



PAPER NO. 1

SOCIAL PROTECTION

SOCIAL POLICY IN ALGERIA: SOCIOPOLITICAL CHALLENGES AND ECONOMIC COSTS



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Introduction

Since the outbreak of the COVID-19 pandemic and the severe socioeconomic impacts it had worldwide, social policy and the role of the state during crises have been brought to the forefront of the political, legal, and development debates. The pandemic exposed the free economies' limited capacities to face such crises, especially in mitigating the toll on the livelihood of the poorest and most vulnerable. However, in Algeria, the discussion about the state's social policy was not solely driven by the pandemic, it was also triggered by the economic crisis which has intensified with the gradual fall in oil prices since 2014. Accounting for more than 95% of the state budget, oil prices reached less than \$40 a barrel in 2021, thereby dropping Algeria's foreign exchange reserves from \$200 billion in 2012 to less than \$40 billion in 2021. Despite the recovery in oil prices at the beginning of 2022, people's purchasing power continued to decline due to severe worldwide inflation and the failure of consecutive economic programs to ensure the Algerian economy's relative independence from the fluctuating and crisis-sensitive global market.

Following COVID-19, the international community and the Arab region shifted gears and called for further state intervention in the economy to protect vulnerable groups and the working classes whose jobs and livelihoods are in jeopardy. However, in Algeria, the debate took an entirely different direction, calling for reforms in the subsidy system by reducing the funds allocated for social welfare and replacing the current universal subsidy policies with State-led social assistance targeting the more deserving groups. Thus, at the end of each year, Algerian families await the publication of the general budget law or the complementary budget law mid-year (in July), where the government determines the size of state social policy commitments and the seriousness of its discourse on reforming the social subsidy system. Nonetheless, the process invariably concludes with two outcomes:

1. Raised prices of certain subsidized commodities, such as energy and fuel, and increased fees on imported goods, which affects mainly the most vulnerable and those with fixed income due to the reduction of subsidies on these commodities.
2. Introducing new taxes and fees on goods and services. In case of fuel price recovery or social unrest due to new taxes, the President of the Republic intervenes to cancel or suspend the taxes and fees imposed by his government.

The state discourse on reforming the subsidy system has been stalled for years, fluctuating with the rise and fall of fuel prices on the global market. This discourse subsides with the rise in fuel prices just to emerge again when fuel prices drop. Thus, the reforms are at a standstill – with no step forward, except to reduce subsidies on certain commodities. Why have successive governments in Algeria failed to reform the social subsidy system despite acknowledging its flaws and negative consequences? Why does the government abandon its social subsidy reform program as soon as fuel prices rise? What are the potential limits of reform and what are the obstacles that prevent its implementation? What are the hidden (and specifically political) functions the social subsidy system plays in Algeria?

Each of the following four papers will address one of these questions. The views offered do not completely align and they sometimes disagree on some details, but they all tackle the issue from various angles to allow readers the space to form their own opinion.

Dris Nouri's paper, "Social Policy in Algeria: A Historical and Ideological Background", starts from the assumption that the Algerian state's social character is rooted in the historical circumstances surrounding its establishment, and that its continuity beyond pluralism and liberalism is greater than a political tool wielded by the authorities. Social subsidy is a pillar of the Algerian state's political culture. It would be difficult for

any political system – whether democratic or totalitarian, liberal or leftist – to completely abolish or reduce this form of social policy intervention. This is not to say that the government cannot or would not use this issue as a political tool, especially given the crisis of political legitimacy that has haunted it since October 1988. Indeed, at the time, political pluralism was consecrated in the February 1989 Constitution, but without resulting in a real transfer of power.

In “Qualitative Elements for a Socio-political Approach to Algeria’s Social Subsidy System,” Zaineddine Kharchi tries to establish several hypotheses to examine the issue of social subsidy policy from the perspective of political sociology, based on the “exaggerated public debate about these policies and procedures in Algeria from the economic and technical perspective, while neglecting the sociological dimension, and patently disregarding – in the media and academia – the political function of all subsidy measures and policies in the Algerian context.” He argues that, whether in Algeria or elsewhere, the social subsidy system cannot be tackled without considering the form of political power, the nature of the state and its political economy, and the prevailing economic model. Kharchi affirms that as generous as the policy may be in Algeria and despite its gains, it can never conceal the political function it fulfills. This is a byproduct of the rentier Algerian economy and the current neopatrimonial and clientelist political system, which are characteristic of the political history of modern Algeria.

Based on a quantitative and qualitative analysis of financial statistics and data, banking expert Salah Boukenia, tries in his paper “Algeria’s Social Subsidy Policies: Financial Thresholds and Accounting Budgets” to show the difficulty of maintaining the social subsidy policy in its current form because of the structural distortions it inflicts on the Algerian economy – especially in terms of financial balances. He argues that a review and reform of the current subsidy system is imperative, but reform in itself will be confined by two elements: budgetary constraints and available fiscal ceilings. Boukenia offers a set of proposals that could be implemented if the government is serious about reviewing the current subsidy system.

Hacene Hami points out that the government’s annual rhetoric on reforming the social subsidy system while preserving the state’s social character has turned into a “recurrent and necessary phrase” in the political discourse, but has not been translated into any clear program of action. He argues that the current circumstances prevent the authorities from reviewing subsidy policies for several reasons, including the sensitivity of the issue amidst the current social and political conditions (the post-Hirak phase), as well as other technical difficulties in implementing a targeted social protection system. After reviewing the historical context of the social state in Algeria and its relationship to the rentier system and the structuring of social subsidies, he concludes that the current social subsidy system can only be reformed by shifting from the rentier and bureaucratic model entrenched in the economic sector to a competitive market model with clear plans rooted in data and deadlines – away from discretionary and populist measures.

On the whole, this publication seeks to engage with the discussion on social assistance in Algeria by highlighting relevant knowledge-based as well as practical elements. We hope it will contribute to assisting public policies in Algeria to expand their thinking on this socially, politically, and economically costly issue.

Nouri Dris

Social Policy in Algeria: A Historical and Ideological Background

Nouri Dris

Although the Algerian state has shed its socialist identity since the February 1989 Constitution, the generosity of social policy continues to this day – albeit in different levels and varies from one era to another. From 1991 to 1999, the state endured a series of existential threats due to the war with Islamist groups. At the time, Algeria was battling a dire economic crisis that led to a dramatic decline in state revenues, bringing the country to the brink of bankruptcy, causing it to default on payments, and leading it to create a structural reform program.¹ Still, despite these challenges, social subsidies remained an essential part of the state budget and the structural reform program did not push for the total lifting of subsidies for basic goods and services.

¹ Since the economic crisis of the mid-1980s (during which Algeria's oil exports dropped to \$7 billion in 1987 and \$9.5 billion in 1989), Algeria has implemented four phases of major economic reforms, but to no avail. The first phase lasted from 1986 to 1989, during which public institutions were initially restructured and later granted autonomy. The second phase entailed an agreement with the International Monetary Fund and the World Bank, granting Algeria loans based on conditions that can be summarized as follows: reducing state interference in economic activity and liberalizing foreign trade - liberalizing prices - controlling inflation by stabilizing wages and reducing public expenditure - privatization of defaulting public institutions - devaluation of the national currency...). The third phase was implemented between 1994 and 1995, during which the pace of price liberalization was accelerated, and subsidies were lifted on most commodities except for three: flour, semolina, and milk. Thousands of workers were laid off, and the volume of social subsidies directed to health, housing, and education was also reduced. The fourth phase lasted from 1995 to 1998, during which the International Monetary Fund forced Algeria to accelerate the transition towards a market economy, liberalize prices, and lift restrictions on foreign trade. The impact of these reforms was very harsh on the middle and lower classes, already suffering from the consequences of the security crisis and the war on terrorism. For a more in-depth study of these social impacts, see: Issa Ben Nasser: The Economic and Social Impacts of the Structural Adjustment Program in Algeria. *Social and Human Sciences Magazine*. Volume 3, issue 7, p. 119-14, via the following link: <https://www.asjp.cerist.dz/en/article/40184>.

See also: Cherif Chakib, Programme d'ajustement structurel et résultats socio-économiques en Algérie (Structural Adjustment Program and Socio-Economic Outcomes in Algeria). *Revue Sciences Humaines*, Issue N°18, December 2002, p. 39-56. <https://www.asjp.cerist.dz/en/downArticle/23/13/2/91015>

As security was restored in the new millennium, oil prices began to surge again and with them a return to the state's policy of generous spending. Social subsidies once again were allocated a significant portion of the budget.² During this period, the state built hundreds of thousands of social housing units, which it allocated to vulnerable and middle-income groups. Gasoline prices in Algeria remained the lowest in the world, and the state subsidized a wide range of basic consumer goods. Meanwhile, thousands of young graduates from universities and training institutes were employed in public administrative bodies and given salaries, although they did not contribute to production. The government also launched various programs and set up mechanisms to help young people build their businesses by granting them zero-interest or low-interest loans.³

In 2014, as oil prices began to drop, demands for the review of the universal social subsidy policy resurged, calling for a restructuring that would ensure that only low-income groups benefit from subsidies. This was aimed to prevent wasteful consumption of subsidized goods or the smuggling of oil commodities, which are the state's main source of revenue in hard currency (more than 95%).

Indeed, over the past seven years (2014-2021), successive governments have gradually reduced subsidies on fuels and all other types of energy (electricity and gas). They also

² This percentage changes yearly depending on the country's revenues, which are also linked to oil prices. For example, in 2022, it reached 19.7 % percent of the state budget (compared to 24% in 2021) and 4.8% of the country's GDP (9.5% in 2021), according to the Prime Minister's statement before the Finance Committee in Parliament. A budget of DZD 597.7 billion (DZD 553.7 billion in 2021) is allocated to support families. This subsidy is divided into DZD 315.5 billion for basic goods (grains, milk, sugar, and table oil), DZD 105.3 billion for electricity, gas, and water, DZD 13.45 billion for family allowances, and DZD 131.7 billion for education.

See: <https://www.aps.dz/ar/economie/114618-2022>.

To view the volume of social subsidies between 2000 and 2018, check the in-depth analytical study by researchers Qadar Maryam and Eidoudi Fatima Zahra, entitled: Social Subsidies in Algeria during the 2000-2018. *Core compounds. ACP, Al-Bashaer Economic Journal*, Volume 5, Issue no.2, p. 969-683.

<https://www.asjp.cerist.dz/en/downArticle/196/5/2/101136>

³ For example, the National Youth Employment Support Agency (ANSEJ).

reduced employment in the public sector and halted the development and completion of housing projects targeting middle and vulnerable social groups.

When preparing the 2022 Budget Law amidst difficult financial conditions that eroded currency reserves to less than \$40 billion, the government explicitly stated that it was determined to review social policy models to move towards targeted assistance programs to replace the costly universal subsidy system that was depleting the state treasury as oil prices dropped below \$40 per barrel.⁴

The conversation then became about reconciling the state's financial stability with the need to maintain social peace in light of the stifling economic crisis following the pandemic. There was a progressive decline in the purchasing power of Algerians since 2014 due to austerity policies and reduced public spending (especially in construction and public works), inflation, reduced exports, and the depreciated national currency.

