Algeria Today and Tomorrow: An Assessment

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Halfway through the second five-year term of President Chadli Benjedid, Algeria is being pulled in many directions. A relatively liberal and pragmatic regime has been shaped by a continuing sequence of changes and consolidations of power. Oil revenues, which provided an economic boom and a cushion against mistakes, are rapidly drying up, and victories in gas pricing methods of the early Benjedid years are turning out to be costly and controversial. Yet Algeria still stands as a remarkable case of political and economic stability within a number of Third World groupings.

Its economy is more balanced and its revenues more productively invested at home than is the case with many of its fellow members of OPEC. It is closer to being a NIC (New Industrialized Country) than any other African country except South Africa. Although its political institutions were established by a regime that took power illegally and was very hesitant to set up an elected structure of government, the transition from an uncontested but authoritarian regime after the death in 1978 of President Houari Boumedienne was smooth and effective, and the successor has proved to be a truly popular figure. There are Algerian problems, but there is no Algerian crisis.

From Boumedienne to Benjedid

The sudden and unexpected death of President Houari Boumedienne nearly eight years ago left Algeria with a very mixed heritage of strengths and weaknesses in unexpected places. The economy was in deep difficulty, burdened by a top-heavy structure, an unproductive agricultural base, and a heavily bureaucratized girth that slowed down both industrial growth and commercial distribution. While the 1976 constitution had not been designed to deal with the challenge of handling an early presidential succession, it proved adequate and appropriate when the need arose.

Boumedienne had planned that his two-year state institutionalization campaign would be capped by sweeping party and governmental reforms in 1978, including a long-awaited congress of the Front de Libération Nationale (FLN), the first since 1964. A new team and a new economic policy would be put in place. Both politicians and technicians within the bureaucracy and party (the only political arenas Algeria has, in the absence of competitive electoral politics) were awaiting the personnel and policy shuffle and were positioning themselves to aim at coveted positions and potential patrons. The military officers who had joined Boumedienne in taking and holding power in 1965-67, but who had been gradually pushed aside from decision making and eased back into the barracks, had grown restive and wanted to return to a greater role in government.

In short, the same unlikely coincidence that provided institutions of transition just when they were needed also ensured that both a military guardian group and a range of bit players were poised ready for a major political change that would have occurred if Boumedienne had remained alive, and so were equally ready for succession politics.

Colonel Chadli Benjedid (commander of the Oran military region) was nominated for the presidency at the long-awaited Fourth Party Congress of January 1979 and was overwhelmingly ratified by the country’s electorate (since he was without opposition) in early February. But at this point Benjedid was only first among equals. In reality, the country had undergone a temporary return to collective leadership — one that would proceed to organize its own hierarchy on the job until a new centralized power structure emerged. In this process, similar to that followed in the Soviet Union, a single leader emerges out of the collectivity, and his competitors and their followers as well as the followers of his predecessor are removed; even the military who functioned as a guardian group during the collective interregnum were dispersed. Benjedid then began a gradual campaign of consolidating his power, and by
the time of the Extraordinary Party Congress of June 15-19, 1980 he was well on the way to control of the political system on his own terms.

But Benjedid's style of control has turned out to be very different from that of his predecessor. Instead of establishing a fixed centralized structure based on established policies and single-minded implementation, consolidation has become Benjedid's eternal quest, shuffling and reshuffling his personnel policy, decentralization his structure, and pragmatism his doctrine.

The Extraordinary Party Congress was set up as a political test of Benjedid; the rumors of early 1980 were that the president had to come up with a sound economic program and a clear political direction by the time of the Congress or face the danger of being replaced. Benjedid responded to the rumors with a series of tactical maneuvers that avoided a test of his stewardship. He asserted his own control over the political process, had himself put in charge of the Congress instead of the reverse, weeded out many of his potential rivals, and emerged with governmental and party institutions reorganized to give him support instead of competition. The Congress also ratified a number of resolutions on the policy orientations of the new Five-Year Plan (1980-84), Algeria's first since the Four-Year Plan that ended with 1977. The planning hiatus was partly the result of the political interregnum and partially the product of Algeria's cumbersome bureaucracy.

Political Consolidation, Phase One
The political consolidation has been a gradual, repetitive process in which Benjedid places his own men in key positions, finds and tests new followers, progressively eases out competitors, and continually prevents anyone from acquiring a power base of his own. The FLN Political Bureau appointed at the Fourth Congress had a larger number of followers of Benjedid's two rivals (former Foreign Minister Abdelaziz Bouteflika and Colonel Mohammed Salah Yahiaoui, party leader) than of Benjedid himself, as well as representatives of other groups with no attachment, looking for a protective patron or just sitting out the continuing power struggle until the direction of the prevailing winds became obvious. This they did at the Extraordinary Congress, where Benjedid named his own Political Bureau of seven members, including two rivals, that was broadly representative of the main political currents in the country (a leader of the revolution and National Assembly president, a senior military officer, a liberal, the party leader as a representative of the populist left, a Berber, and an Arabist, plus Benjedid). In the government of 1980, several younger technicians were brought in to replace older politicians and officers.

