons – today they still generate 97 per cent of export revenues and between 58 and 60 per cent of government revenues[25], with non-hydrocarbon taxation generating 29 per cent[26] – that ensured its ability to import as well as to fund domestic expenditure. The 40 per cent collapse in oil prices in 1985-1986, as a result of Saudi Arabia's decision to expand its market share at the expense of maintaining world oil prices, together with a concomitant collapse in the value of the dollar, had a dramatic effect on Algeria's external revenues. They declined by 55 per cent in value (from \$47 billion in 1985 to \$21 billion in 1986) over the year – a decline that had a severely constraining effect on government revenues in which the role of hydrocarbon revenues fell from 44 per cent to 24 per cent during the same period.

The Algerian government responded to this crisis in its external revenues by severely compressing its imports in accordance with the decline in hydrocarbon revenues. It also had to allow for the fact that it had heavy foreign debt to repay – debt acquired in the 1970s as part of its "dash for growth", based on the development of its hydrocarbon industries through the VALHYD (Valorisation des Hydrocarbures) plan. The costs of major fixed assets, such as the state-of-the-art gas liquefaction plants and export refineries, had been covered by foreign borrowings, to be amortized by future oil revenues. By the late 1980s, debt repayment was beginning to bear heavily on the Algerian state, not least because the government resolutely refused to turn to the IMF for help because this would have meant fundamental changes to the nature of the Algerian economy – which the elite feared would lead their loss of the control of economic rent – and this, in turn, was tightly bound up with the ideological identity of the Algerian state, although ideology was also used as a cover to conceal fears over loss of access to rent! The debt service ratio – the ratio of debt repayment to export revenues which generated the foreign exchange funding to repay the debt – rose from 33 per cent in 1982 to 68 per cent in 1986 and 86 per cent in 1988, the year in which riots destroyed the post-independence Algerian consensus for ever. It remained at these levels (74 per cent in 1989; 69 per cent in 1990; 76 per cent in 1991; 72 per cent in 1992 and 82 per cent in 1993[27]) until the government bowed to the inevitable and accepted IMF help in 1994, along with the inevitable demands for economic reform and restructuring. Since then, the debt service ratio has hovered between 30 and 50 per cent[28]

This obdurate refusal to accept outside help, together with the continued compression of imports that had a dramatic effect on consumer supply, underlined the other half of the equation that explained the crisis in the Algeria economy. This was the fact that, in the wake of independence, partly out of necessity and partly from ideological conviction, the newly independent Algerian authorities had opted for a dominant role for the state within the economy. This development reached its apogee during the Boumediènne presidency (1965-1978) when Algeria, as a leading state within the Non-Aligned Movement, saw itself in the vanguard of neutralist developing world states. In 1974, for example, it was President Boumediènne himself who proposed a New World Economic Order to the United Nations[29]. This confidence was built both on the legacy of the War for Independence – Algeria had, after all, forced France to disgorge its most prized colony with its one million-strong settler colonialist population in 1962 – and on the choice by the single-party state of a socialist pattern for the organization of its economy, a mode of organisation more properly described, in terms of the subsequent practical reality at least, as "state capitalism".

In essence, under the economic development theories proposed by the French economist, Gerard de Stanne de Bernis, this meant that the Algerian state, using oil revenues, should construct a state-owned and operated basic heavy industrial base – "les industries industrialisantes" - with the essential transformation industries being constructed subsequently or left to the private sector. Agriculture, even though it was the major employer, was relatively neglected under the scheme, being left to "auto-géstion" and private peasant farmers[30], although the distribution of its output was state-controlled, and only being brought under overall state control after 1971 in the "Réforme Agraire". In reality, Algeria became the victim of, in Bradford Dillman's words:

> …the developmental contradictions arising from the relationship between a rentier state – a state that derives a large proportion of its revenues from the sale of natural resources abroad rather than through taxation of citizens – and a tributary private sector. [Algerian governments] built an enormously inefficient public sector while pursuing policies that inhibited productive growth in the private sector. Accumulation processes in both sectors were closely linked but not synergistic, leading to an unresolved misallocation and misappropriation of resources. In the 1970s and early 1980s, these problems had been masked by oil revenues and international loans; when hydrocarbon rents plunged in late 1985, the economy went into crisis[31].