In this context, the Budget Law of 2022 was strict and painful even for the middle class. The prices of basic fuels were not raised, but new taxes and fees were imposed on a wide range of goods and activities. The Prime Minister justified this approach by stressing “the need to reform the social subsidy system without undermining the social character of the Algerian state.”⁵ However, following a severe backlash in the media and on social networks, the President of the Republic was quick to suspend all new taxes imposed in the Budget Law, while maintaining subsidies for mass-consumed goods based on the same traditional mechanisms.⁶

4 In 2012, reserves were about \$200 billion. Consecutive governments adopted a financial policy focused on how to stop the depletion of these reserves. This goal even turned into an economic project in its own right, as it produced a strict austerity policy regarding exports that, in turn, led to a significant rise in the prices of imported goods, and in scarcity of others.

5 In fact, the Prime Minister did not wait for the opportunity to present the draft Budget Law for 2022 to confirm this, but rather included the review of the state's social policy within the government's agenda that he presented to members of the National People's Assembly on Wednesday, September 22, 2021.

To read the statement, see: <https://www.aps.dz/ar/societe/112821-2021-09-22-19-00-40>

6 The President of the Republic decided during a cabinet meeting on Sunday 13 February to suspend and freeze all taxes imposed in the Budget Law on consumer commodities and goods, as well as many electronic and household products and mobile phones until further notice (without specifying the duration of the suspension or if it was completely canceled). See: APS wire <https://www.aps.dz/ar/economie/121228-2022-02-13-18-00-28>. In fact, this practice was very common during Bouteflika's reign, as the government used to impose taxes and he would interfere via a presidential decision to cancel these taxes, followed by statements of blessing and appreciation for the decision by political parties, trade unions, and civil society organizations loyal to the state.

In light of the above, this paper examines the ideological background of the social subsidy policy of the Algerian state and raises two main questions:

1. What are the historical and ideological origins of social policies in Algeria?
2. Why has the social subsidy policy remained the core of the Algerian political discourse, despite all the transformations that the country has undergone?

The Components of Social Policy in Algeria

Social policy in Algeria – also known as the social subsidy policy or the social transfers system – is based on direct and indirect state subsidies for a range of basic goods and services or specific sectors. Some of these subsidies are universal, covering all Algerians regardless of their income (basic commodity subsidies), while other types of subsidies – such as those for housing – are directed to specific groups or vary according to household and individual income. These subsidies can be summarized as follows:

- **Mass-consumed household subsidies** are a basket of basic commodities that benefit from the state subsidy program. The state treasury pays the difference between the import price and the selling price in direct and indirect forms, which makes these commodities accessible for consumers at a price lower than the purchase price from the international market. These commodities may also be bought at a subsidized price from local producers, as is the case with fresh cow milk or wheat. This basket is not fixed but is adapted according to general budget conditions. However, there are five basic commodities that the state has remained committed to subsidizing in various ways:
 - **Bread:** By subsidizing the raw materials for its production, the flour is sold to bakeries at a cost lower than its purchase price on the international market in exchange for a bread price ceiling.
 - **Flour:** By subsidizing the sale price of wheat to mills and its purchase price for farmers.
 - **Milk, sugar and oil:** By subsidizing producers in exchange for a price ceiling, or by canceling/reducing the VAT or customs duties on some consumer goods such as legumes, dry grains, or raw materials used in the manufacture of edible oils. The budget for

supporting households in 2022 amounted to DZD 597,7 billion, which represents approximately 31% of the total social subsidy budget.

- **Fuel and electricity subsidies:** Algeria ranks third in the world in terms of low fuel prices, although the state has reduced fuel subsidies three times over the past 10 years.⁷ These materials are subsidized by selling them at a price below the cost of production and well below the international market price. The same applies to the electricity and natural gas prices, as the state directly subsidizes the National Electricity and Gas Company to compensate for losses in delivering electricity to consumers at a price lower than the actual cost.
- **Health and education subsidies:** Public health and education are free in Algeria. Large segments of low-income or impoverished citizens, and those with chronic diseases benefit from subsidized healthcare and health insurance. The state also allocates a scholarship for the children of middle and low-income families and free food at school – or for a symbolic amount – for students in various stages of their education. Higher education is also free and students benefit from a monthly scholarship, free food, accommodation and transportation.⁸
- **Employment subsidies** are provided by paying part of young workers' wages in the private and public sectors through the National Agency for Youth Employment.⁹
- **Housing subsidies** are provided by building houses

7 Over a period of 10 years, fuel price increased by 100%. In 2013, the price of gasoline was approximately DZD 23 per liter, but it rose to DZD 46 in 2020. As for diesel, which is heavily used in transport, agriculture and industry, its price rose from DZD 13 in 2013 to DZD 29 in 2020. Large segments of the population in border regions make a living by smuggling fuel, due to the price difference between Algeria and neighboring countries. An entire parallel economy has emerged based on smuggling fuel and certain subsidized goods. It is estimated that Algeria loses nearly \$1 billion yearly due to smuggling. This has been used to justify subsidy reform or reductions.

8 In principle, there are certain conditions to be met to receive a university scholarship, in practice, however, nearly all students enrolled in university receive such scholarships. Students pay DZD 1.20 per meal (that is, ten meals cost less than 1 euro, while the true cost of each meal is more than DZD 250, or 1.5 euros). This is a very small amount that has remained the same since the 1980s. In addition, students pay a subscription fee for university transport (DZD 140, or 1 euro, per year and DZD 300, or 2 euros, per year) and live in student housing facilities.

9 Employment in the public and private sectors is carried out through the National Agency for Employment, which covers 40% of the wage of the employee or worker for a specific period (under pre-employment contracts), while the employer covers the rest. The purpose of this subsidy is to help industrial and service facilities to employ the largest possible number of educated young people.

and selling them either at a low price to middle-income groups or giving them for free to vulnerable groups (as part of social housing). In 2022, the government allocated DZD 247 billion to subsidize housing.¹⁰

The Historical Origins of the State's Social Policy

The logic behind the social policy of the Algerian state can only be understood within the historical context in which this policy emerged. This can avoid the oversimplified analysis that the sole purpose of the social subsidy policy is to buy social peace, rather than to guarantee the continuity of the existing political system and create rentier opportunities for the government's clients, or for the relatives and cronies of public officials. True, these factors exist and social subsidies benefit the regime politically, but authoritarian goals and strategies are not the only drivers behind the "generosity" of the Algerian state. Rather, it would be more accurate to argue that the failure of the democratic transition is the result of the generous social policies, just as the economic failure and weak investment cannot be explained by stating that the social subsidy system has subverted market laws, price systems, and competitiveness.

The social assistance policy in Algeria existed well before the

10 There are many programs for supporting households and individuals in securing housing in Algeria. These differ based on the household income (spouses) or the region, and they can be summed up as follows: 1) Social housing (rent-based public housing), which is offered free of charge to households without income or whose income is less than DZD 24,000 (150 euros) in return for a symbolic rental; 2) Rural housing: a form of subsidy offered by the state to households living in rural areas to build individual homes. This subsidy covers 60% of the cost to build a house comprising three rooms, a kitchen and a bathroom; 3) Instalment-based housing: This program targets middle-income groups (between DZD 24,000 and DZD 120,000), whereby beneficiaries pay a down payment for the state-subsidized home and then cover the rest of the cost through instalments over a 25-year period; 4) Public promotional housing (LPA) targeting groups whose income exceeds DZD 120,000, but whose price is subsidized compared to house prices on the market offered by real estate developers. For more details on the housing policy in Algeria and the Arab region more generally, see volume 38/39 of Naqd Magazine (fall/winter 2020) addressing the topic: Naqd: les politiques de logement social au Maghreb/ Machrek et dans le sud global. Numéro piloté par Rachid Boumedine et Pierre Signole.

To view accurate and detailed statistics on the number of housing units in all categories completed since 2010, visit Ministry of Housing and Urban Development website via the following link: <https://bit.ly/3QiQqGE>.

calls for democracy, that is, immediately after independence when the ruling elites enjoyed a strong revolutionary legitimacy. It also existed at the height of the socialist system, where the state was the sole producer, operator, and distributor of wealth. It is not possible to explain the failure of the socialist system (1962-1989) and the failure of the economy to transition towards a productive market economy because of the dominant social character of the state and its subversion of market laws and investment.

The main hypothesis of this paper is that the social character of the Algerian state has its origins in the historical circumstances in which the state was founded. Its continuity beyond pluralism and liberalism is too significant to be reduced to its use as a source of political support by the authorities. Social subsidy is one of the pillars of the political culture of the Algerian state, and it is difficult for any political system, be it democratic or totalitarian, liberal or leftist, to completely abandon it.

1. The Historical Context for the Emergence of the Algerian State

The Algerian state emerged as a revolutionary reaction to an imperialist and capitalist regime that had dominated Algeria for more than a century and in which a small group of European colonists and Algerian feudal families collaborated with colonial authorities and seized all the wealth of the country. A large number of peasants were exploited as slaves or sharecroppers in farms, construction projects or factories. At the time, the 1 November 1954 revolution was in the eyes of the Algerian elites the revolution of the hard-working groups of society against the feudal lords and capitalists. The state that resulted from this revolution committed itself in the Declaration of 1 November 1954 – the most important founding document of the Algerian state – to establish a social democratic state.

2. Algerians' Views on the Nature and Functions of the State

1. The national state as opposed to a colonial state: Algerians' first experience with the state was in the form of an occupying external force that imposed taxes,

plundered resources and exploited goods. This was the case of the Ottoman beylik, and then the French administration. The collective memory of Algerians is still fraught with a negative image of the state. Therefore, the political elites strived after independence to build a state whose function would be breaking the stereotype that was enshrined in the imagination of Algerians and build a state that would not only collect taxes but also distribute wealth fairly among all Algerians. They also wanted to create a state that would eradicate the poverty and misery caused by colonialism, reduce social disparities, as well as fight the bourgeoisie and feudalism. This meant building a state that would nationalize natural resources, and provide services and social protection. Therefore, the state was not established as a force that settles and absorbs the differences within society, but rather as a welfare state working to provide goods and services to Algerians.

2. The “anti-market state”:¹¹ This principle reflects the ideological roots of social policies in Algeria. Even among the activists of the national movement during the period between the two World Wars, colonialism was perceived as an imperial capitalist force working to exploit hard-working Algerians. The inequality between Algerians and the colonists was viewed from the perspective of production relations within society, especially since the People's Party was founded by activists from the Marxist left and supported by the French Communist Party. Amid an international context dominated by the Cold War between the socialist and the capitalist camps, the independent Algerian state was established as a bureaucracy that fights the market¹² and prevents it from penetrating social relations. In the first 30 years of independence, the will of the state to fight the market was clear in the state founding documents, as embodied in the socialist approach to nationalize agricultural land and industrial establishments, the state's monopoly of the economy, the fight against the private sector, and push to subsidize prices of goods at all levels – especially imported goods. The state used oil revenues to defy market laws and keep prices low and accessible to all social groups.

After the adoption of liberalism in the 1989 Constitution, not much has changed; the state has continued to defy the laws of the market even at the height of the security and economic crisis of the 1990s. Today, the social dimension still dominates the direction of the state,

¹¹ This term was coined by sociologist Addi Lahouari.

