Algeria's Agonies: Oil Rent Effects in a Bunker State

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Abstract

Algeria's agonies of economic adjustment and chronic civil war are excessive by Mediterranean standards. Algeria would appear to illustrate many of the pernicious effects ascribed to oil rents: a distorted economy, civil strife, and authoritarian government. In much of the literature about oil and other natural resource "curses" political economies suffer from a sort of geological predetermination: mineral wealth is a form of original sin. This paper, while tracing the connections between Algeria's oil wealth and its slide into the disasters of 1990s, will argue that the original sin was a primitive form of French colonialism, not hydrocarbons. Before the oil revenues took off in the 1970s Algeria's trajectory was already conditioned by the intensity of the colonial occupation, the trauma of national liberation, the destruction of civil society and political intermediaries, and a lingering identity crisis. The state remained alien, bereft of legitimacy, at best a source of rents for political profiteers. Oil wealth may have compounded Algeria's difficulties, but the decimation of the country's intermediaries better explains how the problems arose and why they are so acute today in Algeria compared to neighboring countries.

Oil rentier states, if not definitively damned by their wealth, supposedly share certain failings arising from the atrophy of their extractive capacity (Biblawi 1990, Chaudhry 1997, Karl 1997). Blessed with substantial oil revenues, they need not tax their populations as much as other states enjoying similar levels of per capita income. Consequently, the argument goes, they need not be as accountable to their citizenry as the other more extractive states. They enjoy a relative autonomy of sorts, or insulation, so long as the rents keep flowing, from social and political pressures, just as the petroleum industry itself is highly capital intensive and employs few workers and enjoys few other linkages with the broader economy (Mahdavi 1970). Dependence on oil revenues, however, is likely to lead to overspending, debt and fiscal crises because of the volatility of international petroleum markets. Moreover the economy gets distorted with the so-called Dutch disease: times of boom diminish the value of tradable goods relative to real estate and services, leading to a greater dependence on the petroleum revenues and less ability to export other tradable goods (like Dutch tulips, but cf. Ross 1999: 306 who warns us that the theory may not fit poorer labor abundant countries, such as Algeria. See Alan Gelb's calculations, 1988: 88, 162, 167, showing that Algeria did not really fit the model). When the oil prices tumble, rentier states are in trouble. Civil strife as well as economic hardship may result, and the state, traditionally isolated from social forces, will have few shock absorbers in the form of credible institutions for quelling the violence. While oil rents do not inevitably lead to political, economic, and societal disaster, petrostates have an "elective affinity," (Karl 1997: 237) at least, with a disaster-prone pattern of development.

Algeria seems to be the wretched poster child for this rentier theory of the "petrostate." Others in this conference (book) will have documented Algeria's ideological and economic hubris of the mid-1970s and the virtual disintegration of its middle classes since the decline of oil prices in 1986. I will argue, however, that Algeria lost any shock absorbing intermediaries long before the advent of oil, that the oil revenues merely helped to augment, exaggerate, and prolong efforts of state sponsored industrialization that were fashionable in the 1960s and 1970s, and that the rentier theory, despite the play of words on "rent," tells us little about rent-seekers or about institutional development or decay. Rather, to understand Algeria's tragedy, comparisons with neighboring Tunisia can illuminate other significant differences.

Algeria is a petrostate, whereas Tunisia does not quite qualify as one, whether the criterion be fuel exports as a percentage of total exports or oil revenues as a percentage of government revenues. The two countries experienced rather different trajectories of development despite sharing a common mentor in 1960s: Gérard Gestanne de Bernis, whose theory of "industrializing industries" almost ruined Tunisia as well as Algeria. But the two countries, despite being neighbors sharing many underlying similarities including French colonial rule, differ sharply in one other major respect, in addition to their respective hydrocarbon endowments. The struggle against colonial rule enhanced the prestige of an educated elite in Tunisia and deepened its political and social intermediaries, whereas the liberation of Algeria completed the destruction of Algeria's elites and civil society. It is the earlier, more primitive and extensive colonialist penetration of Algeria and its consequences that better explain the differences between Algeria and Tunisia than their differing hydrocarbon profiles.