A crucial part of that inefficiency lay in the state's control of the import trade. This had both the effects of protecting the private sector, hence its inefficiency and its dependence on the state for access to inputs as well as to domestic markets, and of linking Algeria's ability to satisfy import demand directly to its export revenues. Other foreign currency sources, outside the control of central government, did not exist, and thus either official debt had to increase or imports had to be reduced if export revenues collapsed – as they did in 1986 with the consequent impoverishment of the Algerian population. In other words, social stability was directly linked to the state's access to hydrocarbon rent. Only when the state's control of foreign trade ended after 1993, with the dismissal of the Belaid Abdessalam government, did this situation begin to alter – and, by then, other factors had intervened to worsen the situation.

Chief amongst these was the fact that the private sector - which had continued to represent about one third of the economy, even during the height of state capitalism during the Boumediènne era - was unable to substitute for the state in the process of capital formation in order to sustain economic growth through investment. It had long before entered the rent-seeking circuit, obtaining its inputs through the public sector, and was now chronically inefficient. Furthermore, because it had been excluded from a participatory role within the economy, there were no institutions through which government could articulate its growing desire that the private sector should take over the role of capital generation - of generating adequate profits to allow for reinvestment - as the economy turned towards the liberal model. In short:

> A rentier state pursuing dirigiste policies prevented a productive private sector from emerging by monopolising resources and by failing to stem a drain of resources to a clientalistic private sector operating on the fringes of the formal economy. Structural adjustment and civil conflict in the 1990s accelerated the destructive state-business relationship despite a formal shift to liberal policies.[32]

The situation was worsened by the fact that much of the private sector had traditionally been engaged in commerce, rather than productive industry. As such, it had primarily been engaged in the domestic recycling of rent, rather than in generating capital formation. Nor was this simply a passive process; as early as the Boumediènne era, the Algerian technocratic elite had begun to transfer its allegiance from the public to the private sector, so that many of its members had a foot in both camps and facilitated the transfer of public resources - particularly industrial and commercial inputs - into the private sector. During the 1980s, this process was formalised as timid economic (but not political) liberalisation began and capital increasingly leaked into personal consumption - especially construction - or was transferred abroad.

Indeed, the very nature of the economic liberalisation process itself intensified the parasitic nature of the private sector. The liberalisation of the wholesale and retail trade in agricultural produce and foodstuffs created opportunities for massive personal wealth as private sector traders captured control of the distribution circuits and of state-subsidised produce - thus creating the phenomenon of the "milliardaires des legumes". Nor was this the only opportunity that was exploited; the private sector had long made use of the parallel economy in Algeria when its access to essential inputs from the state had been constricted, either for ideological reasons or simply because of the inefficiency of the public sector. It had had to do this, simply because there were no institutionalised means by which it could communicate its problems to government - until the reform process began under Chadli Bendjedid in the early 1980s, there was not a single operating institution that linked government and the private sector. And, even when the *Chambre Nationale de Commerce* was revived for this process, the state did not know how to use it to control and encourage private sector investment[33], despite the new private investment codes it introduced.

The parallel economy

Indeed, it was the way in which, for political reasons, the Algerian state had encouraged the parallel economy that ultimately made economic revival such a difficult task during the 1990s. One of the consequences of the war for independence and the creation of a single-party state in its wake was the need to reward those who had taken an active part. As a result, many former *mujahhidin* were able to obtain licences for various forms of private sector activity and the Algerian state became a great source of economic patronage for such political purposes. In the context of the changes wrought during the Boumediènne period - with rapid infrastructural growth and the increasing centralisation of economic processes within the control of state - such patronage became increasingly important, not least because unequal access to the benefits of independence had already emerged.

In fact, as Martinez points out, despite the impression of rapid economic growth and increased aspiration and popular hope, the Boumediènne and Bendjedid eras were periods of ever increasing economic inequality. He quotes André Nouschi to show that, in 1978, only 2.3 million out of an 8 million-strong potential labour force actually had work, with a further three million housewives and 1.6 million without jobs. Those privileged by their access to the regime -whether through patronage or as part of the elite - number 600,000-to-800,000. Escalier suggests that the social breakdown was 20 per cent of the population in absolute poverty, 62 per cent in poverty, 11 per cent in the middle class and 6 per cent in the upper classes in 1977[34] - hardly evidence of a successful redistribution within the single-party, supposedly egalitarian state. The economic liberalisation reforms of the 1980s merely accentuated this inequalities.