¹² Addi Lahouari, *l'impasse du populisme* (ENL. 1989).

as indicated by the yearly budget allocated for social subsidies.¹³

3. The founding texts of the Algerian state

- All the founding texts of the Algerian state refer to its social character. The following section reviews the most important texts and how they reinforce this character.
- The 1 November 1954 Declaration: The first objective of the Declaration was “the establishment of a sovereign, social democratic Algerian state within the framework of Islamic principles.”¹⁴ This objective later turned into a principle for all the official charters of the Algerian state, and the official discourse uses it to confirm that it will not abandon the state’s social policy, regardless of the financial circumstances. However, it is also used to justify continuing the costly social spending, despite criticism and accusation of corruption.
- The 1962 Tripoli Conference Document:¹⁵ The Algerian revolution was considered a revolution against internal feudalism, French imperialism, and the domination of the colonists over the country’s resources. Another primary objective of the revolution was to build a state that ensures the well-being of the peasantry, the most affected group at the time.
- The 1963 Constitution:¹⁶ The preamble of the 1963 Constitution states that one of the most important functions of the state and for which the revolution took place is “to pursue a social policy that benefits the masses and raises the standard of living of workers.” It also states that the goal is “to accelerate the advancement

of women so they are involved in the management of public affairs and the development of the country, to eradicate illiteracy, to develop the national culture, and to improve housing conditions and the health situation.”

- The 1976 Constitution:¹⁷ The 1976 Constitution, which emerged from the National Charter, enshrined the socialist approach through the state’s control of the economy, foreign trade and prices, with an emphasis on free education and health.

However, after the pluralism era, and despite the adoption of economic liberalism in the 1989 Constitution, the state did not abandon its social character. Post-1989 Algeria was built on a vision that accommodates the social character of the state and does not see it as an obstacle to the growth of the private sector or as a subversion of the laws of the market, especially the price system.

During the past 30 years, Algeria has had four major constitutions in 1989, 1996, 2016, and 2020 – all of which stressed the social character of the state, with the protection of vulnerable classes as one of its basic functions, and drew inspiration from the 1 November Declaration, drafted on the eve of the War of Independence (1954-1962).

Conclusion

The Algerian state was founded to put an end to the contradictions of the colonial system, which turned the colonial administration into a tool in the hands of the colonists to impoverish Algerians. The national elites who fought for independence adopted the principle of the social state and social justice among their objectives to promote the independence project. Indeed, this slogan contributed to the mobilization of Algerians around the National Liberation Front until the goal was achieved.

After the country’s independence, the political elites promised to put the state at the service of the Algerians who had been drained by the colonial regime. For this, they developed the political charters establishing the Algerian state and designed economic and social projects specifically to perform this function.

The massive oil revenues allowed the state to undertake this social function, enabling it to subsidize education, health, basic commodities, and transportation. This generous policy

13 As mentioned above, the state began adoption an austerity policy since 2014. Between 2000 and 2013, the state adopted a social orientation and was the main investor in the country. See the study by Karima Hati and Belqasem Nouasir on the scale of these subsidies during that period: Hati, Karima & Belqasem, Nouasir: The Reality of Social Policy in Algeria and How it Addresses Social Issues, Journal of Human and Social Sciences, Volume 10, Issue 2 (June 2017), pp. 347-366 (<https://www.asjp.cerist.dz/en/downArticle/65/10/2/59249>).

14 Declaration of November 1, 1954: <https://www.el-mouradia.dz/ar/algeria/texts/statement-of-november>.

15 Tripoli Program: <https://www.el-mouradia.dz/ar/algeria/texts/tripoli-conference>.

16 Constitution of 1963: <https://www.el-mouradia.dz/ar/algeria/texts/previous-constitutions>.

17 Constitution of 1976: <https://www.el-mouradia.dz/ar/algeria/texts/previous-constitutions>.

also allowed Algeria to rank ninth among 169 countries in the 2010 Human Development Index, not to mention that it was among the few countries that were able to achieve the UN Millennium Goals.¹⁸

However, the universal subsidy system has not always been in favor of vulnerable classes; it rather benefited the rich class the most. For example, a 2012 study by the National Bureau of Statistics revealed that more than 50% of the social welfare budget was benefiting the richest segments of society.¹⁹ The largest beneficiaries of milk subsidies, for instance, have been the producers of dairy products, and the beneficiaries of sugar subsidies have been the beverage and confectionery factories. The same applies to gasoline, oil, electricity, and water subsidies. Many social classes still decry their weak purchasing power and the inefficiency of the current social subsidy system. This is something the government acknowledges and uses to justify lifting subsidies or raising prices.

Whenever the fluctuating oil prices drop on global markets, the state finds itself in a critical situation, unable to fulfill its obligations. This is often followed by a discourse that stresses the need to reform the social subsidy system or even to put an end to squandering and focusing social assistance directly on those who deserve it the most. Other economic pretexts are used, such as the need to stimulate investment. However, as soon as prices rise again, the voices calling for reform fade, giving the place to a full return to wasteful practices.

The practices of the state itself over its sixty years of existence – and the historical circumstances under which it emerged – make abandoning the social character fraught with risks, not only for the vulnerable groups that have been the victims of successive economic crises and the dependence of the Algerian economy on the oil market but also for the social image of the state from which the ruling elites derive their political legitimacy. What would the Algerian state be if it abandons its social function? What political legitimacy will remain for the ruling elites if they renounce this orientation?

There is only one way forward under this scenario, and it involves substituting social subsidy for power-sharing. The problem is that this option is not yet viable for two reasons. In times of financial prosperity, there is no reason for the ruling class to welcome newcomers because it can buy social peace, satisfy social demand, and keep individuals disinterested in

politics. This was the case throughout Bouteflika's reign.²⁰ However, during economic crises, which occur periodically due to oil price fluctuations, the social forces that benefit from any leniency by the ruling class are the radical and populist forces. This option was tested in the 1990s and it came at a heavy price: a civil war that left tens of thousands of people dead and massive economic devastation. Despite this, the state has not equipped society to safely navigate such difficult times. It does not have to wait for times of economic crisis to open the political space for different parties and political participation, because during such times the most radical and populist parties always gain superiority. The state should no longer view social policies as a political resource, nor as a substitute for political participation and the distribution of power within society.

As for those calling for price liberalization to stimulate economic growth and create a competitive market, they ought to reconsider whether the social subsidy scheme is what weakened and marginalized economic growth in non-hydrocarbon sectors.

The current social subsidy policy indeed challenges the international price system, but it is not the only barrier to the emergence of a competitive market in Algeria because subsidies do not affect all commodities. The emergence of a competitive market depends on the establishment of an independent economy that functions according to market laws. The problem today is that the economy has been dominated by the state's political tools, and the subsidy policy is only one of them. Its contribution of social subsidy as a political tool remains marginal compared to other tools, such as a weak judiciary, the instability of investment laws, the abuse of power by officials to impede independent investors, and the exploitation of influence within the state to neutralize competitors.

No competitive market can be established without an independent judiciary that protects competitors and ensures respect for the laws, as a safeguard for those affected by monopolistic practices or the arbitrariness of state agents and bureaucrats. One could argue that the subsidy system

18 See: Youcef Ben Abdellah: *Etat développementaliste vs Etat rentier*: Qu'en est-il en Algérie. In *Naqd*, N°36(Mars /Avril 2018), p. 82.

19 Ibid, p. 82.

20 Shortly before each round of elections, Bouteflika toured the main provinces and offered them large sums of money outside the annual budget to fund social projects. Social housing subsidies were distributed along with photos of Bouteflika, and large posters of him were displayed on the façades of buildings or projects being inaugurated. In fact, many projects were named after Bouteflika (Bouteflika housing projects, Bouteflika stores, Bouteflika grants...). National TV channels promoted such events and made it seem as if the state's subsidies for vulnerable groups were personal achievements of Bouteflika.

in some sectors is a stimulating factor for investment, because of the subsidies on the prices of energy, fuel, water, and free road networks. These are motivating factors, but they cannot stimulate investments because of the lack of free economic initiative, which – like other fundamental freedoms – can only be achieved through an independent judiciary, a free media, and a parliament that exercises control over the government and enacts laws that protect these freedoms.

Therefore, it is difficult to presume that the justification for lifting subsidies is the need to encourage investment

because other sectors that do not have subsidies are also suffering from stagnation. If the state wants to reduce the cost of social subsidies, it should ensure free economic initiatives, stop interfering in the economy through political tools, and allow the accumulation of national capital through labor, rather than influence. Only then would it be possible to increase individual income and raise the standard of living, rather than keeping citizens dependent on what the state bestows upon them in the form of subsidies or handouts. Only then can the discourse on raising or reviewing subsidies gain political credibility and economic viability.

Algeria's Social Subsidy System: Qualitative Elements for a Sociopolitical Approach

Zineddine Kharchi

Overview

This present paper does not purport to cover all aspects of Algeria's social subsidy system. Rather, it aims to contribute to the public debate around subsidy policies through a number of hypotheses, as a form of qualitative analysis based on concepts of political sociology. It adopts this systematic and epistemological approach because of the overemphasis on the economic and technical aspects of Algeria's social subsidy policies and measures at the expense of the sociological approach in both media and academia, and the need for an adequate consideration of the political function of subsidy policies and measures in the Algerian context. Its main premise is that the social subsidy system cannot be examined separately from the structure of political authority, the nature of the state and its political economy, and the prevailing economic model, be it in Algeria or elsewhere.

While acknowledging the various social benefits achieved by Algeria's social subsidy system since the country's independence, this paper argues that social subsidies perform a political function – one that is not dictated by the self-interest of those in power but by the neopatrimonialism and the clientelist nature of the state,¹ as well as Algeria's

1 More information concerning neopatrimonialism, clientelism and the rentier economy in the Algerian context can be found in Lahouari Addi's various works on this subject, including:

Lahouari Addi, *L'Algérie et la démocratie, pouvoir et crise du politique dans l'Algérie contemporaine*, Ed. La Découverte, Paris, 1994.

Lahouari Addi, *Le système de pouvoir en Algérie, son origine et ses évolutions*, In : *Confluences Méditerranée*, n 115, 4/2000, pp 103-113.

Lahouari Addi, *Sociologie politique d'un populisme autoritaire*, In : *Confluences Méditerranée*, n 81, 2/2012, pp 27-40.

Lahouari Addi, *Les obstacles à la formation de la société civile en Algérie*, In : Anna Bozzo, Pierre-Jean Luizard (dir.), *Les sociétés civiles dans le monde musulman*, Ed. La Découverte, Paris, 2011.