The military guardian group, of which Benjedid was a member, was gradually disbanded — some of its members were retired, others were assigned to head ministries or companies. Early on, in May 1979, most regional commanders were replaced with officers having earlier connections and shared military experience with the president. In 1981, many of the heads of the military directorates in the Ministry of Defense were replaced with Benjedid's men; the key military security agency was brought under the president's control in two steps and then moved from the Ministry of Defense to the President's Office.

The 1980 Political Bureau proved to be more representative than governable. In mid-1981, the two rivals were removed (and removed from the party as well) and replaced with five leading ministers. The Political Bureau was thus converted from a political surveillance group to a presidential executive committee for governance and policy-making. At the beginning of 1982, the government was revised again to bring in some new technicians. Further changes were subsequently made in a few of the military regional commands. Then the system swung into a new round of activity to prepare for yet another party congress.

Economic Reorientation, Part One
The economic reorientation contained in the 1980-84 Five-Year Plan covered the boom years of the Algerian economy. The turn of the decade was a time of both growth and absorption, so that the dismantling of the heavy Boumediennist structures could be cushioned by increasing revenues. Projected investment under the Plan was almost four times more than under the previous plan. GDP growth was targeted at 8.2 percent with industry in the lead — 12.3 percent growth for manufacturing and 12.9 percent for other industries. Industry continued to be the focus of development but the emphasis shifted from heavy or basic to light or consumer industry. With almost 40 percent of the total investment going to industry, light industry for the first time was designated to receive more than heavy.

Since the mid-1960s, Algeria had sought to build up heavy industry in the petrochemicals sector as the motor of the economy. Under this scheme of "industrializing industry," ambitious projects were planned within the empire of the state petroleum organization SONATRACH, not all of which were brought to completion. The mid- and late 1970s were boom borrowing years for petroleum sector investment. Algeria's external debt peaked in 1980 at $19.5 billion, the debt-service ratio peaked in 1978 at 25 percent, and the debt service in absolute terms peaked in 1983 at $4.8 billion.

The key decision of the 1980-84 Plan was to slow construction of the heavy-industrial "motor" and let it start generating power for the rest of the economy. SONATRACH was broken up into 14 component units (one of which retained the old name), and the petroleum sector was used less as a source of trickle-down development than to earn money for other sectors of the economy. Since a barrel of Algerian crude was up from $12 in 1978 to $40 in 1981, the Plan could emphasize a goal of revenue-building and a goal of conservation for petroleum at the same time, and could cut investments in the petroleum sector under the dual justifications of saturation and reorientation.
The mood in the country at the time of the succession was one of rising consumerism. People were tired of the belt-tightening austerity of the Boumedienne era. The revolutionary producerism calling for sacrifices now so that Algeria could realize its destiny for its children had won the day during the power consolidation of 1965-67, but by the end of the 1970s people wanted to enjoy the benefits of independence and growth. Beyond a shake-up of the petroleum empire, with its bureaucracy and its privileges, this meant greater emphasis on consumer industry, on agriculture, and on distribution circuits within the country.

Algeria had become a country of bottlenecks. Food, housing, and consumer goods were inadequate to meet the demands of growing disposable personal income in a nation that had almost doubled its per capita GDP since independence (from $1,200 to $2,200 in constant figures). Responding to these challenges, the new Plan concentrated on such areas as food processing industries, textiles, and construction materials. It made housing the second largest investment sector (after industry) and targeted this sector for a higher growth rate. The Plan also developed a geographic focus for consumer industrialization, dispersing the projected sites of light industry in the High Plateaux inland from the coast so as to slow down in-migration toward the burgeoning coastal cities with their exploding housing problems. This focus was coincidently rendered especially appropriate by the devastating earthquake at al-Asnam, whose reconstruction was to require about five percent of the total investment of the Plan.

The other focus of the Plan was on agriculture. Although Algerians were eating better, their reliance on food imports doubled over the decade, from 35 percent in 1969 to 70 percent in 1979. Arable land was being abandoned to urban expansion and urban in-migration. The socialist sector in agriculture was perpetually in deficit. Food grown in the private sector tended to be sold locally rather than reaching the cities commercially. The Plan therefore sought to improve agricultural performance by increasing incentives, removing bureaucracy, and restructuring landholdings. "Agricultural development sectors" were established to improve management and coordination; large state farms (former colonial estates) were broken into more manageable units and reorganized, and some were returned to local ownership.

The final element of economic reorientation under the first Benjedid-era Plan was the new tolerance for private enterprise. The dispensation grew out of the Plan's overall consumerist emphasis. If new housing and new agricultural productivity were needed, all the state efforts in the world would not suffice (and indeed, in the agricultural case, were even part of the problem). What was needed was more leeway for private initiatives and enterprise. An additional component, equal to two-thirds of the 1.2 million unit housing target for 1990, was to be built by owner-occupiers with state subsidies for land and materials. Regulations governing import licenses, COD payments of foreign purchases, currency controls, and similar matters were liberalized in order to provide greater latitude for the private sector (and at the same time to create an atmosphere of liberalization that would enhance the general spirit of "de-Boumedienization" necessary both to Benjedid's image and to popular demands).