The basic point about the oil rentiers in the predestination literature is that the state receives an uncertain flow of revenues, depending on international market prices, from an economic enclave that is pretty well disassociated from the rest of the economy. Less discussed is how the hydrcarbon treasure really affects a state's developmental capacities (extraction, planning and allocation, and distribution), much less the various possible relationships between the state and the rest of the economy, notably its private sector.

First, concerning state capacities, it is not clear why oil revenues necessarily diminish other extractive capabilities. Tax collectors rarely fade away even if tax rates sometimes get reduced. If extractive capability is defined as the tax take percentage of GDP, the fact that petrostates take less than the others may merely mean that they did not increase their tax rates after the oil rents arrived. In the 1960s Algeria and Tunisia each extracted roughly one-quarter of GDP in the form of various taxes devised by French colonial administrations and carried on after independence. After two decades of ever increasing oil revenues followed by the bust of 1986 Algeria was still managing in 1989-

90 to extract 16.3 per cent of GDP compared to Tunisia's 19.5%. Leaving out (easily administered) import duties, Algeria actually outperformed Tunisia (13.7% to 11.5%). I leave aside the issue of direct versus indirect taxation although Algeria again was slightly ahead: Karl seems to think that indirect taxes also have salutary effects on government accountability and the like (p. 204).

Algeria's extractive capacity does atrophy, however, over the following decade. In 1999-2000 Algeria's tax revenues amounted to only 11.5 per cent of GDP, while Tunisia's had increased under good IFI tutelage to 26 per cent (Nashashibi 2002:11-12). In Algeria lower taxes were associated with civil strife, as rentier theory might suggest. But it seems more likely that this aspect of petrostates, the relatively low tax take, was the consequence rather than the cause of civil war and economic breakdown. And in Tunisia higher taxes were associated with greater political repression, not the greater accountability that rentier theory proposes. Like John Waterbury (1997: 153) I have never understood why more taxation implies greater representation when repression can also do the job.

Now even assuming that oil riches actually diminish a state's ability to tax people, does this really result, as Chaudhry argues for Saudi Arabia, in a "decay of extractive institutions [that] progressively lowered the quality of available economic information" (1997: 170) needed for intelligent state planning? In Saudi Arabia it is far from clear that the administration, so dependent on US technical assistance and on strategic rents before the oil bonanza, ever had much information (Vitalis 1999: 660-661). In other better-administrated Arab countries, such as Tunisia, little trustworthy economic information about enterprises or individuals is available. People on both sides of the Mediterranean learn as children to fear the tax collector, and tax fraud remains rampant in Tunisia despite fiscal amnesties and reforms imposed by international financial institutions. A bit of tax evasion also helps other parts of the government to keep business blackmailed and docile.

And as for possible relationships between the state and the private sector, vast oil treasuries hardly ensure a state's relative autonomy, whether in isolation or "embedded" (Evans 1997) in business communities. Kiren Chaudhry (1997) has demonstrated how difficult it was (and still is, despite gradual progress) for the Saudis to reduce subsidies to their supposedly dependent, state-created private sector. The (Najdi bureaucracy of the) Saudi state seemed organically connected with the (disproportionately Najdi) beneficiaries of its generous credit facilities. Algeria, by contrast, really does exemplify a relatively autonomous state – so autonomous, in fact, as to be almost imaginary, that is, lacking in legitimacy (the essence of Hegel's stateness) since the crisis of October 1988. Far from being an idle rentier like the ruling GCC families who redistribute the wealth a bit, Algeria may be better viewed as a military outpost defending against and manipulating chronic tides of civil unrest – what I elsewhere call a bunker state (Henry and Springborg 2001). With or without low intensive warfare, property rights in the bunker states are necessarily insecure, and hence private sectors are marginalized. Whether or not such insecurity explains away the "resource curse," (Ross 1999: 320), it seems intimately associated with Algeria's rough pattern of economic adjustment.

The bunker state still monopolizes the oil rents, but any tacit "contract" offering welfare and security in exchange for allegiance has been revised. The menu of state services diminished with the decline in oil revenues relative to an expanding, more educated and demanding population. The way to keep up any tacit contract is to increase the value of security - by "empowering" a bit of insecurity. Algeria is the most vivid and bloody illustration of this tactic (Martinez 1998: 259, 337, 370). The mindless massacres of tens of thousands of civilians have enabled the regime to carry out draconian economic policies. Algeria in some respects has adjusted further, as well as more quickly in the late 1990s, than Egypt and other favored MENA pupils of the IMF (Nashashibi 1998: 64, 66). But Algeria raises the question of whether any bunker regime can adapt to the global economy without massive suffering. The economy undergoes some structural change, very slowly (Werenfels 2002), while a hard core of illegitimate military rulers retain power on the pretext of widespread insecurity. Raw struggles of power between the ruling factions as well as between them and Islamist guerrilla forces diverted attention from the economic policies being implemented with advice from the IMF, leaving the policy makers with a relative autonomy of sorts.