For Arabic references, see the informative article below:

Nouri Dris, *The Army, the Government, and the State in Algeria: From a Populist Ideology to a Neopatrimonial State* (الجيش، السلطة والدولة في الجزائر، من الإيديولوجيا الشعبوية إلى الدولة النيوباتريمونيالية), *Siayasad Arabiya Journal*, Issue 35, Arab Center for Research and Policy Studies, Doha, 2018.

rentier economy. This is the result of the particularities of the political history of modern Algeria where a populist political culture and perception of the state and society emerged. This perception continues to largely define the nature and outcomes of public policies and measures, including those on social assistance. The sociological outcome of the political function of social assistance measures within the overall governance system in Algeria consists of disrupting social class formation, where different subsidy policies – targeting essential goods, housing, employment, etc. – establish an egalitarian reality that abolishes social differentiation and disrupts its dynamics. These same dynamics are the ones favoring the formation of modern society, as advocated by the founding fathers of sociology, from Tönnies to Durkheim. In other words, due to historical and structural considerations, Algeria's social subsidy system contributes to disrupting and postponing the transition from a community to a society – in the words of Ferdinand Tönnies.²

The paper also argues that, in the context of a neopatrimonial and clientelist state and a rentier economy, the continuous politicization of social policy measures empties state-society relations of their political dimensions (representation, oversight, freedoms) and limits the social demands on the state to livelihood needs (providing basic commodities and materials, additional subsidies and opportunities). It also narrows the social contract and, therefore, the notion of citizenship. This entrenches a dualism that infantilizes society by reducing its participation in governance and decision-making and increasing its dependency while strengthening the state's paternalism that is behind the reproduction of traditional and pre-modern political culture and practices.

Another formulation of the hypothesis of this paper considers the rentier economy³ a factor that contributes to political stagnation – in other words, a tool for the political

2 Cf. Ferdinand Tönnies, *Communauté et société*, Editions Puf, Paris, 2010.

3 In this context, rent does not mean the financial resource in the form of oil revenues. Rather, it is the political and administrative system within and based on which rent distribution is supervised and organized.

neutralization of society and the various social forces in it. Achieving justice and welfare was not the sole driver behind the adoption of Algeria's development and economic model after independence. This choice was also motivated by certain political stakes and calculations, the most notable of which was the desire to avoid the social/political cost of any development project involving economic takeoff – particularly in its early stages. The state's significant investment in the economic and social spheres and its effort to control market forces and laws through political and bureaucratic instruments have led to a consensual and top-down development process, away from the conflictual aspects characteristic of any economic takeoff. Therefore, the state has politically neutralized society by bestowing a peaceful character to the economy, which is normally a field of competition and conflict.

Many of the subsidy measures (e.g. increasing youth employment through various projects) fall within what Rachid Sidi Boumediene called the requirements of “local governance through the clientelist rentier system.”⁴ This means buying social peace in exchange for a share of the rent, under an implicit social contract that shapes the state-society relations in a clientelist and rentier context. For instance, the youth can benefit from a share of the rent in the form of loans to support an economic project in exchange for their depoliticization. In this context, we can easily notice the public authorities' leniency towards various cases of abuse committed by the youth benefitting from these loans in terms of the aspects and methods of disbursement and the extent of their commitment to pay their dues to banks.⁵ In this case, the economic and political objectives of the subsidies become intertwined. The weaker the legitimacy of the governance system, the more the state adopts such practices.⁶

4 Cf. Rachid Sidi Boumediene, *Aux sources du Hirak*, Editions Chiheb, Alger, 2019.

5 It is easy to notice this political exploitation of subsidy measures (i.e. the logic of politicizing subsidies as a way to depoliticize society) in other aspects of the subsidy system. Concerning housing subsidies and related mechanisms, the statement of the Mayor of Alger Abdelkader Zoukh (2013-2019) explained the criteria for granting and distributing housing subsidies, as well as the political goal (in addition to social one, of course) of the process. “Voting is a condition to obtain accommodation,” Mr. Zoukh's statement said. Source: *Ennahar Online*, 25 September 2014, article entitled “Voter Card: a condition to obtain accommodation in the municipality of Central Algiers.”

6 The most recent example of such practices is President Tebboune's approval of unemployment benefits in early 2022 targeting the youth. According to a World Bank report, 4 million young people have requested to benefit from the decision, and Mr. Tebboune said in a statement that one million young people had actually benefited from the grant. Source: www.tsa-algerie.dz/lincroyable-secces-de-lallocation-chomage-en-algerie/. You can also refer to the context of the Hirak popular movement, where the presidential elections of 12 December 2019 saw a fierce competition among the five candidates (Abdelmajid Tebboune, Ali Benflis, Azzedine Mihoubi,

Explaining the approach

In order to better explain and understand the hypotheses and approaches adopted in the present paper, it is important to present two different theses that contextualize and guide it:

First: The transition, which was in practice more of a deviation, is related to the “change of course”⁷ that characterized the state's political and economic approach and practices since the early 1980s. This was at the time when Chadli Bendjedid acceded to power, and with the change in the rentier system from an instrument aimed at achieving development, supporting a community and economy modernization project, and enhancing state-building to a means to serve the ruling agenda of the new dominant power. This bold hypothesis contributes to the discussion of Algeria's subsidy system and policies, since it clearly highlights the political dimension of the issue and frees us from the narrow and exclusive economic and technical approach. Just as subsidy policies have an economic and social function, they also have a political one, whose components and objectives must be uncovered, especially in terms of the form of state-society relationship these policies seek to establish and reproduce. It is not possible to decide on subsidy measures or manage their distribution at different levels in a political vacuum. These are rather an expression and extension of a balance of power that penetrates both society and state and is reflected in political, social, and economic actors – each having their own interests and calculations.⁸ Hence, social subsidies is a political process in addition to it being an accounting/technical process with economic significance and impact.

Abdelkader Bengrina, Abdelaziz Belaïd) in order to capture the votes of the youth and increase their participation in elections. The candidates competed to provide more privileges for youth. In this regard, they all promised to cancel or reschedule the debts of young people who benefit from the public funding of ANSEJ projects (National Youth Employment Support Agency).

7 The death of President Houari Boumédiène (27 December 1978) and accession of Chadli Bendjedid to the presidency marked the end of a mode of management of the state, society, and economy and laid the foundation for a new one. This included a change of human resources in the governance system, excluding technocrats (such as Belaïd Abdesselam) and giving power to bureaucrats (represented by party members and leaders whose influence increased). There were several descriptions for this change/shift, such as the desire to eliminate Boumédiène's legacy and supporters (deboumediennisation), renege on the commitment to industrialization (deindustrialization), etc. The official discourse focused on reviewing previous policies.

8 The special issue of *El Watan* newspaper (issued in French) entitled “La république des fils de...” (Republic of the sons of...), published on 28 July 2018, highlights an important aspect of the intersection between politics and economy in modern Algeria. *El Watan*, 28/07/2018.

Second: Generally speaking, discussions on Algeria's subsidy policies and system, whether in the media or in academia, often refer to the concept of the "welfare state." The concept of the welfare state historically originated in the West where the political and institutional organization of the state is a direct result and manifestation of the settlement between the two main social forces of the industrial capitalist society: capital and labor. In Algeria, the so-called welfare state resulted from a completely different historical context, where the relationship between dominance and political contention plays a larger role than that of dominance and economic contention. This context witnessed the birth of a nation-state and is directly reflective of France's colonization of Algeria, including the Algerian society and its political, as well as cultural structures. In its different stages, colonialism has worked on producing and reproducing a comprehensive and continuous domination over Algerian society based on a material, symbolic, objective, and subjective promotion of political, economic, and cultural inequalities. All of the demand of the National Movement for equality and all reform initiatives that the left tried to achieve have failed to remedy these inequalities and were opposed by the colonists.

Marked by different levels of inequality, this reality made the desired nation-state project closely linked to the objective of building a state with a clear and explicit social orientation. The 1 November 1954 Declaration⁹ clearly expressed this demand as it considered that the basis for independence and state legitimacy is the extent to which the state fulfills its social function. Therefore, the welfare state in the case of Algeria refers to the era of the establishment of the state – not to the period following the development of the economic and class structure of society (bourgeoisie and working class). This distinction is an important one when discussing the meaning of a "welfare state", as it is a key factor that helps us understand the nature and purposes of social subsidy policies and measures from the perspective of the Algerian state and the perspective of all social groups and their expectations and aspirations.

9 The full text of the declaration of 1 November 1954 can be found on website of the Presidency of the Republic www.el-mouradia.dz/ar/algeria/texts/statement-of-november.

The 1 November Declaration linked the political independence goal to the concept of reclaiming national sovereignty, by putting a definitive end to the inequality Algerians endured throughout the colonial period. At the level of representation and practice, the independence and decolonization period marked for Algerians the moment when poverty and "hogra" (oppression and humiliation) ended irrevocably.¹⁰ From this perspective, the proof of independence is a nation-state that works tirelessly to achieve equality, linking it to the concept of egalitarianism. This concept has its deep cultural and anthropological roots in Algeria's modern political experience that has been affected by French colonialism, as "egalitarianism" is associated with the populist model of the state (advocated by the political elites), and corresponds to the connotations of the "Zwewla State" (Zwewla: colloquial Arabic term for the poor) among popular segments. This reaffirms the importance of the unique historical context of Algeria, which witnessed the emergence of the demand for independence, as well as a nation-state.

In Algeria, more than in any other country, state's legitimacy is contingent on its ability to perform its function of elimination of inequalities, and it is held accountable on that basis. The state's performance of this function in Algeria was not limited to reducing market contradictions and addressing disparities – rather, it led to an explicit tendency to control the economy and a desire to stifle all liberal aspects of the market. As such, we can understand the governing elites' insistence on the state's determination to pursue its social role and its unwillingness to abandon it under any circumstances. Therefore, one of the main pillars of the legitimacy of the regime in Algeria is umbilically linked to the continuity of the subsidy system.

10 The sociology of Pierre Bourdieu paid special attention to this issue in his works on Algeria. It showed that Algerians blame the colonists for their unemployment and social vulnerability and hold them responsible for the existing poverty and misery. In the minds of Algerians, the end of colonialism marked the end of unemployment and poverty. This analysis by Pierre Bourdieu can be found in:

Pierre Bourdieu, *Travail et travailleurs en Algérie*, Editions Raisons d'agir, Paris, 2021.

Pierre Bourdieu, *Algérie 60*, Editions Minuit, Paris, 1977.

Algeria's Social Subsidies: Between Financial Thresholds and Accounting Budgets

Salah Boukenia

Since the early 2000s, Algeria has adopted an economic model tightly connected to the social nature of the Algerian state within the framework of a capitalist economy. Twice Algerian Finance Minister (1999-2001 and 2003-2005), Dr. Benachenhou, said this choice was essential to restore the Algerians' trust in the state after the difficult events the country went through in the 1990s.

At a first glance, there seems to be a contradiction in terminology between the Algeria's social nature and the capitalist system. However, since the early 1990s, Algeria has adopted a free market system with the introduction of the Currency and Credit Law No. 90/10 on 14 April 1990, which enshrined the independence of the Central Bank. The reforms of Mouloud Hamrouche's government also led to economic and political openness as a pathway for change. In the mid-1990s, Algeria undertook reforms dictated by the International Monetary Fund's (IMF) terms for debt rescheduling. These included the laying off of workers, elimination of some public institutions, and restructuring, as a way towards entrenching a capitalist system.

However, with the rise in oil prices in the early 2000s, the Algerian state adopted a social orientation that relied on public spending as a driver of the economy through a series of five-year plans (economic recovery plan 2001-2004, the complementary program to support growth 2005-2009, and five-year plan 2010-2014). These plans were based on raising public spending to boost development.

In addition to increased public spending during Bouteflika's successive governments, the state adopted policies to subsidize the prices of some consumer products, including fuel. It also reduced taxes, by lowering interest rates, and funded various housing programs through other forms of direct and indirect subsidies.