It was in this context that the economic patronage of the state became crucial, for it enabled those with such access to obtain the authorisation essential to engage in private commercial activities, typically either in small-scale consumer production with access to inputs from the state or in trade. Thus, in parallel to the state-dominated trading sector, there grew up a private trading sector that, in part, obtained its goods from the state sector for resale. This became particularly important after 1980, as the Chadli Bendjedid presidency began to liberalise and after 1986, when the economic crisis began. In effect, this private trading sector, dependent on ideological patronage from the state, formed a parallel economy in which commodities normally only obtainable through state imports could be made available. With the partial liberalisation of the import trade sector in the 1980s, as Algerian migrants abroad were able to import good back into the country and as unemployment grew, parallel trade based on smuggled goods as well as on access to state supplies increased, creating the *trabando* phenomenon[35], whereby unemployed youth were drawn into the parallel economy's distribution circuits.

The parallel economy, therefore, was, in effect, an integral part of the domestic trade structure of the formal economy, even though it lay quite outside its control. Originally dependent on the state, it increasingly took on a life of its own as it remedied the deficiencies in the supply system and countered the adverse effects of unemployment. Those who had been at its inception, through their ideological access – through the rewards of service or trading licences for past military service during the war of independence or because of their status within the elite as members of the

FLN or, later, because of their connections through the administrative elite or through the army officer corps – to authorisations and supplies, were able to rapidly amass considerable wealth, like those - indeed, they were often the same persons - who were able to exploit the new opportunities of the state's withdrawal from the retail and wholesale trade sectors towards the end of the 1980s[36]. In similar ways, the construction sector escaped state control as it was liberalised at the same time through the *auto-construction* initiative. The private and parallel economies thus became inter-linked and increasingly outside state control, both in terms of regulation and taxation. Yet, since the state continued to be the main source of access to foreign currency, both economies continued to be essentially rent-seeking and parasitic. Neither could, in short, offer any alternative way towards capital formation and re-investment nor could either be used to finance the state through fiscal control.

The consequences

The formal private sector, in particular, because of its dependence in the past on state inputs and rent, was in a poor shape to cope with the implications of economic reform in the late 1980s, particularly when rent inflows declined. It was given an artificial lease of life when the state rescheduled its external debt and as foreign investment began to flow into the oil sector in the first half of the decade but this merely delayed the inevitable crisis in adaption[37]. It is for this reason that the private sector has responded so sluggishly to the new liberal environment that has been created inside Algeria. It is also for this reason that there was an explosion of interest in the import trade as the trade regime was finally liberalised after 1993, with the removal of the Belaid Abdessalam government and the removal of the last traces of economic dirigisme from Algerian political life. Indeed, it was the elite's ability to extract rent from the economy during this period because of the absence of effective public-private sector linkages that gave rise to the tradition of the Algerian *mafia* as a parasite upon the body politic.

The informal parallel economy fulfilled a similar function in that it, too, provided access to rent for a much wider arena. As the role of the state declined, particularly in the trade sector, the parallel economy moved in to replace it. As the ability of the state to control political and social life declined after 1988, so the parallel economy provided a structure through it, too, could be replaced. The parallel and *trabando* networks became, in short political and social networks as well, providing a new mechanism through which collective life could be organised in the absence of the authority of the state. The first example of this was the way in which the *Front Islamique du Salut* (FIS) manipulated these networks in creating its "Islamic souks" after the municipal elections in June 1990 but, with the 1992 coup and the banning of the FIS, alternative mechanisms took over as the normative controls on social behaviour exerted by the FIS disappeared. The mechanism of such organisation now was violent coercion, often justified by the rhetoric of Islam, so that the parallel economy became an intrinsic part of the violence that swept through Algeria after 1992[38]. It was socially sanctioned, initially at least, because of a long tradition of economic acquisition and redistribution through violence in Algeria that stretched back to the pre-colonial period[39].

The parallel economy has been at its most active in the suburbs and peripheries of major towns - precisely those areas where violence has been most acute and where the Algerian security forces have faced their most intense problems. It was also in these areas that the worst massacres of the late 1990s took place, often over issues that had little to do with ideology - whether Islamist or statist - but where economic motivations were often acute. Economics, of course, cannot be the complete explanation of the terrible violence of recent years, but it undoubtedly has had a significant role to play. Similarly, the rent-seeking traditions of the formal private sector economy have both perpetuated its ineffectiveness in responding to the opportunities theoretically offered by economic reform and restructuring and ensured its exploitation by an occult elite extracting personal advantage rather than productive investment. In countering this situation, the Algerian state is relatively powerless, quite apart from its own structural deficiencies, because it lacks the mediating institutions that could be used to intervene. It is forced, willy-nilly, to continue to see micro-economic transformation in response to macro-economic change, even though the basic problem is not simply economic but institutional in nature.