At least Algeria's military leaders, the occult *décideurs* who hide behind its formal state façade, enjoy more autonomy than their Saudi rentier counterparts, who must be responsive to their "private" business sectors. Unlike Saudi Arabia, Algeria is a bunker state. As I have previously written (APSA 1999), "Bunker states disorganize their middle classes into masses. Trade unions and business associations exist but are not permitted to acquire roots in their societies from which to negotiate with governments or render them accountable. Civilian entrepreneurs, whether in business or politics, must remain loyal to their protectors. The one who strikes out on his own for an autonomous power base risks assassination like Mohammed Boudiaf in 1993 [who had briefly served as Algeria's president] or, less dramatically, Abdelhak Benhamouda, the Algerian trade unionist who was also gunned down in ambiguous circumstances [in the mid 1990s] after crossing a powerful military faction. (*Algérie Confidentiel* 100). No credible economic or political pacts are possible in the absence of credible interlocutors. It is instead up to the ruling clans to cut their own deals dividing up the rents and other economic spoils of domestic and international commerce. Where official state monopolies are dismantled, the clans regain ostensibly privatized and deregulated ones (Dillman 2000)."

Rentier theory, fixated on extraction capabilities and volatile petroleum revenues, cannot explain the pathologies of bunker states. Explanations of the pathology lie elsewhere, in the disconnection between the bunker and social forces, the lack of credible political intermediaries, whether in government (legitimate constitutional structures) or in (civil) society. Rentier theory tries to argue that low taxation rates explain the lack of political intermediation, but this will not do. Algeria imposed high taxes in the 1960s and 70s, but its "revolutionary legitimacy" of the 1960s and 70s was never embodied in concrete institutions. The "state," far from reflecting any legitimate political order, was an alien French construct; and the ruling party, the FLN, was a political myth and in reality a country club of self co-opted elites. Almost every year after Boumediene seized power in 1965 was to be the "year of the party" reorganization, but it never happened, before or after oil revenues flooded the Algerian treasury.

It also does not do to argue that expectations of those revenues somehow messed up Algeria's institutional capacities. Algeria was born that way, in 1962, before the oil from Hassi Messaoud started to flow in significant quantities. The best or worst that may be said about the Algerian oil is that, discovered in commercially significant quantities in 1956, it perhaps prolonged Algeria's war of national liberation by strengthening the French resolve, for a time, to hold on to the Sahara. But French colonialism had erased any viable Algerian intermediaries much earlier, and the armed guerrilla struggle against French rule would further disintegrate the remnants of an Algerian elite.

The original sin was committed not in 1956, when oil was discovered, but in 1830-31 when the French not only invaded Algeria but destroyed the Ottoman governing infrastructure in the process. Other intermediaries arose to contest the French, and French colonial policies shifted between direct and indirect rule relying on various religious and tribal intermediaries. But from Marshal Bugeaud's scorched earth campaigns launched in 1840 until World War I traditional indigenous elites were either wiped out or discredited by association with the colonizer. The new ones subsequently educated in French schools enjoyed much less professional and social space in French Algeria than their counterparts in neighboring Tunisia. Their political formations were elite clubs, not grassroots organizations that would have been unacceptable to the colonial authorities. Even the reformed religious schools associated in Algeria with Ben Badis in the 1930s were far less extensive than their Tunisian counterparts. Grassroots nationalist organizations would emerge among Algerian workers in France, not Algeria.