This economic choice was funded through hydrocarbon revenues that were at record levels until 2014. It also coincided with the rise in subsidy ratios, which reached 24% of the general budget in 2021. Subsidies became linked to social peace, leading to distortions in the economy and the social contract and made this choice very hard to abandon. At the same time, various objective factors made it impossible to maintain the social nature of the Algerian state.

The distortions caused by public spending and social subsidy policies led to the lack of investments in the field of hydrocarbons. Due to the pressure of social peace or budgetary arbitration policies, the government preferred instead to invest in large-scale spending policies.

However, the lack of spending on investment over the past 15 years is now preventing the state from pursuing the same social spending and subsidy policies. Algeria has suffered from a shortage in oil production and has not been able to meet its daily production levels under its agreement with the Organization of the Petroleum Exporting Countries (OPEC). In 2005, Algeria's oil production declined from 2 million barrels a day to less than 1.5 million barrels a day in 2014, to reach 897,000 barrels in 2020, and 908,000 barrels in 2021.

Being rentier, the hydrocarbon sector suffers from price fluctuations due to external factors that render it vulnerable and unsustainable. This dynamic could lead Algeria to an economic dependency on external entities that control the prices of hydrocarbons and impose standards and production quotas through various conventions (European Union, World Trade Organization, and different trade agreements). Some could argue that this has already started to happen.

Other distortions included the lack of diversification of resources and economic activities, as well as an import-dependent industrial sector, leading to a rentier economy

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that has suffered from a structural trade deficit for more than 10 years.

This trade deficit is deeply connected to the annual budget deficit of the public treasury, as its debt soared from 12% in 2010 to 51% towards the end of 2020. To cover the budget deficit and dual deficit in the trade balance and the balance of payments over the past 10 years, the Algerian state resorted to the Hydrocarbon Stabilization Fund (Fonds de régulation des recettes) and its currency reserves, which decreased from \$194 billion in 2013 to around \$44 billion towards the end of 2020.

In light of these indicators and restrictions, it seems necessary to review the subsidy system and public spending in Algeria. This paper will try to answer a series of related questions and identify some key points on the prospects of subsidies in light of available financial resources.

- What are the possible forms of subsidies, and how can they be financed in the midst of the current budgetary constraints and financial ceilings?
- What is the status of public accounting and foreign trade?
- What is the content of the 2022 Finance Law and how did the law reintroduce subsidies to political and economic debates?

1. History

Algeria's economy suffers from a complicated economic problem, commonly referred to as the dual deficit. It is characterized by the exacerbation of two significant deficits: the budget deficit of the public treasury and the current account deficit (which is directly related to the trade deficit). Even before the global collapse in oil prices in 2014, financial policies in Algeria were taking an unsustainable direction, as the treasury budget deficit persisted from 2009 until 2014, although oil prices exceeded \$100 a barrel. Reserves also decreased from 43.3% to 25.2% of GDP in 2014. As oil prices decreased to their lowest level since 2004, the budget deficit reached a record level of 16.4% of GDP¹ in 2015.

After the collapse of oil prices, the Algerian government had to find other sources to finance its budget, while reigning in spending. Although the subsidy system contributes to achieving social protection and wealth distribution in favor of vulnerable groups, these subsidies benefit wealthy groups the most.

Thus, controlling the levels of subsidies might provide additional revenues for the treasury, help diversify the economy, and contribute to reducing unnecessary spending. Consequently, a reform of the subsidy system can reinforce the protection of vulnerable groups and become more inclusive and universal.

2. Subsidies in Algeria

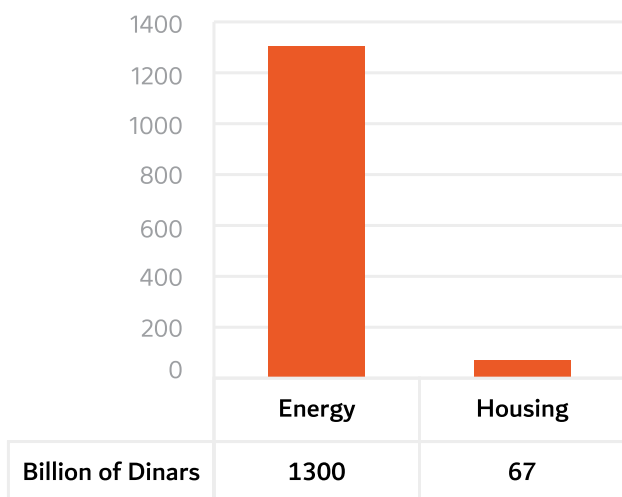
Subsidies in Algeria take different forms, including direct (explicit) subsidies by the treasury and indirect (implicit) subsidies by reducing energy and fuel prices. The subsidies are distributed as follows:

- Housing: 357 billion Algerian dinars (38% of direct subsidies)
- Interest rate subsidies: 160 billion Algerian dinars (18% of direct subsidies)
- Electricity, water, and natural gas: 74 billion Algerian dinars (7% of direct subsidies)
- Food commodities: 225 billion Algerian dinars (24% of direct subsidies)
- Direct subsidies for education (scholarships, university support): 109 billion dinars (13% of direct subsidies)
- Implicit energy subsidies (fuel, gas, and electricity): 1,300 billion Algerian dinars, 7.7% of GDP, or \$13 billion.

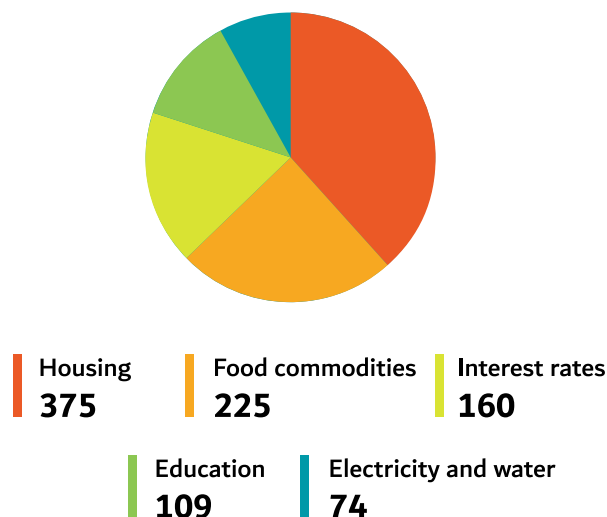
1 2016 IMF report on subsidies in Algeria – IMF Country Report No. 16/128.

Table 1: Subsidies in Algeria, 2015

Indirect subsidies - billion dinars



Direct subsidies - billion dinars



Subsidies - 2015	Type of Subsidies	Total (billion dinars)	Total (billion dollars)	% of GDP	Total %
Energy	Indirect (implicit)	1.300	12,9	7,7%	57%
Electricity and water	Direct (explicit)	74	0,7	0,4%	3%
Housing	Direct	357	3,5	2,1%	16%
Housing	Indirect	67	0,7	0,4%	3%
Food commodities	Direct	225	2,2	1,3%	10%
Interest rates	Direct	160	1,6	1,00%	7%
Education	Direct	109	1,1	0,7%	5%
Total		2.292	22,8	13,6%	100%

*Figures from IMF Report No. 16/128

Presenting the reasons behind the call to amend the forms of subsidies, the draft Finance Law of 2022 stated that the total subsidy amount reached 3.250 billion dinars between 2017-2020, which is equal to 19.3% of GDP.

On the other hand, a survey carried out by the National Institute of Statistics in 2011 under the supervision of the Ministry of Finance (as mentioned by Nour Meddahi)² revealed that only 28% of direct subsidies were reaching vulnerable groups, while the remaining 72% were benefiting wealthy groups.

The situation is more dire when it comes to petroleum products and gasoline. Due to smuggling, Algeria loses 1.5 to 2 billion tons of petroleum products and gasoline every year, which is equivalent to more than \$2 billion annually (1.15% of annual GDP).

Algeria subsidized gasoline imports between 2015 and 2020 with an amount of 897 billion dinars, according to Energy Minister Abdelmadjid Attar's statement to the Algerian News Agency in 2021. Sonatrach³ had also transferred 54.3 billion dinars to desalination plants by 2021.

2 Nourmeddahi.github.io/El-Djazair/Quel_budget_QUEL_financement_Final.pdf page 12

3 Sonatrach is an acronym for the National Society for Research, Production, Transport, Transformation, and Marketing of Hydrocarbons.

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Housing subsidies have also caused significant distortions, making it critical to reform the subsidy system. The financial gains from access to housing – whether subsidized or social – are equal to the revenues earned throughout a whole professional life. As a result, a speculative market emerged in the real estate sector, affecting savings, as property became a good way to store excess funds and guarantee added value in the absence of taxes on real estate and property profits.

It is clear from the massive sums poured into the subsidy system that the public treasury bears high costs, without the subsidies achieving satisfactory results. This is why the subsidy system has been put as a priority for the government and its revision added to the 2022 Finance Law in order to find out alternative mechanisms that maintain the social nature of the state and preserve social harmony.

Since 2016, the Algerian state has taken a series of measures to reduce the level of subsidies. These include raising the VAT on fuel from 7% to 17% – although it is the most regressive tax and has the biggest influence on low-income social groups.

The state has also started setting limits for electricity and gas consumption, above which prices change (2,500 thermal units for gas and 250 kW for electricity). Taxes on oil products have been raised as well from 1 dinar to 2.91 dinars (i.e. by 191%). In 2021, the government again banned the use of regular and premium gasoline, only allowing unleaded gasoline, since the latter is less polluting – despite being more expensive than regular gasoline, which was the most commonly used. Hence, this indirectly raised gasoline prices.

3. External trade and balance of payments

Despite all of these measures, the deficit in the balance of payments persisted from 2014 to 2020. Meanwhile, in 2021, Algeria achieved a surplus of \$1.6 billion according to the Ministry of Finance's website. Thus, the current account suffered from a deficit between 2014 and 2020, as shown in the following table:

Table 2: Trade balance and current account

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Imports (billion DZD)	3 768,00	4 184,89	4 622,07	5 061,12	5 500,51	6 104,03	6 139,43	6 170,46	6 567,60	5 971,60
Exports (billion DZD)	4 610,10	6 658,61	5 979,80	5 528,75	5 206,33	3 872,62	3 655,73	4 272,10	5 274,00	4 656,50
Imports (billion USD)	40,47	46,45	62,7	65,8	71,4	63,6	60,2	48,98	46,05	46,19
Exports (billion USD)	57,25	73,66	75,7	68,3	63,7	38	32,7	34,56	35,19	38,88
Trade balance (billion DZD)	842,1	2 473,72	1 357,73	467,63	-294,18	-2 231,41	-2 483,70	-1 898,36	-1 293,60	-1 315,10
Current account (billion USD)	12,2	21,1	12,3	1	-9,28	-27,3	-26,2	-22,09	-22,1	-16,7
Currency reserves	162,22	182,22	190,66	194,01	178,93	144,13	114,13	97,33	79,88	63,00
Balance of payments without currency reserves	15,6	19,9	12,1	0,1	-5,9	-27,54	-26,03	-21,76	-21,8	-15,8
Current account / Gross Domestic Product (GDP)	7,58%	8,83%	5,78%	0,56%	-4,33%	-16,28%	-16,37%	-13,20%	-9,52%	-10,02%

*The author prepared this table using various official sources: Bank of Algeria, Ministry of Finance, World Bank, and the National Office of Statistics.