Thus, for example, radical reform of the banking sector is necessary, if only to provide a financing mechanism to which the formal private sector - and the informal sector as it launders its profits and seeks respectability - could turn in order to escape from its dependence on rent. The six public banks that dominate 90 per cent of the banking sector are effectively insolvent because of years of loans to loss-making state enterprises and more recently that part of the private sector protected by the elite, despite repeated state bailouts since 1991 which have averaged at 8 per cent of GDP up to 1999. Now a further AD285 billion is to be paid into the sector as part of a comprehensive reform before new banking structures and practices can be introduced. Other similar macro-economic reforms are to be introduced, to IMF and World Bank plaudits[40].

Yet the government knows that this is not enough, for the mobilisation of domestic and foreign funds to revive economic growth has not yet occurred. Now the Benflis government is to take advantage of its windfall hydrocarbon revenues through a new five year plan, to run until the end of 2004. The 2001-2004 plan seeks to inject $10 billion into the economy; $7 billion from domestic resources and the balance through foreign investment. The money is to be directed towards easing domestic municipal and agricultural debt, reviving the economy of the desert South of the country and modernising Algeria's infrastructure. It is, unfortunately, an old, outworn prescription that offers little hope of stimulating private sector productivity and is likely to enjoy the same fate as the $17 billion already poured into the public enterprise sector which continues to be heavily indebted and inefficient. Once again, it is the hydrocarbon sector on which macro-economic health depends and there seems little likelihood that foreign investment will arrive in the quantities anticipated[41].

Then there is also the panacea of privatisation – a process that reflects the nexus between economic change and private exploitation and which has been seen as a mechanism for reducing state control and encouraging private and foreign investment. Ever since the period of the Hamrouche government in the early 1990s, a government that sought an unambiguous market economy solution to Algeria’s economic problems, privatisation has been an important catchword in the rhetorical promotion of economic reform. Indeed, the realisation that privatisation is inevitably a key element in successful economic reform goes far further back, for the Bendjedid regime restructured the major state enterprises in 1988 into autonomous units – the *Entreprises Publiques Economiques*(EPEs) – controlled by a series of holding companies, as a precursor to privatisation[42]. Very little, however, had been done, despite a new private investment law in 1982 which created new private sector investment opportunities, and the Hamrouche government's period in office was too short for it to begin resolving the funding and output crisis in the state sector at the start of the 1990s. Under the Ghozali government, in early 1992, it was revealed that 90 per cent of the 189 EPEs has major financial problems and non-hydrocarbon manufacturers were only producing at 43 per cent of capacity. Even worse, between 1989 and 1994, the contribution of the private sector to non-hydrocarbon activity fell from 27 per cent to 16 per cent of output[43] - an indication that private investment and the private sector alone would not solve Algeria's problems under the existing institutional system.

Privatisation as a method of resolving the crisis in the state-run sector of the economy only became a real possibility once the IMF had stepped in to ease the problem of Algeria's foreign debt. The process, however, has been profoundly hampered by legislative and administrative confusion, as well as employee resistance through the trade union federation, the *Union Générale des Travailleurs Algériens* (UGTA). Despite a privatisation law addressing the EPEs in August 1995, no major EPE sale has taken place yet, although small businesses in the construction, electronics and services sectors have been sold off, including a few tourist hotels. Distribution networks in the agricultural and food sectors have also been privatised, as has foreign trade, and the pharmaceuticals sector has become a major scandal over the way in which privatisation has been carried out, largely because it has created an oligopoly in which businessmen are covertly tied to military elites and government officials who become the real financial beneficiaries of this newly privatised sector.

By 1998, this process of piecemeal privatisation had resulted in at least 180,000 job losses and had largely benefited a new commercial elite tied into the *mafia*. Concomitant private investment through the provisions of the 1992 law had been profoundly disappointing and major privatisations were still impeded by the tacit alliance between the UGTA and the managerial elite within the EPEs who obtained personal benefit from their occult control of inputs and production and who intended to benefit from the proposed privatisations, either through commissions or by acquiring the assets themselves. Foreign investors frequently discovered that proposed privatisations involved clandestine payments to the "sous-marin"[44], the hidden body of patrons, often linked to the army, who eventually controlled the decision-making process about the futures of individual EPEs. Not surprisingly, these occult practices – which often ran counter to anti-corruption legislation in countries such as the United States – profoundly hindered foreign involvement in the privatisation process, whilst Algerian investors tended to seek better outlets for their capital abroad, often in France.