In 1983 additional measures were taken, including an increase in the permissible level of private investment in an enterprise from 50,000 Algerian dinars ($1 = DA5.10) to DA30 million, permission for the duty-free import of private equipment under DA100,000, and approval of 360 new businesses involving DA1 billion and 6,000 jobs. (Algeria has some 360,000 private businesses but they average only a few employees each.) The new National Union of Small Traders and Artisans (UNPCA)
was constituted in mid-1983.

The private sector's growth during the first Benjedid Plan (and thereafter) was neither economically significant nor even as large as the liberalizing statements seemed to promise, but the declarations established a principle. The Extraordinary Party Congress of 1980, which launched the Five-Year Plan, met under the slogan "Toward a Better Life," and both the state reorientations and the opening toward the private sector were directed at meeting the consumerist demands of the population and its spokesmen.

Political Consolidation, Phase 2

Political consolidation continued as President Benjedid moved toward reelection in January 1984. Although his renomination was never in doubt, since there was not the slightest possibility of either an opposition or a rival candidate, the Fifth FLN Party Congress, held December 19-22, 1983, was carefully prepared by a handpicked committee of the president's men and it confirmed his nominations to a reduced 164-member Central Committee (less than two-thirds of whom were incumbents). Once again the president reshuffled his Political Bureau to maintain its role as the primary political and policy-making organ, and then again reshuffled his government to bring in a number of new technicians, primarily in deputy ministerial positions, and to shift a few more permanent senior members to new responsibilities. He also enlarged and decentralized local administration by increasing the number of wilayas (geographic departments) by more than half.

The most important group targeted in this consolidation phase was the military. Although Benjedid had retired many of his senior colleagues and placed his own followers in the important positions of the defense establishment, he was still under pressure to associate the military as the leading corporate political group in the governance process and to provide additional rewards for his key supporters. Thus, the new Political Bureau ended up with military officers constituting half its membership, through the addition of a number of alternate members to the full membership (a device used in the Soviet Union). Then, in October 1984 and twice again in 1985, one of the great symbolic legacies of the revolution and the Boumediennist period was broken with the establishment of the rank of general, and some 15 officers (including some young and quick risers) were promoted to this rank. At the same time, in December 1984, another Boumedienne tradition was broken with the appointment of a General Staff, its positions occupied by leading Benjedid supporters.

Another aspect of the presidential consolidation was the revitalization of the party as an element of organization, policy-making, and control. Benjedid gave the party commissions a greater role in debating policy issues, as well as a central role in monitoring and judging cases of corruption by members of Boumedienne's regime. Party auxiliaries were given new life, and their officers were required to be members of the FLN. Vigorous responses, including refusals of licenses, trials, and repression, were adopted against politico-cultural organizations (including fundamentalists, Berbers, and human-rights activists) that could be viewed as competing.

The depth of the political divisions still remaining after five years of consolidation came into the open with Benjedid's culminating move after his reelection — his push to revise the National Charter. In accordance with practices dating from the war of independence, political directions in Algeria are in large part determined by a complex, deductive process drawing heavily on theoretical precedents and tied to the pervasively ideological nature of Algerian politics. Following on the Sounnnam Platform of 1956, the Tripoli Program of 1962, and the Algiers Charter of 1964 — all products of important congresses or meetings of the FLN — the National Charter of 1976 was the basic ideological document which served as the foundation for the ensuing institutionalization of the state, including the 1976 constitution and the subsequent elections of a president and a National Assembly. The tone of the document was Third World socialist, of a militancy and an austerity that was more suitable to the Boumedienne period than to its successor.

Although a spirit of pragmatism and liberalism was evident in both Benjedid's style of governance and the current public opinion, Benjedid had never yet taken on the task of committing his disparate practices to writing. The time had come, however, when he could not proceed further in his reforms without removing the existing ideological impediment to their extension and replacing it with a doctrinaire justification of his policies.

Since Benjedid had spent his first term cleaning Boumedienists out of the government, playing off remaining factions, and establishing Algeria's strong diplomatic credentials as spokesman for Third World socialism, the rewriting of the National Charter was a perilous event. He risked stirring up the depths of factionalism and possibly endangering his ongoing consolidation of power by giving grievances and opposition a common rallying cause.

The campaign for revision was inaugurated by Benjedid in an early February 1985 speech before party cadres and was to take the whole year. The president called for an "enrichment" of the National Charter that would not change its "basic options," but would deal with "certain axes which are no longer in an adequate relationship with the nature of the phase." As in the case of his previous reforms, one of Benjedid's purposes was to clear out unwanted elements in the administration, alluded to in the speech as those "who seek to acquire popularity to the detriment of the general interest of the country." He took up the theme again before the party's Central Committee and called for the establishment of a national commission to prepare the "enrichment" of the Charter. The commission was duly set up under the chairmanship of Benjedid's party secretary, Mohammed Cherif Messaadia. There followed a number of thematic articles in party organs, as well as radio and television commentaries, criticizing the previous administration's stewardship but also criticizing profiteers, nouveaux riches, and those who
wanted a religious state based on Islamic law. In June 1985, an authoritative party spokesman made it clear that the roles of the single party and the vanguard army were excluded from any revision.