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Table 2 shows the deficit in the trade balance and current balance since 2014, which coincides with the collapse of oil prices. Although imports dropped from \$71 billion in 2014 to \$46 billion in 2019, the deficit persisted.

Accordingly, the Algerian authorities sought to reduce imports by putting administrative obstacles on imports, such as imposing licenses for imports as of 2016, before replacing this measure with temporary additional safeguarding duties on secondary materials and imported products intended for

resale in the same condition. In addition, banks imposed a security margin of 120% for any import to be deposited at least 30 days before shipment. As for car imports, successive governments have imposed specific terms and conditions on traders, and no importer or manufacturer has been able to obtain a license. This is due to the large amounts required in hard currency for car imports, which have caused car imports and manufacturing to be very expensive for the treasury in light of the abovementioned deficit in the trade balance.

4. Balance sheet and money supply

Table 3: Balance sheet

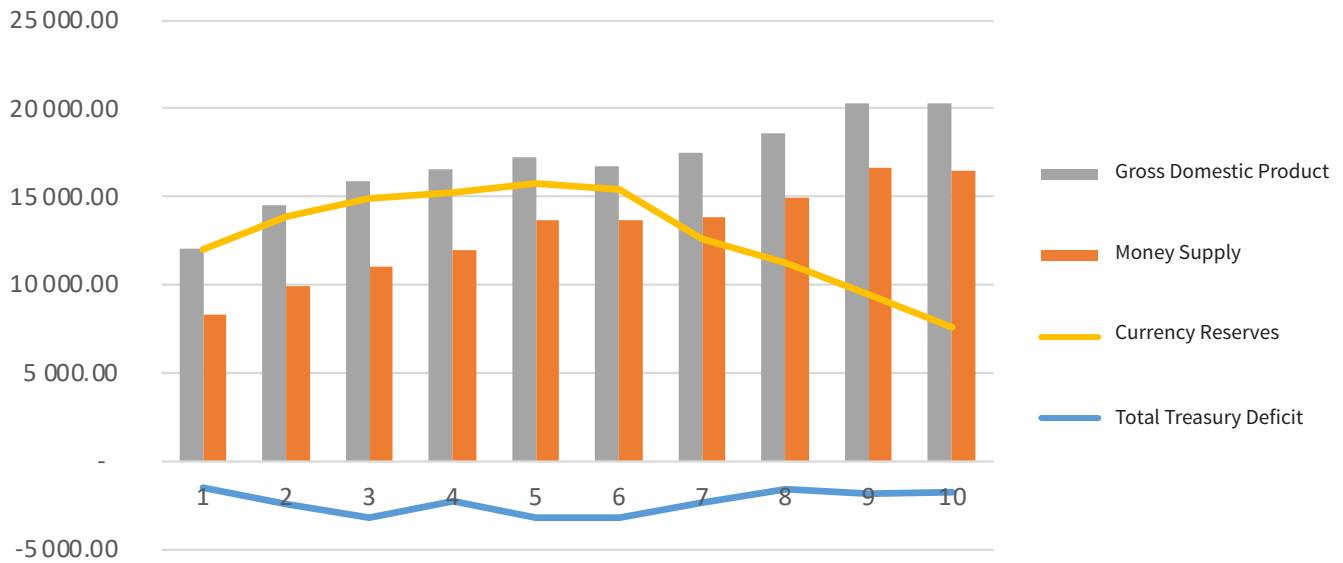
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP (billion DZD)	12 049,50	14 481,01	15 843,00	16 569,20	17 242,50	16 712,70	17 514,60	18 575,80	20 259,00	20 288,00
GDP (billion USD)	162,20	182,20	204,29	208,73	214,03	166,40	160,00	167,50	173,70	169,97
Money supply (billion DZD)	8 280,74	9 929,19	11 015,13	11 941,51	13 663,91	13 704,51	13 816,31	14 974,23	16 636,71	16 510,68
Currency reserves (billion DZD)	12 005,60	13 880,60	14 932,70	15 267,20	15 734,50	15 375,40	12 596,00	11 227,40	9 485,60	7 598,70
Currency reserves (billion USD)	162,22	182,22	190,66	194,01	178,93	144,13	114,13	97,33	79,88	63,00
Public treasury balance (billion DZD)	- 1 496,50	- 2 468,80	- 3 246,20	- 2 310,40	- 3 186,00	- 3 172,30	- 2 343,73	- 1 590,28	- 1 833,00	- 1 802,00
Percentage of public treasury balance/GDP	-12,42%	-17,05%	-20,50%	-13,30%	-18,50%	-19,10%	-13,38%	-8,60%	-9,05%	-8,88%
Percentage of public debt/GDP	10,20%	9,30%	9,30%	9,33%	8,97%	9,74%	25,98%	26,69%	37,42%	39,90%
Funding from Hydrocarbon Stabilization Fund (billion DZD)	-791,9	-1761,5	-2283,3	-2132,5	-2965,7	-2886,5	-1387,9	-784,5	-131,9	
Non-traditional financing (billion DZD)								2 185,00	5 556,20	5 556,20
Funding from Bank of Algeria's profits	121,11	137,21					610,5	919,8		

*The author prepared this table using various official sources: Bank of Algeria Reports, finance laws, public treasury publications, and the National Office of Statistics.

Until 2016, the public treasury deficit was funded by the Hydrocarbon Stabilization Fund. Between 2017 and 2019, it was funded through non-traditional funding and by printing money.⁴ Since 2019, it has been funded by Bank of Algeria's profits and monetary financing or reserves.

The graph below shows a decline in currency reserves (in yellow) as of 2014. By contrast, the money supply rate began to rise in early 2016 because of non-traditional funding. By the end of 2020, the money supply reached 96% of the GDP. The deficit in the public treasury has persisted since 2009 and has been accompanied by a steady increase in internal indebtedness.

4 2.185 billion dinars were printed in 2017, and 5.556,20 billion dinars were printed in 2018 and 2019.



5. Mechanisms to address the crisis

To date, the government has exhausted the majority of available mechanisms to reduce the effects of the fall in oil export revenues. These mechanisms include:

- Using the Hydrocarbon Stabilization Fund balance
- Using currency reserves
- Maintaining the capital budget for several years in order to control it in the medium-term
- Halving the capital budget
- Providing 5.556 billion Algerian dinars of non-traditional funding
- Reducing legal guarantees for banks gradually from 12% to 2%
- Monetary financing via banks
- Financing by issuing treasury bonds
- Adopting Islamic finance
- Reducing the exchange rate, along with the decrease in currency reserves
- Easing bank liquidity by refinancing banks or through Quantitative Easing (QE)

All these mechanisms are temporary and do not affect the structural deficits because of the absence of a private sector that can replace the public sector in matters of investment and other structures.

The Algerian government does not wish to review the subsidy system, as mentioned by Professor Meddahi, for two reasons: the desire to maintain the existing social contract, and the eventual loss of purchasing power due to the inflation that could result from reviewing the subsidy system. Another pretext for refusing to review the subsidy system is the necessity of having a database in advance for targeting.

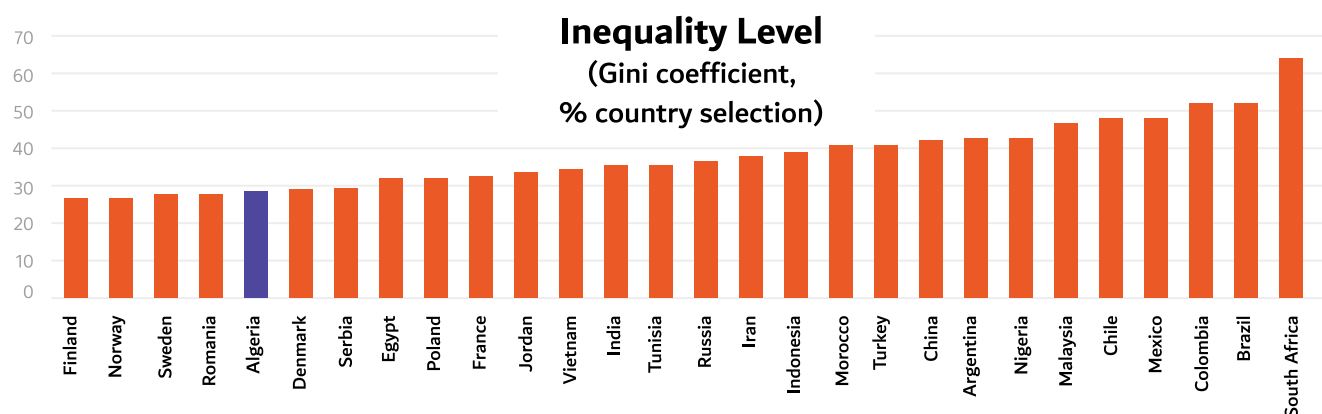
For instance, instead of reducing the capital budget – which would increase unemployment rates (they reached 13% in general and 28% for people under 30 years) – a gradual review of the subsidy system becomes a more effective choice.

The approval of a review of subsidies in the 2022 Finance Law reflects the depletion of available mechanisms, especially with the erosion of currency reserves, which now cover less than 15 months of imports.

There are other remaining choices such as external debt and significantly lowering the exchange rate.

At present, despite the increase in oil prices, it is difficult to maintain the subsidy system in its current form due to the fact that there are more important priorities for the national economy – such as investment, food security, and the strengthening of the industrial sector.

Despite its flaws, the subsidy system in Algeria is one of the most accessible systems for vulnerable groups, as shown in the figure below:



Source: Nabni report, March 2018, p. 28. Prepared according to World Bank data, World Bank, data.worldbank.org.

6. 2022 Finance Law

Budget figures show a reduction in the capital budget and a deficit in the public treasury for the next three years.

Table 4: State budget 2022

	2021	2022 Finance Law	2023 Forecasts	2024 Forecasts
Budget revenues	5 858,03	5 683,22	5 867,01	6 084,08
Fiscal revenues	2 769,66	2 857,86	2 939,64	3 071,65
Oil revenues	1 927,05	2 103,91	2 209,68	2 292,80
Other revenues	1 161,32	721,45	717,69	719,63
Budget expenditures	8 642,68	9 858,43	9 682,04	9 821,96
Operation	5 664,51	6 311,53	6 273,73	6 451,23
Capital budget	2 978,18	3 546,90	3 408,30	3 370,73
Budget balance	(2 784,65)	(4 175,21)	(3 815,02)	(3 737,88)
Public treasury balance	(3 614,23)	(4 929,27)	(4 541,73)	(4 569,63)
Percentage of GDP	(16,51)	(21,40)	(18,70)	(17,86)
Social transfers value	2.074	1.942		
Percentage of transfers from the budget	24%	19,7%		

*Source: 2022 Finance Law and draft Finance Law for 2022

The 2022 Finance Law calls for the review of subsidies and for the development of mechanisms that ensure the preservation of social gains for the state, especially by rationalizing subsidies to exclusively target vulnerable groups. In fact, according to the draft Finance Law for 2022, the reasons for reviewing subsidies include the fact they are most beneficial to wealthy groups. They are also being reviewed so that the transition from the current subsidy system to a rationalized one can ensure social justice, as this review has become a political demand advocated by many MPs.