Local investors, instead, many of whom also had close links with the hidden patrons of the private and public economies, over which they held personal sway, sought out new opportunities for investment. Some opportunities lay in the peripheral privatisations that had taken place, such as tourist hotels or joint ventures in the pharmaceutical sector. Others, particularly for major potential investors who often had already acquired access to rent from their patrons and other contacts, exploited the new opportunities to compete with existing monopolies, particularly if there were no particular patron to be challenged. Thus major construction contracts came to be dominated by the Sahraoui family and air transport by the Khalifah family, alongside its interests in the new private banking sector for, after 1996, several new private banks were set up, usually with foreign and Algerian capital, although, in some cases outright foreign ownership was adopted, as was the case with Citibank.

Actual privatisations, however, languished, despite the legal provision for them and despite the very stringent measures taken to clean up the balance sheets of major EPEs, with consequent heavy job losses. A privatisation programme was constantly promised, particularly after President Abdelaziz Bouteflika came to power in April 1999, but it was constantly blocked from within the regime by those members of the elite who had most to lose, particularly their access to and control of state sector rent. Eventually, in August 2001, the privatisation minister, Noureddin Boukrouh – a former presidential candidate and party leader, known to be close to the army leadership – announced a new privatisation programme and a new private investment code. Under the new code, the old distinction between foreign and Algerian investment disappeared – thus making it possible for majority foreign holdings in hydrocarbon sector companies, as well as in the non-hydrocarbon sector, as had been the case under the previous 1992 investment law. There was also a promise for a new body to guide investment on a one-stop-shop basis through the *Agence Nationale du Développement de l'Investissement* (ANDI), although there had been such provision under the 1992 law as well. Mr Boukrouh admitted, however, that the old code had never really worked for, although 43,000 investment projects worth $42 billion and promising 1.6 million new jobs had been proposed, only a few had actually been undertaken. The picture over privatisation was equally grim.

In reality, the reform process undertaken since 1995, when the first privatisation law was issued, had seen not one actual privatisation apart from the tourist sector, although four joint ventures with foreign companies had been created, according to Mr Boukrouh. One thousand small public companies had been broken up, leading to a loss of 450,000 jobs, thus reducing the public sector labour-force in the non-oil sector by half. The remaining public sector – apart from Sonatrach which controls the oil sector and which will remain under public control, although it is to be shorn of some of its peripheral companies and will lose its licensing powers to the oil ministry soon – consisted of 83 EPEs and 377 local companies which employed 430,000 persons and carried a debt burden of AD630 billion ($9 billion). Now, the minister promised, this burden on the state was to be removed through privatisation[45]. It seems that Mr Boukrouh is being very optimistic; although President Bouteflika would dearly like to honour his promises to the IMF and the World Bank, there is little evidence that his military backers – who currently seem determined to block him and may even remove him from power – will allow him to do so, particularly if their own private interests would be threatened if his privatisation minister went ahead! Nor, indeed, should President Bouteflika be assumed to favour privatisation on grounds of economic efficiency; for him the issue is one of achieving autonomous political power and privatisation would be one method of undermining his enemies in the regime whose economic and political interests require a continued control of flows of rent.

The outlook

In short, the combination of ineffective administration and institutional mechanisms, together with institutional corruption which stemmed from within the regime itself, ensured that, against a background of chronic violence, investors shied away from the opportunities Algeria had to offer. Yet, as former economics minister Ghazi Hidouci argues, the reluctance of foreign investors is no longer primarily due to the violence that permeates Algeria. "I do not see how the security issue has prevented people from working and producing," he said, according to *Le Monde*, "Just look at the War of Liberation; that was a great period for economic prosperity...!"[46]. The real problem was the lack of effective institutions and the rule-of-law within the Algerian state, both in the political and economic spheres and the fact that the violence itself was in part an outcome of politicised structure of the economy. In a recent interview given by the former premier, Ahmed Benbitour (he stepped down in August 2000) to the Algerian daily, *Le Matin*, on this subject and over the constant efforts by government to create new legal structures to stimulate investors, he remarked,

> I am perplexed. What is so wrong with existing laws that they must be revised? Investors, whether Algerian, French or German, complain about this juridical uncertainty and the proliferation of contradictory statements: after all, if nothing is forbidden any more, nothing is formally permitted either and this encourages arbitrary behaviour. The lack of a proper commercial law is a consequence of an overall lack of the rule-of-law. Should one be surprised, therefore, that Algeria has lived under a state of emergency since February 1992?[47].