During the autumn of 1985, the debate focused more specifically on economic options, including the privileged position of the self-managed (socialist) sector, the place of heavy industry and agriculture in the Algerian economy, and the role of the private sector. The debate was finally concluded on schedule at an end-of-November meeting of the Central Committee, which called for another Extraordinary Party Congress. Although this Congress, held on December 24-26, 1985, was firmly under Benjedid's control, a hard-line minority of Boumediennists led a stormy effort to block any watering down of the socialist principles of the previous regime. Since this opposition maneuver was anticipated, the text of the modified Charter (prepared before the debates at the Congress) was deliberately vague on a number of crucial points. The final text was not made public until a week before the referendum of January 16, 1986, in which it received popular approval.

Despite some rhetorical concessions that had to be made to its opponents, the "enriched" Charter contains all the new directions of the Benjedid regime: a reinvigorated party that predominates over government, an autonomous army in the role of a political vanguard, an enlarged and productive private sector, replacement of the previous "agrarian revolution" with a softened and broadened "revolution in the agricultural domain," a revised official history that begins with the pre-Roman Berbers rather than with the Arabo-Muslim period, as well as more ritual references to "socialism" (but not "socialist") and Islam. The document legitimizes Benjedid's new directions and undercuts his critics, but it also places responsibility on his administration for formulating and implementing effective policies.

The Power Structure as of 1986

Contained pluralism is the hallmark of the Benjedid regime. Some opposition is accepted as an inevitable fact of life. While coercion is occasionally applied to active opponents (militant fundamentalists, cultural autonomists, out-and-out pluralists), the primary measures used to keep internal dissent within bounds are persuasion, inducements, and delegitimization. The president plays the role of manager and at the same time acts as the head of a major faction, but other factions exist as well. Factionalism is a key part of politics in northern African countries, and it is natural that it is particularly strong in Algeria, which allows no other form of politics.

Benjedid's long absence for a herniated disk operation in France in early summer 1986 demonstrated that the existence of factionalism does not necessarily imply instability or a threat to the regime. In Algeria, factionalism is part of a political structure of checks and balances, in which members of competing factions watch over each other and prevent policy extremes and power concentrations by any group or individual. This structure also prevents quick responses and policy coherence, however, thus reinforcing the bureaucratic hold on a cumbersome system. Factions are not even functional groups; that is, there is not, say, a military faction operating against a party faction. Rather, factions cut across such functional or professional lines, the better to monitor and check each other.

That leaves little to hold the factions together except the two most powerful elements of political cohesion—personalities and policies. A first group, perhaps closest to the president, is considered economically liberal and relatively open to the United States; it also draws on an important element in Algerian politics, the common origins of some of its members (in this case, the Oran-Tlemcen area). Members reportedly include General Larbi Belkheir, presidential cabinet director; Naval General Rachid Ben Yelles, former defense secretary-general and now minister of transport; General Mustafa Cheloufi, gendarme commander; Minister of Information Bachir Roui; and the president's wife, Halima Bourerka. A second group is economically liberal but more nationalist and shares a common origin around Souq Ahras in the northeast. It includes three General Staff chiefs as well as General Abdallah Bellouche (vice-minister of defense) and General Medjedoub Lakehal Ayat (military security chief). The Annaba-Souq Ahras region (the native region of the president) is the home base of another group more favorable to the statist orientations of the Boumediene regime and wary of pro-liberal and pro-Western openings. This group is led by Party Secretary Mohammed Cherif Messaadia and is reported to include General Mohammed Attatella (Algiers military region commander) and Hedi Lakhdiri (police chief). A fourth faction is seen as liberal and relatively pro-French but above all Berber-dominated, and includes Minister of Agriculture and Fisheries (and former military security chief) Merbah Kasdi, General Hachemi Hadjeres (the military academy director), and General Larbi Lahcenc (army political commission).

Under these factions, and sometimes connected to them by the patron-client relations that tie the system together vertically, operates the government. While there are powerful ministers, including those in the Political Bureau of the party, they are technicians for the most part and not political leaders, fitting into but not leaders of factional networks. The most important minister is the man who drew up Benjedid's first Five-Year Plan, the American-educated Abdelhamid Brahimi, prime minister since 1984. Two other ministers who have found their place and have not moved for a while are Minister of Foreign Affairs Ahmed Taleb Ibrahimi and Minister of the Interior Mohammed Hajj Yala; another such is Minister of Energy and Petrochemical Industries Belgassem Nabi, who unlike Ibrahimi and Hajj Yala is not in the Political Bureau. Minister of Higher Education Raifk Abdelhaq Brerhi has done a commendable job over a period of time. Three other ministers have shifted positions from time to time to serve as managers and technicians: Boualem Baki, currently in religious affairs, serves as a representative of traditionalist thought on the Political