Article 188 of Finance Law states that “A national committee for cash compensation shall be developed in favor of eligible households, to be mainly formed from the relevant ministerial departments, economists and professional organizations.

Subsidized oil prices shall be reviewed and adjusted after the abovementioned committee identifies the mechanisms and actions to determine the compensation for eligible households via direct cash transfers.

The outcomes reached by the national committee shall be presented in the form of draft laws to both houses of parliament for deliberation, especially for the list of subsidized products whose prices will be revised, targeted households, eligibility criteria for access to this compensation, and ways of cash transfer.”

“The complementary Finance Law for 2022 did not refer, however, to the question of subsidies,” the committee said.

Conclusion

Some researchers and experts, including the IMF, have recommended that Algeria adopt some formats and experiences that have proven to be effective in other countries. Two of these recommendations are put forward by Nabni think tank in 2018, which aim to reform the subsidy system by linking it to fiscal reform.

The first consists of gradually targeting 40% of low-income households by introducing a clear criterion (such as income), while creating a database. After refining the database, the goal would be to target 20% of households in 5 years.

The second consists of providing a universal income, allowing all Algerians – except the wealthy segments of the population – to benefit from a set amount of money (2,000 Algerian dinars, for example). This suggestion aims to target 90% of Algerians, provided they have bank accounts, allowing the state to obtain a database and formalize revenues from the parallel market.

In 2014, the IMF published a detailed report on subsidy reforms in the MENA region. This study determined six factors related to the effective reform of subsidy systems:⁵

Good preparation, including thorough planning of the speed and scale of the reform, with technical assistance from the international parties concerned.

Strong governmental commitment to reform, which can be achieved by building a consensus on reform through communication and alliance-building.

Reinforcement and update of effective networks for social protection to reduce the effect of subsidy reform on low-income populations.

Favorable economic conditions, especially relatively high economic growth rates.

A multi-party government that works on building consensus on reform among different parties.

IMF experts have proposed that Algeria hikes the prices of several products, while gradually introducing cash transfers for vulnerable groups. Price hikes should be done gradually and for different products. There should also be a list of non-politicized guidelines and clear standards for pricing. At the same time, a database that allows the effective disbursement of cash transfers should be created.

Algeria had expressed its intention to reform the subsidy system, according to the Finance Minister, who stated in 2017 that the government is implementing a pilot project in Algiers Province – which is an exemplary province – to achieve targeted social assistance. However, this project never materialized beyond the minister’s political statements.

Then, the 2022 Finance Law brought the subsidy issue to the forefront of political debate by calling for the establishment of a national committee for cash compensation.

The Algerian government is fully aware of the costs of social subsidies, and this was stated in the 2022 Finance Law among the reasons behind the need to establish a national committee for cash compensation. The government is also aware that it is impossible to continue in the same subsidy system due to the erosion of the mechanisms needed to finance the abovementioned deficits.

5 International Monetary Fund, Middle East and Central Asia Department, July 2014 – Subsidy Reform in the Middle East and North Africa – p. 3.

Recommendations

1. In the short term, the Algerian authorities should:

a. Give priority to the energy sector

Energy subsidies usually discourage investment and encourage smuggling, as well as black market activity, which leads to exponential negative outcomes for the economy.

The lifting of subsidies on fuel and energy is also considered to be less costly on the social and political level, and more impactful on the public treasury budget. The Algerian government can gradually raise the prices of fuel and energy every six months to adjust to international energy prices.

To avoid political and economic backlash, the authorities can introduce mitigation measures that target eligible groups, such as salary increases in the public sector, providing direct transfers/assistance for targeted groups, and carrying out public outreach campaigns.

Due to the inflationary effects caused by the lifting of subsidies on energy and fuel, especially in productive sectors and agriculture, it is necessary to take appropriate measures to support producers and farmers and maintain their competitiveness.

b. Set up a consolidated social registry

This would help in the implementation of a universal social protection system, to be complemented by targeted programs. Consumer protection programs alone are not sufficient and have never been a solution.

Creating a transparent and accurate database is the most important challenge to building targeted social assistance programs that achieve equality. This should involve the local community and civil society in setting up this database and provide them with the human and material resources that ensure their effectiveness.

Involving local communities can reduce the exclusion of remote and illiterate vulnerable groups who cannot engage in modern technological and informational systems.

2. In the medium term

a. Expand the use of electronic payment methods and cheques

The Algerian economy suffers from the existence of a black or parallel market, and the subsidy system and exchange rate are among the primary causes behind this. The excessive use of cash is one of the most important methods used by traders in the parallel market.

The authorities should provide effective incentives for economic traders who use payment methods other than cash, such as eliminating VAT and professional activity taxes, which are also among the main reasons for resorting to the parallel market. The use of mobile payments, which have proven to be effective in Kenya, is a case in point.

Promoting the attraction of money from the parallel market provides Algeria with additional resources to finance its economy through banks, allowing it to obtain an accurate database to determine the groups that are eligible for subsidies. Any database that is developed before taking such measures will consider traders in the parallel market to be vulnerable groups, which is not the case.

b. Reform the housing sector and reduce the intervention of the state in the construction of all types of housing

Housing is the second largest subsidized sector in Algeria. For decades, the state has built all types of housing – social, semi-social, promotional, rural, rental or intended for sale. It has also been providing various types of subsidies, including Housing Fund subsidies, the National Fund for Social Services, amongst others.

The Algerian authorities should replace ownership by rental in the context of housing programs and stimulate the rental market by providing effective motivations such as direct subsidies. This will reinvigorate the rental market and reduce the constant search for the profit margin gained from obtaining a social or subsidized house.

In parallel, access should be facilitated to lands intended for all forms of real estate development, whether by canceling registration fees or VAT on property sales.

c. Follow up with institutions that have benefited from interest rate subsidies

Support to institutions through interest rate subsidies should be continued. However, there is no follow-up with these

institutions after the expiry of the period of interest rate subsidy and the exemptions from taxes and fees. This pushes all these institutions to resort to the parallel market and refrain from declaring their actual income.

To address this, the authorities should develop mechanisms to monitor income during the period of exemptions and subsidies, which will provide the treasury with returns on its investment through subsidies and tax exemption.

d. Lifting subsidies on consumer products

The lifting of subsidies on consumer products should be postponed until the final stage of reform because of its social and political sensitivity and low value compared to energy and housing.

Lifting subsidies on consumer products can cause instant inflation that would lead to a rise in prices, benefitting the owners of capital.

However, it would reduce the high level of squandering caused by subsidizing milk, bread, and even gasoline. It would also lead to what is referred to as the “substitution effect,” whereby the consumer replaces a product with another when its price increases and when alternatives are available. This substitution effect creates a demand for other products, promoting consumption and reducing squandering by encouraging people to consume what they need only.

Lastly, political economy factors, such as how the groups who benefit from subsidies affect the reform process, should be taken into consideration. These factors can be addressed by creating a political and social consensus on a reform project and increasing transparency by putting forward well-defined draft reform projects with accurate figures.

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Social Subsidy Policy in Algeria: The Economic Cost and the Imperative for Reform

Hacene Hami

With the submission of the 2022 Budget Law for public deliberation and its subsequent ratification by the People's National Assembly and the Council of the Nation, the issue of budget allocations for social subsidies and social benefits resurfaced. Prime Minister and Minister of Finance Ayman Ben Abdul Rahman had submitted the proposed Budget Law, which included taxes on several economic activities, as well as on the import of widely consumed goods that have long been subsidized by the government, such as sugar and oil. The Prime Minister and the President have repeatedly reiterated that “the State will never abandon its social assistance policy.” Yet, this has become a staple of the government's rhetoric, especially when discussing the Budget Law, which among the most important functions of Parliament. In fact, this Law is the only aspect of parliamentary work that matters for the Algerian citizen, given its financial and economic impact, such as imposing new taxes and financial burdens that undermine citizens' purchasing power and economic activity.

While presenting the Budget Law, the Prime Minister critically assessed the current social subsidy mechanism, without mentioning any government alternatives or a timeline for the transition into a new model that would regulate or lift these allocations altogether. This assessment indicates that ending or redirecting social subsidies is currently a highly sensitive and important issue for the State, especially after the popular uprising that lasted for over a year, before losing its momentum with the local and international outbreak of the COVID-19 pandemic.

The current debate around these issues gives us good reason to try and understand the impact of State intervention in the economy and the historical and ideological background of the welfare state in Algeria. In reality, the latter took the form of a rentier state that has nationalized all economic relations amid a series of worsening political crises, which has also affected the State's relationship with the society and its relations of production. This study does not intend to investigate all the social interventions of the welfare state in Algeria or its response to social issues in general (i.e. employment,

health, education, housing, and social solidarity). Rather, our aim is to address social subsidies as a means of social intervention, by understanding the historical and ideological underpinnings of the welfare state. In addition, this paper attempts to understand the relation between social subsidies and the rentier state crisis and to determine whether the social subsidy system should be dismantled or reformed, in light of social needs, on the one hand, and the shrinking of financial resources, on the other.

1. Historical and Ideological Underpinnings of the Welfare State in Algeria

Social subsidy in Algeria cannot be discussed from a purely economic perspective, as it transcends economic and financial considerations and requires historical, political, and social research, as well as an analysis of the country's political economy. In fact, the Algerian State has always identified as a welfare state, in line with its founding ideology, which was developed during a critical historical juncture – i.e. the War of Independence and the circumstances surrounding it. This war was not only driven by the struggle against colonization, but also against poverty, illiteracy, and social disparities, all of which were inherited by the nascent State after the country's independence. For the past 60 years since the independence, the relationship between the State and society has been founded on the concept of welfare or “protection” (of its subjects). This was also manifested in several public policies rooted in the State's political ideology and financed by its rentier economy, despite the many political, economic, and even security crises that have emerged.

By identifying the context in which the welfare state in Algeria emerged, we can better understand precarity, poverty,

and underdevelopment in Algerian society after decades of colonization that destroyed the social and economic infrastructure. The colonial authorities confiscated all sources of wealth, drove the majority of society deep into the clutches of poverty, illiteracy, and disease, and deprived citizens of all types of services. Independence moved the country from a colonized and socially and economically oppressed state to an independent state that fairly distributes its resources and protects its citizens. However, this fast, troubled, and violent transition played a decisive role in shaping the relation between the new state, economy, and society.

For decades, social subsidy policies, financed by a rentier economy and integrated in public policies, have been an important tool for establishing the state's legitimacy (by means of development). In fact, since the 1960s, the State's economic choices (self-management, socialism, and later on limited economic openness) have made it the only actor responsible for the economy and development, as the authorities believed that economic liberalization and free economic competition would lead to division and fragmentation.

2. Social Subsidy and Social Benefit Schemes

Social subsidies aim at reducing social disparities and striking a balance between the interests of individuals, within the framework of a public social policy. This mechanism is not only a feature of third-world rentier states only, but also of capitalist nations founded on the concept of the welfare states after the Second World War, such as France, Germany, and several OECD countries. However, the main differences between the two lie in the extent to which international and foreign actors can intervene in the state's economy and the margin for personal initiative, freedom, transparency, control, and accountability. These conditions are related to the country's political system, legitimacy, the limits of democratic practice, and the autonomy and neutrality of public institutions.