The Algerian economic crisis is not, therefore, approaching its end. Without fundamental institutional reform, positive micro-economic consequences to intense macro-economic reform cannot be anticipated and the exploitation of the economy through rent-seeking and violence will continue. As Bradford Dillman suggests:

> The history of the 1970-1998 period [in Algeria] is one of incredible lost opportunities. Algeria has condemned itself to repeat and compound the same tragic economic mistakes it has made in the 1970s and 1980s. A large public sector suffering massive losses and a subsidized private sector with little regard for productivity, marginal gains, or other necessities of development linger as its destiny, though now accompanied by bloodshed and the shredding of the social fabric. Without inclusive democracy, it is hard to imagine how synergistic relations among state, business and society will ever be rebuilt.[48]

It is a depressing outlook but nonetheless true for all that. In essence, the problem in Algeria is not fundamentally economic but institutional and political. Until these issues are successfully addressed, there can be little hope of economic prosperity outside the destructive embrace of oil. Equally well, there can be no real hope of an end to violence, fuelled as it is by private interest in an environment where the effective rule-of-law does not exist. Yet, here too, little has been done to respond to the basic fact that the Algerian crisis is a consequence of frustrated popular expectation, rampant economic exploitation by an elite entrenched within the ruling regime and the growth of a parallel economy that justifies its own exploitation through violence.

Ironically enough, the reforms proposed by the IMF and the World Bank have done nothing to address the simple truth that effective economic reform in Algeria is entirely dependent on the institution of effective institutions under democratic control and the rule-of-law. Although the macro-economic indicators may accord with the assumptions that govern economic orthodoxy in Washington, the micro-economic consequences cannot emerge because of the exploitation of the economy by the *mafia* and the violent sequeliae of the *trabando* system. In essence, the violence instrumentalises the diversion of rent out of the economy and into the control of these parasitic elements within the Algerian polity, thus interrupting the virtuous circle of economic growth the multilateral institutions have sought to create. In effect, therefore, economic restructuring has severely damaged employment patterns without creating the conditions for renewed investment to rebuild the economy. Nor is it likely that continued economic reform as proposed by the IMF and the World Bank could correct the situation, simply because the combination of corruption and violence, as Janus-like aspects of the common problem of a dysfunctional state, ensure that investors turn elsewhere. Only when investor confidence can be rebuilt can this situation change and Algeria will then be able to look towards a revival of the fortunes of its citizens overall.

Basic economic indicators

	1999	2000	2001	2002
Nominal GDP ($bn)	45.3	51.0	51.3	59.1
Real GDP gr (%)	3.2	2.5	3.2	3.8
Population (mn)	30.4	31.1	31.7	32.4
Annual inflation (%)	2.7	0.3	2.4	3.0
Industrial prod. (%)	3.7	1.4	4.0	4.5
Budget bal (%GDP)	2.0	16.2	2.7	2.0
Oil price ($/bbl)	17.8	28.5	23.5	24.0
Crude prod (mn b/d)	0.8	0.8	0.8	1.0
Exports fob ($ bn)	12.3	21.7	18.5	19.5
Oil/gas revs ($ bn)	11.0	19.0	16.9	17.5
Imports fob ($ bn)	8.9	9.2	10.3	11.7
Trade balance ($bn)	3.4	12.5	8.3	7.8
Current a/c ($ bn)	0.2	9.9	5.7	5.2
%age GDP	0.0	18.5	10.6	8.4
Foreign debt ($ bn)	28.1	25.0	24.8	24.4
Foreign res ($bn)	4.5	12.0	17.6	23.2
Import cover (mnths)	3.9	10.3	14.1	16.6

Source: Institute of International Finance; April 2001

References

[1] The constitution authorizing a multiparty system was enacted on 7 August 1989

[2] There are two elements within the parallel economy that should be distinguished in this context. The first is that connected to the regime and integrated into what Algerians themselves define as "the mafia", individuals and groups originally part of the *nomenklatura* of the Algerian state who exploited their positions for private advantage and derive rent from them. They began in the state companies but,

since 1994, have moved into the private sector, exploiting their positions of influence and benefiting from patronage within the regime. They were the groups that essentially blocked economic reform. The other group, which will be discussed below, consisted of the *trabando* smuggling economy who enjoyed little political weight but exploited the opportunities offered by the growth of violence inside Algeria. They even supported the reforms because of the opportunities thereby created for private sector activity.

[3] The term seems to have been coined by Raffinot M. and Jacquemot P. (1977), Le capitalisme d'état algérien, Maspero (Paris) and implies government control of the economy through price control, investment and control of production, even though a private sector may continue. In Algeria, the private sector was conventionally 30 per cent of the total economy.