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The country have made relatively little use of the Plan period, while the hydrocarbon export sector revenues (Plan Valhyd), in which the dominant role of the Boumedienne-era policy of deformities in the economy that cried out for correction in the Benjedid period, oil revenues were not squandered to support economic activity away from the coast. Some 30 percent of the planned budgetary expenses were to go to “social infrastructure” needs of housing, health, and education, also to meet growing demands. Thus, despite decentralization and self-reliance, the costs of austerity were foreseen as high. GDP was projected to grow at a rate of 6.6 percent per year over the Plan period, while the hydrocarbon export sector was to expand by 4 percent annually and the export of other goods and services was to expand by nearly 20 percent per year. The Plan was put together after petroleum prices had begun to slide, but it was not clear even in 1984 how far down they would go. Oil has given Algeria the room to make mistakes, but in fact the economic managers of the country have made relatively little use of the cushion. Although the Boumedienne-era policy of “industrializing industry” created some structural deformities in the economy that cried out for correction in the Benjedid period, oil revenues were not squandered under Boumedienne. In 1977 the economic leadership drew up a plan for the utilization of hydrocarbon revenues (Plan Valhyd), in which the dominant role of petroleum revenues in building the Algerian economy was codified. At the beginning of the Benjedid regime, the new economic team revised Valhyd’s orientation in order to avoid exhausting the nonrenewable energy resources. In 1980, Minister of Energy Nabi called for a more balanced use of hydrocarbons, including natural gas and condensates, as well as refined petroleum products. Algeria still remains dependent on hydrocarbons for over 95 percent of its foreign exchange earnings, but it has moved toward greater diversification in hydrocarbon exports. The share of crude dropped from 72 percent to 16 percent of exports between 1975 and 1984, whereas the share of refined products rose from 9 percent to 33 percent, condensates from 9 percent to 24 percent, and gas from 7 percent to 15 percent. As a result, Algerian hydrocarbon revenues dropped only 7 percent from 1980 to 1984, as compared with declines of over 50 percent for some Gulf producers and Libya.

The Oil Price Collapse
On March 8, 1986, speaking to the national congress of the National Union of Algerian Women (UNFA), President Benjedid warned that the drop in petroleum prices would result in a loss of revenue of up to 80 percent. The figure was an exaggeration, designed to lower expectations and galvanize human energies, but it did highlight a new set of conditions facing the Algerian economy. The actual loss is difficult to estimate accurately, if only because there is no real basis for comparison in a world where fluctuations are to be expected. Every $5.00 fall in the price of a barrel of crude means a loss from crude alone of half a billion dollars per year to the Algerian budget. Since Algeria sells other forms of hydrocarbons besides crude and since their prices vary at different rates, precise calculations are difficult. If one uses recent percentages for export revenues (total hydrocarbon export revenues amounted to slightly more than $12.5 billion annually in 1983, 1984, and 1985), a $10 price level for a barrel of crude in 1986 would yield an export total of only $7.5 billion, a $15 price would yield $8.5 billion, and a $20 price $9.5 billion (the same total as in 1979). Only the latter level would break even with the level of imports that existed in 1983-85 and 1980. Dollars were worth more in 1979, but it also must be noted that they were worth more in 1985 than in 1986, when the dinar fell by an eighth of its value against the dollar. While a 40 percent drop in revenues compared with the previous year would be serious, it is only half the figure given in Benjedid’s speech. The Algerian balance of trade has been positive over the past decade, in recent years by annual margins of over $4 billion (1980-81) to $3 billion (1982-85). Services have consumed between $3 and $4 billion each year over the same period, leaving a current accounts balance that has hovered near the break-even point. In 1986, it is expected to dip nearly $8 billion into the red, thereby upsetting Algeria’s debt-service strategy. Algeria’s public debt in 1986 is $17.5 billion, a tenth of which is in short-term obligations. Thus the country’s
debtor ratio is about 27 percent of its current GDP of about $60 billion, while its debt-service ratio is rising to over 50 percent of its exports. From the 1983 peak of $4.8 billion, debt payments had declined in the past two years before an expected rise to a 1990 peak of $5.2 billion. But the fall in export revenues turns the absolute decline into a relative rise eating up unusually high proportions of foreign exchange earnings. Yet Algeria has continued to borrow — $950 million in Eurodollars and $500 million in other loans in 1985, and new loan negotiations for $300 million (cut from $500 million) from European banks for the Algerian Development Bank in 1986. The oil crunch has not yet produced new requirements from the IMF, but it has changed economic thinking in an Algeria that had grown used to its buffer.

A month after his alarming forecast to the UNFA, the president told a national veterans’ congress that “this reduction in foreign exchange earnings does not mean that our country is in danger.” As in the case of the National Charter “enrichment,” he indicated that the sectors that would be revised are safe. Austerity was first of all to be applied to the operating expenses of the bureaucracy and the party. In a ringing appeal to civic spirit and productivity, he called for “a resolute commitment from each person at his place of work [who is] alone in a position to transform the constraints into advantages for taking charge of the future.” The new slogan of “self-reliance” (“compter sur soi”) was launched.

The government introduced a revised budget for the current fiscal year in April, lowering expenditures toward the falling income but also increasing the deficit. Projections of hydrocarbon revenues were lowered by a third from DA48 billion to DA29 billion, and income from other sources by a fifth from DA75 billion to DA61 billion. The operating budget for the government was dropped by a tenth from DA67 billion to DA60 billion, and the equipment budget by a quarter from DA61 billion to DA45 billion. The result was a drop in expenses to DA105 billion (from DA128 billion), against income of DA90 billion, and an increase in the deficit from DA5 billion to DA14 billion. The new budget reduced government investments, cut imports from DA48 billion to DA38.5 billion, and limited the tourist and foreign aid budgets, among others. The government had already suspended COD purchases which had allowed Algerians to buy spare parts and consumer goods from abroad against payment in dinars up to a limit of about $200, and had lowered the limit on foreign exchange for tourist trips from DA1,000 per year per family member to the same sum every two years for adult family members only.