In Algeria's case, the "social subsidy" concept has been linked to the welfare state and social justice, which was embodied in the state's founding documents: the Declaration of 1 November, which established the independent and modern Algerian state as a social democratic state, and the 1976 Constitution, particularly Article 11 thereof on the socialist system and its social, and economic foundations. This was reflected in subsidized social utility sectors such as health, housing, social protection, social benefits, and energy

subsidies. All of those sectors have received social subsidy allocations under successive financial laws. Furthermore, in July 1984, Algeria adopted Law No. 17/84 on "Public Interventions," which enshrined in Article 24 thereof social subsidy as a necessary staple of financial laws, thereby setting in stone the State's social identity.

Social subsidy has been linked to the so-called social welfare model, which included family support (subsidies on widely consumed goods, education, energy, housing, health, and support to the Mujahideen, retired people, and people with disabilities). The social and financial impacts of these benefits were clearly felt in the beginning of the first term of former President Abdelaziz Bouteflika (1999-2004), with the political stability and the notable increase in oil prices and revenues, which are the primary source of revenue for the State's treasury. These benefits increased from 315 billion dinars in 2001 to 1,207.8 billion dinars in 2009, 1,760 billion dinars in 2018, and 1,942 billion dinars in the 2022 Budget Law.

3. Social Subsidy and the Rentier State Crisis

Throughout the last two decades, the increase in social subsidy allocations was followed by an increase in social demands and more pressure on successive governments to address the issue of social justice. This is understandable given the country's oil boom that lasted until 2014. At the time, the authorities sought to rebuild institutions and the quasi-destroyed infrastructure after a decade-long political and security crisis. What is noteworthy, however, is the fact that the government did not end the subsidy policy even after the decline in oil prices, which reached a record low in May 2020 (\$12/barrel). This suggests that the government is unable to completely put an end to the social subsidy policy, despite rising budgetary pressures and the decline in foreign exchange reserves from \$200 billion in 2014 to \$44 billion in July 2020, according to the President's statement in July 2020.

The government acknowledged that financial mismanagement and corruption in public projects over the last 20 years caused severe and irreparable damage to the economy, yet it continued to adopt the same rentier practices as before, failing to devise new solutions and alternatives. These practices include providing public social subsidies and covering the difference between the (real) price of goods and services and their subsidized price, despite the drop in the exchange rate of the dinar against the U.S. dollar, as well as tax reductions on several widely consumed goods, which is considered a form of indirect subsidy.

The persistent use of classic social subsidy mechanisms reflects the continuous failure in managing the economy and the mere use of financial corrections despite the dire circumstances, such as non-traditional financing (money printing), the devaluation of dinar, and linking the public budget to international oil price forecasts. This reveals the government's inability to move beyond its distributive role (as a welfare state) and to transform the majority of economic relations into productive, wealth-generating relations governed by the market mechanisms, the freedom of initiative, the sustainability and transparency of laws and legislations on investment, partnership, and other regulatory and legislative mechanisms governing economic activities.

4. Financial and Economic Impact of the Social Subsidy Policy

The decades-long social subsidy policy has left behind massive impacts on the national economy and the treasury. Moreover, the welfare state has caused multi-faceted economic, financial, and even social and political disruptions and imbalances, including:

First: Rising and accumulated pressure on the state's budget, due to growing needs and the fluctuations in the price of widely consumed basic goods on global markets, which also negatively affected the balance of payments. This was recently reflected in the scarcity and the price increase of certain food products on global markets and in the treasury's inability to cover the price differences. Rather than deal with the root causes, public authorities claimed that this was a manufactured crisis induced by speculation and monopolies.

Second: Social benefits, family support, and the subsidization of widely consumed goods caused a major difference in the price of imported goods and products between Algeria and its neighboring countries. This exacerbated cross-border smuggling and, in some cases, the export of goods produced with subsidized products, which represents a persistent depletion of the national economy.

Third: Historically, there has never been a local bourgeoisie in Algeria, given the dismantlement of all types of economic activity during the era of colonization, as well as the institutionalized monopoly of all types of production, marketing, and exportation after independence. However, as a result of the welfare state's patterns of public spending, a financial oligarchy, resembling a sort of compradorial system, emerged and exploited the resources of this type of public

spending (public contracts, bank loans, and imports). Having built tight-knit relations with the ruling elites, especially during the last two decades, this segment of the population, exploited social subsidy policies by establishing a system of clannism to systematically divided State revenues amongst themselves.

Fourth: At the financial level, the state budget bears an accumulated burden, considering the limitless spending on subsidies. This is linked to the prices of subsidized food items, as well as energy resources on global markets, which raise the cost of subsidies from the state budget as they rise. In addition, social subsidies are distributed to all income groups, whether low or high, although this social policy, in principle, should mainly target people with limited incomes. This practice exacerbates the issue of inequality. According to a World Bank report on the social subsidy system, with a focus on fuel subsidies, higher-income groups consume energy resources six times more than those with low incomes. Similarly, 61% of electricity subsidies, 58% of water subsidies, and 18% of food subsidies are consumed by higher-income groups.

5. Social Subsidy System Reform: Should It Be Scaled Down or Developed?

In general, the circumstances that compel countries to either reform or abandon their social subsidy systems can be classified under two categories:

The first category is related to the corrective conditions imposed by international financial institutions (the World Bank, the International Monetary Fund, etc.) or pressures by international donors in the context of comprehensive macroeconomic and financial reforms. Such steps are usually required when a country's economy takes a downturn and it needs to borrow from external lenders.

The second category is related to the internal choices that are subject to discussion between the government and local economic actors, whether private or public, as well as social partners (labor unions, associations, experts, etc.), amid worrying economic situations or imminent crises. This is dependent on whether the country in question allows for democratic practices, representative institutions, true freedom of the press, and, most importantly, favorable conditions for transparency and access to information, all of which are necessary to enable a rational and objective

analysis of the real data related to the national economy.

Looking at the current situation in Algeria in light of the above, one cannot say that the national economy has reached the point of external debt to respond to pressures from the international financial institutions. In addition, the substantive conditions for holding a meaningful debate on whether to reform or abandon the social subsidy system remain unavailable. What makes the situation more ambiguous are the contradictory and different official statements on the issue, particularly the criticism directed by the Prime Minister and Minister of Finance at the way social subsidy allocations have been managed during the past few years.

The current situation is riddled with reluctance and uncertainty as the debate continues between the economic logic and the political authority that does not want to give up its most important clientelist tool, on which it built its legitimacy as the heir of the post-independence welfare state. In the absence of effective economic solutions and meaningful structural and legislative reforms, the discussion of the issue of reforming the social subsidy system tends to ask technical rather than economic questions, such as: What groups should benefit from social subsidies? As a result, the answers to these questions focus on purely technical solutions, such as the national ration card for the poor, people in need, or those with low incomes, as a mechanism for distributing welfare funds to the intended beneficiaries.

Even these solutions are difficult to achieve, despite being of secondary and trivial nature compared to the complexity of the central issue. This is due to the inability of state agencies to accurately quantify these categories, as they do not possess the required information (data, geographical distribution, and social circumstances). It is also due to the weak digital structure used for managing this data. These solutions failed in several countries that opted for this alternative when faced with circumstances similar to the ones currently found in Algeria. In addition, the informal economy, which accounted for 50% of the GDP in 2015, remains one of the major obstacles to accurately measuring and controlling unemployment rates, as well as determining the number of those with no social security, their level of income, and the amount of uncollected taxes.

The issue of social subsidy reform requires much more than technical and superficial solutions. Generally, this system goes beyond the direct forms of subsidies associated with family support, education, health, and housing subsidies, and the rights of people with special needs, to include indirect forms, such as supporting national companies, subsidizing loans, and granting tax reductions on some imported goods. The cost of these forms of subsidies may be greater on the public treasury than direct subsidies. Consequently, the attempt to lift these subsidies will have profound effects on

various economic sectors, especially national companies, imports, banks, and the fuel market. In this regard, the State already began to lift direct subsidies at the beginning of 2010, after gradually increasing fuel prices, in order to avoid a price shock for consumers, until the rate of increase reached 122% in 2021, in addition to abandoning many large housing projects and programs since 2013.

What we are witnessing is an implicit partial abandonment of the social subsidy policy, without the development of viable economic alternatives. This was especially true after the decline in oil prices at the beginning of 2014, and the decline in the value of the dinar against the U.S. dollar from 100.69 dinars to the dollar in 2015 to 139 dinars to the dollar in 2021. Consequently, the purchasing power parity conversion factor rose from \$34.52 in 2014 to \$39.40 in 2021 (according to World Bank figures). All of this contributed to a 4.25% rise in inflation between 2015 and 2020. These economic and financial transformations have contributed to a cumulative erosion of the purchasing power of Algerians, as prices increased while wages remained the same since 2008. This situation makes it clear that the policy of direct subsidies cannot bridge the growing gaps between local social needs and the changes happening at the level of global and even local markets, the effects of which are felt today through the scarcity and rising prices of basic commodities and medicines, especially during the COVID-19 pandemic.

For the foreseeable future, the State seems incapable of abandoning the policy of social subsidies entirely, at least in its direct form, due to the serious social repercussions of such a bold move, especially after the political transformations that the country witnessed following the February 2019 movement. Furthermore, moving towards a comprehensive reform strategy requires a long time and the adoption of scientific evaluation tools and a more transparent and accountable logistical and legislative structure that is far from being populist. However, the current confusion and lack of clarity can only be resolved by shifting away from the rentier and obsolete bureaucratic logic in managing economic affairs, to market and competition logic with clear plans based on accurate numbers and timelines, away from arbitrariness and populism.

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About Arab Region Hub for Social Protection

We are a space in and through which professionals dedicated to exploring, understanding and advocating for better social protection in the Arab region exchange ideas and explore and initiate collaborative action. We envision an Arab region in which all people, regardless of their identities, are guaranteed social protections that secure their access to the essential goods and services needed to ensure their well-being and decent standards of living, which in turn gives them the opportunity to prosper and contribute as active members of society. We aim to facilitate the development of equitable and sustainable social protection systems in the region by: executing, encouraging and facilitating the production, analysis, collation, and dissemination of interdisciplinary knowledge about the topic; facilitating dialogue within professional spheres and awareness raising among the wider public; and enhancing collective action that amplifies advocacy efforts with the different stakeholders and decisionmakers.

Social Protection Program

The Arab Reform Initiative's Social Protection Program, which gave birth to the Arab Region Hub for Social Protection, aims to place social policy and its impact on the socio-economic rights of citizens and residents in Arab countries center stage in the research and advocacy efforts seeking to achieve social justice and social equality. By mobilizing and coordinating a community of practice and knowledge on social protection, the program aims to create a safe space for regular and systematic dialogue between the different stakeholders, in order to help addressing the problem of fragmented, non-inclusive, ineffective, and unsustainable social protection systems in the region. While doing so, the program adopts different perspectives – from addressing the necessary policy, programmatic, institutional, financial, legal and legislative reforms; to the political economy involved in the feasibility of these reforms; passing by social activism around welfare policies.



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About the Arab Reform Initiative

The Arab Reform Initiative is an independent Arab think tank working with expert partners in the Middle East and North Africa and beyond to articulate a home-grown agenda for democratic change and social justice. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality, and gender equality.