[4] Roberts H. (1983), "The Algerian bureaucracy", in Asad T and Owen R. (1983)(eds), The Middle East, (Sociology of developing countries), Macmillan (London); 95-114

[5] Dillman B.L. (2000), State and private sector in Algeria: the politics of rent-seeking and failed development, Westview (Boulder, Colorado, and Oxford);7

[6] Between 1985 and 1991 the number of unemployed workers in Algeria grew by 190 per cent, in an eloquent testimony to the lowering economic crisis. Benachenou A. (1993), "Inflation et chomage en Algérie: les aléas de la démocratie et des réformes économiques," *Monde Arabe - Maghreb-Mashrek* 139 (January-March 1993); 28-41.

[7] Dillman **op. cit.;** 86. In 1978, the state arrogated to itself the monopoly of foreign trade, so that the private sector had to apply to state enterprises for essential inputs. This also meant that consumer supply could be controlled by the state at whim, if it wished to restrict import costs, as it did after 1986.

[8] The debt service ratio rose in 1986 to 68 per cent from 37 per cent the previous year. Two years later it was to rise to 86 per cent. *Middle East Economic Survey*, **35** (April 13, 1992)

[9] The new constitution, introduced by the Chadli Bendjedid regime in 1989, reduced the army's role to one of protecting national territorial integrity and the army command was persuaded to abandon its direct involvement in the political process which had been a hangover of the Boumediènne era. This new found restraint was first abandoned just over a year later when, in June 1991, the army stepped in to arrest FIS leaders during the general strike the movement called against the new electoral law which discriminated against the movement. This turned out to be the precursor to generalised army involvement in political life once again, not – as many hoped at the time – merely an isolated incident designed to highlight the danger the FIS offered to constitutional government.

[10] As Bradford Dillman points out (**op. cit.**; 134):

> There are few parallels in the rentier word, save perhaps in Nigeria and Indonesia, to the wide-scale conversion of army officers and high-ranking *cadres* into pseudo-private entrepreneurs and predators through privatisation, deregulation of importing, liquidation of local public companies, and joint ventures between multinationals and the remnants of state companies.

[11] IMF (1996), Algeria: Staff report for the 1996 Article IV consultation, (Washington); IMF (2000), Algeria: Staff report for 2000 Article IV consultation, (Washington). The blocked privatisation programme indicates just how great the difficulties in the path of institutional reform can be (see discussion of Mr Boukhrouh's recent comments in the main text). More concretely, there was a fear within the mafia that rent would be disrupted, as well as the mistaken belief that military expenditures would be under IMF scrutiny.

[12] Unless otherwise stated, the economic statistics used in this comment are drawn from IMF and IIF sources.

[13] Some184 companies are due to be privatised by 2004. (IIF(2001), Algeria, economic report, Institute of International Finance (Washington); 11-12). Much store is being set by the expected second GTM mobile telephone licence sale due in 2001, but this will only provide a one-time benefit. One problem facing investors is that the Algerian bourse is hardly operating – it only handles four security issues – a bond issued by Sonatrach, the state hydrocarbon company, shares in the partly privatised Eriad-Sétif food processor, the partly privatised pharmaceutical company, Saidal, and the Hotel Aurassi in Algiers. The food processor Eriad-Constantine is to join the list soon, as are industrial gas, tobacco and wine producers, and there are rumours that the state airline – now under considerable pressure from a new private airline, Khalifa Airways – is to be privatised.

[14] IMF (2000), Algeria: Staff report for the 2000 Article IV consultation, (Washington); 48

[15] IIF (2001), **op. cit.**; 3

[16] Nord-Sud Export, No:420 (11 May 2001)

[17] See, for example, the interview with Ghazi Hidouci, in the Quotidien d'Oran, (3 April 2001). In a telling comment, Mr Hidouci points out that Algeria's levels of imports are now below those of both Morocco and Tunisia, implying that its imported inputs are as well and that its domestic economy is less productive and smaller - outside the hydrocarbon sector - that those of its neighbours.

[18] Iradian G., Bazzoni S. and Joly H., (2000), Algeria, recent economic developments, IMF (Washington); 18

[19] The consumer price index is not a very good measure of inflation, for it is based on consumption patterns in 1988, before prices were liberalized. It includes only 256 items and only covers households in the area of Algiers.

[20] IMF (2000), **op.cit.**; 38

[21] Cited in Dillman, **op. cit.**; 94. Care must be taken over definitions, however; *bona fide* import companies at the same date only number 3,000.

[22] Talahite F. (1998) "La corruption: le prix de la contre-réforme," Libre Algérie, **5** (9-22 November 1998).