Planning Limitations
As in many Third World countries, Algerian planning is a better indication of directions than of accomplishments; commentators note that only a third of the investment level prescribed in the preceding Five-Year Plan was actually attained. Major projects such as the Algiers subway (originally $1.1 billion), the Jijel steel mills ($3 billion), and the Tiaret automobile assembly plant have already been postponed. In the current Five-Year Plan, the allocation for equipment is up a third from the previous Plan. This is the part of the Plan that is the most vulnerable, but it is in the current operating budget that the greatest contradictions appear.

Reductions in equipment imply reductions in labor as well, particularly if large projects are abandoned. Yet Algeria is under several forms of pressure to maintain its salary levels and even improve them. While the Union Générale des Travailleurs Algériens (the country’s principal trade union) is under tight party control, salaried labor is a sufficiently important part of the industrializing Algerian economy to be a force in the regime’s political calculations. Algeria has a strong enough tradition of authoritarian, centralized control to have avoided the type of social unrest that has marked the recent history of neighboring Tunisia (in 1978 and 1984) and Morocco (in 1981 and 1984). The political pluralism of these neighbors contributed to their explosions, and in the end government was forced in each instance to use coercive tactics to curb the violence. In Algeria, restraints on the political system are up front, reducing both the chances of local uprisings and of any open political interplay. But the Algerian population has one of the highest growth rates (about 3.2 percent a year) in the Middle East and Africa, and urban in-migration compounds employment and salary pressures and reduces the availability of farm labor. The government is by far the largest employer in Algeria and, despite the presidential calls for civic-mindedness and a productive spirit, there is currently talk in Algiers of a civil servants’ salary raise.

There are other sectors of the Plan and budget that are sacred. The most important is basic food imports. Just as Tunisia’s 1984 riots were sparked by the prospect of government moves that would endanger the steady rise in ordinary Tunisians’ standard of living since independence, so the Algerian government realizes that much of its public acceptance is based on the popular consumerism of the Benjedid era. Despite the excellent harvests of recent years, Algeria spent $2.2 billion (almost a quarter of its import expenditure) on food imports in 1985. Another basic element in consumer demands is housing, but even in 1985 growth in this sector was only 5 percent, well below the planned target of 8 percent.

The Pyrrhic Gas Victory
If Algerian oil prices have tended to follow the crowd, the evolution of gas prices has been a much more complicated story and one that is all Algeria’s own. Beginning in 1979, the government launched a sweeping campaign to index its natural gas prices to a thermally equivalent amount of crude oil, in order to get the maximum returns on its raw material. Following the notion that “a Btu is a Btu,” no matter what natural resource is used to produce it, Algerian policymakers ignored the heavy investments and costs for customers required to cover the expenses for transportation by
either pipeline for gas or tankers for the product liquefied under pressure. The gas price war was made of many battles between 1979 and 1983; when it was all over, the balloon to which the price was indexed suddenly turned into a millstone. As the price of crude took its plunge, Algeria tried to wriggle out of the very measures that it had fought so hard to apply. The campaign has been the personal political vehicle of Energy Minister Nabi, who has remained in office despite the price reversals.

Algerian natural gas sales began in the mid-1960s with contracts for 1.1 billion m³/yr (cubic meters per year) for 15 years with Britain and 0.5 billion m³/yr for 25 years with France for liquefied natural gas (LNG) to be shipped by tanker. In 1971 and again in 1976, France signed additional contracts for 3.5 billion m³/yr for 25 years and 5.15 billion m³/yr for 20 years; prices at this time (1974) were 45¢/MBtu (million British thermal units) FOB. According to a common price formula adopted by SONATRACH's European buyers in 1975, prices began with a $1.30 FO base indexed for 70 percent to No. 6 medium- and low-sulphur fuel oil and for 30 percent to No. 2 diesel oil, plus provisions for exchange rate fluctuations within a basket of currencies. Similarly, Algeria signed a number of contracts with what appeared to be a booming market for LNG across the Atlantic, beginning with its largest contract for 9.8 billion m³/yr for 25 years with El Paso in 1969, two contracts in 1972 and 1978 for a total of 1.2 billion m³/yr for 20 years with Distargas of Boston, and a contract with Panhandle-Trunkline for 4.5 billion m³/yr for 20 years; these were followed by two more huge contracts for 10 billion m³/yr for 20 years with El Paso and with Tenneco that were not approved by U.S. authorities. El Paso's price was set at an extremely low base rate for the period of 30.5¢/MBtu (considered to be an equivalent price to refined oil substitutes at the time), indexed for 20 percent against U.S. wages and steel prices. By 1979, the El Paso price had risen to 37¢/MBtu on the basis of the indexing. In 1977, a new contract was signed with Spain for 4.5 billion m³/yr for 20 years, and negotiations began at the same period for a different type of natural gas arrangement - delivery to Italy of large quantities in a gasified form through a new pipeline under construction across Tunisia and the Sicilian straits.