[23] Dillman, **op. cit.**; 2

[24] Crude oil formed 23 per cent of exports, condensate 20.3 per cent, refined petroleum products 16.8 per cent, LPG 9.7 per cent, LNG 15.4 per cent and natural gas by pipeline 14.8 per cent in 1999 (Iradian **et al.** (2000), **op. cit.**; 86). Oil production is pegged by Opec quota arrangements to around 750,000 b/d (731,000 b/d in 1999), with condensate adding a further 430,000 b/d and natural gas liquids another 155,000 b/d. Natural gas production (LNG and pipeline gas) runs now at around 73 billion cubic metres per year (US Energy Information Administration (March 2000), Algeria, (Washington) www.eia.doe.gov

[25] The role of hydrocarbon revenues in government revenues rose from 21 per cent in 1970 to 64 per cent in 1997. (Dillman, **op. cit.**; 32)

[26] IIF, **op. cit.**; 7

[27] Dillman, **op. cit.**; 34

[28] Total foreign debt peaked at $33.679 billion in 1996, falling to $31.265 billion in 1997, $30.865 billion, $28.051 billion in 1999 and $25.030 billion in 2000, equivalent to 47 per cent of GDP and its lowest level in absolute and GDP terms for ten years. It is expected to fall to $24.753 billion in 2001 and $24.421 billion in 2002. The debt service ratio oscillated from 42.3 per cent in 1996 to 42.4 per cent in 1997, 49.8 per cent in 1998, 39.1 per cent in 1999 and 20.3 per cent in 2000. It is expected to rise to 22.6 per cent in 2001 and then fall again to 20.3 per cent in 2002. (IIF, **op. cit.**; Table 4 (Database).

[29] Democratic and Popular Republic of Algeria, Petroleum, raw materials and development, memorandum submitted by Algeria on the occasion of the Special session of the United Nations General Assembly, April 1974

[30] "Auto-géstion" or "workers self-management" reflected the spontaneous take-over of abandoned agricultural and industrial properties by their workforces. It covered both agricultural and consumer goods enterprises in 1962 but, during the next four years, was gradually brought under state control. Between 1961 and 1962, 900,000 people left Algeria, abandoning 2,000 industrial and commercial enterprises and 200,000 homes, as well as offices and agricultural properties. (Raffinot M. and Jacquemont P. (1977), Le capitalisme d'Etat algérien, Maspero (Paris); 55, quoted in Martinez L. (2000), The Algerian civil war 1990-1998, Hurst (London); 24n12. See also Clegg I.::::::::::::::; for a description of the way in which the self-managed sector was eventually brought under centralised state control.

[31] Dillman, **op. cit.**; 3

[32] Dillman, **ibid**; 4

[33] Dillman, **ibid**, 38-59

[34] Martinez, **op. cit.**; 3

[35] From "contrabande", the French term for smuggling

[36] Dillman, **op. cit.**, 97-114

[37] Nor can military expenditures be blamed for the problems faced by the Algerian state for, in absolute terms, they were no higher in 1995 than they had been in 1998, although they rose from 1.9 per cent of GDP to 3.4 per cent of GDP. (Fontanel J. and Coulomb F. (2001), "The Algerian drama: consequences of a bureaucratic-socialist experiment" in Brauer J. and Hartley K. (2001)(eds), The economics of regional security: NATO, the Mediterranean and Southern Africa, Harwood Academic Publishers (Holland); 169-177

[38] This phenomenon is analysed in great and convincing detail by Luis Martinez, **op. cit.**

[39] Martinez, **ibid**; 5-19

[40] IIF, **op. cit.**; 11

[41] Le Monde (Economie) (22 May 2001); Nord-Sud Export, **420** (11 May 2001)

[42] There had also been a reform initiative in 1982 that broke up the very large state sector companies into smaller units. In effect, all this did was to spread the economic rent onto a wider base]

[43] Dillman, **op. cit.**; 79, 82.

[44] "submarine" the sobriquet given by Algerians to the front-men who actually maintained contact with personal investors to establish commission levels and terms.

[45] Agence France Presse; 22.08.2001

[46] Le Monde, **ibid**. This is, perhaps, a little disingenuous for France, under the Constantine Plan in 1954 and under the subsequent Soustelle Plan of 1995, poured in funding to keep the Algerian economy afloat during the war. Nelson H.D. (1979)(ed), Algeria, a country study, The American University (Washington DC); 51,117.

[47] Le Monde, **ibid**

[48] Dillman, **op. cit.**; 136