In the late 1970s, Algeria began rethinking its gas export policy. Since it possessed 25 years of proven crude oil reserves and 60 years of proven gas reserves, it sought to shift the focus of its exports to the more plentiful resource while at the same time raising the price of the latter to a more remunerative level. At the time of Boumedienne's death, the government's energy team was asking for upward revisions of the prices within the existing contracts. But in March 1979, when Nabi became the new energy minister, he saw a way to use the ongoing oil price explosion to get much more for Algeria out of its gas exports and at the same time lock in his own political position against his predecessors and adversaries. Instead of loosely tying gas prices to refined substitutes, Nabi demanded contract revisions providing for a new pricing formula that would fully (100 percent) index gas prices to thermally equivalent amounts of crudes. The battles with each consumer were understandably tough and long.

The common front of European consumers began to crack only in 1981 when Belgium signed a new agreement with SONARACH for a record-breaking price of $5.12/MBtu FOB indexed to a basket of crudes made up half of those imported by Belgium and half of those exported by OPEC LNG producers. Belgium accepted this arrangement largely for political reasons - a desire to assert independence from alternative sources of supply and transshipment, notably through France. Next to fall were the two largest customers. At the turn of the year, France signed an agreement at the same price for its consolidated contracts of 9.15 billion m³/yr. In September 1982, Italy also signed a new pricing agreement at $4.41/MBtu, allowing its idle pipeline to go into service. In both cases, the base price was to be fully indexed to a basket of crudes, a decision made on political grounds. For France, it was a conscious decision to consolidate relations with Algeria, and for Italy too the decision was to use a nearby Arab source.

Other battles were tougher. In the case of Spain, the importer was unable to absorb the contracted quantities and unwilling to implement the take-or-pay provisions of the contract as well as to pay the new price demanded. It took an Algerian trade boycott to bring Spanish Enagas to sign a new pricing agreement in February 1985, along with agreements on past compensation and extended quantity schedules. In the case of Britain, an attempt to prolong the contract in 1980 resulted in a one-year interim agreement at $4.60-$4.80/MBtu. But the agreement was its own undoing, for the price was too high to be economical and further negotiations failed to extend the contract beyond 1981.

The most impressive failures were with the United States. The Algerian price demands were simply unacceptable to U.S. legislators and customers. Negotiations with El Paso collapsed with the arrival of the Reagan administration in early 1981. While Panhandle-Trunkline came to an interim agreement in 1982 at $3.95/MBtu indexed to a basket of five non-U.S. crudes, the company found that these prices made its gas unmarketable and it suspended all liftings in December 1982. Algeria went to arbitration to recover some of its costs (about $660 million, in an August 1986 judgment) but the contract was dead. The Distargas case was even more clear-cut. Renegotiations in 1982 resulted in a price of $3.94 indexed according to the new Algerian pricing formula, but when the Federal Energy Regulatory Commission barred take-or-pay clauses in supply contracts with U.S. utilities, Distargas folded and filed bankruptcy papers. In sum, the Algerian price demand lost Algeria its U.S. (and British) customers. As a result, after 1981 the United States yielded to France the position of Algeria's leading trade partner. In 1985, the United States slipped to third place, exchanging ranks with Italy.
But by the time the battles had all been decided, the oil price slope had changed. In January 1985, official OPEC crude prices vanished, leaving the contracts without their point of reference. In September of the previous year, the Dutch removed the minimum price floors from their own gas contracts in order to remain competitive, the Soviet Union followed suit in the winter, and Norway dropped 20 percent in turn. European consumers adopted a new pricing formula in their Dutch and Soviet contracts, now indexing their gas imports to refined products rather than to crude. Gaz de France and SONATRACH made a "technical arrangement" in September 1984 to allow up to 10 percent flexibility in purchases over two years as long as the shortfalls were made up in the 20-year life of the contract. The French concession was not to seek price renegotiations in the second half of 1985, as the revision period of 1986 came into sight. But in January 1985, as oil prices continued to slide, Gaz de France, followed by Distriegas and Italian SNAM, notified Algeria of their desire to renegotiate.

French-Algerian renegotiations concluded on March 25, 1986 with a short-term interim agreement that maintained thermal equivalence with crude as the basis of the pricing formula but dropped the price from the current $3.80/MBtu to $3.50 by taking account of netback instead of official crude prices. The French agreement was followed by a renegotiated agreement with Spanish Enagas that was unusual because it came barely a year after the original agreement on the new price. The renegotiated price was $3.18/MBtu, again maintaining the principle of thermal equivalence with crude but using netback as a basis. But Enagas was not allowed full renegotiations under the contract until February 1988, three years after signature. Distriegas of Belgium, like Gaz de France, was up for renegotiation in 1986, and when Algeria persisted in a hard line on the thermal equivalence notion, Distriegas requested arbitration. The mounting pressure was sufficient to bring Algeria to a new interim agreement in June. The fourth partner, Italy's SNAM, also applied an interim price on a netback basis, paying $2/MBtu FOB for piped gas in mid-1986. The three countries that renegotiated in 1986 — France, Italy, and Belgium — are pressing for a new pricing formula (one based on a back-to-the-1970s approach of indexation to refined products) with the same insistence that Algeria exhibited in pursuing the contrary at the beginning of the decade.

Looking Ahead
Despite the current oil and gas price downswing, Algeria is still creditworthy on the international market, and the World Bank is expected to lift the ceiling on loans next year from $500 million to $600 million. The IMF reportedly believes that the Benjedid government is doing a reasonably good job and does not foresee any wholesale rescheduling. Algeria might undertake selective refinancing to spread out its repayment burdens and avoid impending peaks, but its ability to do so is not in question.

The diversification of hydrocarbon exports is a farsighted policy that has saved the country from the sudden and drastic effects that have hit many other "petroleum monocultures," even though revenues for gas and refined products are related to the ups and downs of crude. The one area where the record is dismal is in agriculture. If Algeria were to improve its food productivity, this would help reduce the food import dependency and free foreign currency for debt servicing and productive investment.

Thus, the impact of the current crunch may be more subtle. One effect will be on the current controversy over relations between the state and private sectors. There is no doubt that major state economic efforts are needed in the early decades of a modern Third World country's development and independence, to mobilize otherwise unavailable capital and energy and to hold the line against the inevitable post-independence slump resulting from the redistributionist pressures of nationalism. In the case of Algeria, oil was a timely godsend that made such state efforts possible. Whether successful or unsuccessful, state dominance of the economy carries the seeds of its own undoing. If the state fails, the need for an alternative is obvious, and that alternative can only be a renewed private sector. (See "Africa Reconsiders Its Parastatals", by L. Gray Cowan in CSIS Africa Notes no. 33, September 4, 1984.) If initial state efforts succeed, the state sector becomes saturated and the state efforts create new personnel, capital, and opportunities for a private sector (a point usually missed in the current swing in the United States and the West in general toward the private response to underdevelopment).

Algeria has experienced both effects. The economy boomed under state oil and industrialization policies, but its structure became distorted, consumer demands rose, and outright failures appeared (notably in agriculture). Even under Boumedienne's socialist austerity, private capital began to be accumulated and management skills sought more promising possibilities outside of the stifling corridors of bureaucracy.

The resulting pressure for privatization is not without opposition. This is scarcely surprising in a society that has been raised, socialized, educated, and continually informed and admonished in repetitive doctrinaire ideological terms, and in which interests and acquired positions are often associated with an entrenched politico-bureaucratic order, not with its disruption. Every step in a more liberal and pragmatic direction has to be paid for by a reaffirmation in the opposite direction, a fact that also explains the absence of change in symbolic foreign policy issues such as aspects of the Middle East or the Western Sahara.

In general, however, the liberal-pragmatic evolution has meant a new interest in diversified foreign relations, including a new opening to the United States. Better relations with Washington would provide a balance to Algeria's current 90 percent dependence on the Soviet Union for military supplies and its love-hate longings for a special relationship with France, and might also (it is hoped) loosen Washington's historic ties with Algeria's.
rival, Morocco. Algeria has lost some of its Boumedienne-era fervor for pursuing Third World leadership or supporting the radical Arab Steadfastness Front, but it still seeks a dominant role in North Africa (organized around a 1983 friendship treaty with Tunisia and Mauritania, and a shakier 1975 accord with Libya). It balances a continuing association with radical groups and causes in the Organization of African Unity, Arab summits, and the Nonaligned Movement with its tradition of mediation in regional crises (including seizures of Western hostages in Iran and Lebanon, the Iran-Iraq war, and the various ongoing conflicts in Lebanon) where Algeria’s radical contacts serve it well.

Domestically, both the economy and the society are also affected by the interplay of consumerism, the cushion hitherto provided by oil, and accountability. As a result of tightened oil revenues, Algeria is losing its margin for error at a time when accountability for mistakes is more open. Pragmatism, pluralism, privatism, and consumerism are all hallmarks of a regime that justifies itself as having a more human face than the stern visage of its predecessor. But Algerians want not only to relax; they want to loosen their belts and criticize. The outbreak of Berber unrest in 1980 was a sudden reaction of a segment of the citizenry who misjudged the extent to which political strictures had been relaxed, compounded by the experience of both authorities and protesters in handling rather routine expressions of demands and complaints. The episode is an indication of larger problems that could arise if the slogans of liberalism and consumerism are taken at face value but the revenues that would make them possible evaporate.

In sum, neither the Algerian economy nor Benjedid is in any deep trouble. The noise that former president Ahmed Ben Bella makes from the safety of exile in Europe is no threat to the present regime, and the army, for all its factionalism, is fighting more for Benjedid’s attention than for his position. The question is rather whether the need to put the economic house in order at the very time when its inhabitants are becoming more politically aware and demanding will lead Algeria to open its system (a bit) politically and economically. Or will it once again clamp down on demands and accountability, and pull politics back into bureaucratic corridors, in wasteful factionalism, settling of accounts, and continual consolidations of power? This latter option would be, in effect, a return to the old system but without either the stern father figure or the economic cushion and growth — Boumediennism without the “Boume” or the boom.