The stultifying colonial situation cut off French educated elites from potential mass followings inside the country. Algeria's political class acquired token representation in French Fourth Republican institutions after World War II, but meanwhile the Sétif massacres of April-May 1945 probably signified the end of any hopes of political compromise between Algerian nationalists and the colonial authorities. It was not the French educated elite but rather former French army sergeants like Ahmed Ben Bella and the like who seized the initiative in 1954, finally, to launch the armed struggle. The FLN coopted some intellectuals including traditional politicians like Farhat Abbas as well as university students represented in late 1950s by UGEMA. But the intellectuals, whether politicians like Abbas or student leaders like Belaid Abdesselam, were just tools of guerrilla forces that meanwhile murdered one another for political power. In the end, as we know, it was the organized external army of Boumediene that crushed guerrilla factions and dominated the new state – behind the scenes until 1965 and then more openly. My point about this compressed history is that it never offered opportunities for educated elites to forge connections with popular constituencies. Ali El Kenz (1991) has documented some of the consequences: no organic intellectuals, no autonomous intermediaries, and very little civil society apart from private, informal ties among families and friends until 1988. With or without petroleum, the Algerian state always spun in a vacuum of populist discourse, or "langue de bois" as the Algerians called it. It was not so much oil as history that hindered democracy in Algeria (cf Ross

2001, whose "regime" type may serve as a proxy for local history: in most of his models it explains about as much variation in democracy scores as oil export revenues).

Oil revenues undoubtedly did help to prolong Algeria's charade of development between 1967, when Boumediene fully consolidated power, and 1988 when the legitimacy of the one-party state ended in urban riots and their suppression by the military. Ghazi Hidouci recalls how his efforts with fellow planners to inject some caution and market analysis into Boumediene's dreams of rapid industrialization came to naught in 1974 with the news of yet another rise in oil prices (Hidouci 1995: 65-67). But he also documents a rent-seeking mentality that preceded the oil bonanza. When most of the million French settlers departed on summer vacation in 1962 never to return, their *biens vacants* were up for grabs. After "a veritable pillage of the patrimony to the detriment of the collectivity…in the space of a year or two the newly privileged would occupy the circuits of power in all domains" (pp. 22-23). Algeria had enjoyed a relatively diversified economy but "unlike the deserts of the Persian Gulf before petroleum, the least developed, where all was to be newly created, in Algeria one destroyed an economy and a preexisting equilibrium in order to promote a new myth [of industrializing industries]" (p. 43). In this passage Hidouci implies that hydrocarbons were the culprit, but a fit of revolutionary voluntarism may offer a better explanation. In 1972, *before* the oil price rises, Boumediene launched a preemptive attack on Algeria's emerging commercial and landowning bourgeoisie to prevent it from developing countervailing influence in league with elements in the civil administration. His revolutionary triptique (political, agrarian, and cultural) effectively bottled up any civil society until 1988, although there was some public discussion in 1976, after a critical petition from four respected leaders was widely circulated, about "enriching" the FLN Charter and amending the Constitution.

Without the hydrocarbons Algeria would surely still have tried, like Tunisia until 1969, to build "industrializing industries" at the expense of agriculture. Although distrustful of its own landowners (who had concentrated more property holdings in the "traditional" sector than their Tunisian counterparts during the colonial era), Algeria's "socialist" regime lacked the administrative capacities to manage agriculture directly. The productivity of the holdings of the departed colons regressed when they were taken over by their agricultural workers (*autogestion*) and eventually brought under more centralized control. The so-called "traditional" Algerian-owned sector survived but the agrarian "revolution" aversely affected productivity. The VALHYD Plan (Aissaoui 2001: 90-94) would not have made sense without oil and gas resources, but Boumediene's regime would probably have retained its priorities of investing in heavy industry until it ran out of funds. Perhaps the explosion of 1988 would have occurred a bit sooner.

Tunisia, as we know, followed a more flexible trajectory after 1969, when it reversed course on agrarian reform and "industrializing industry." What differentiated this country from Algeria, however, was not so much oil (which was earning up to half Tunisia's export revenues in the late 1970s and early 1980s) as the development of civil society during the colonial period. Both regimes after independence were authoritarian but Tunisia's, until 1987, was civilian and broadly based in a single party, trade union, and other national organizations that had been founded to contest French rule. Path dependency and revolutionary voluntarism frustrated Algerian civil society until 1988, when the military police state suddenly opened up. Algeria then briefly experimented in economic and political liberalization before the military again clamped down the lid, with the support of much of the more secularly minded elements of civil society.

Algeria will no doubt continue to be a rentier state, depending on revenues from oil and gas to finance a substantial part of the government budget. But my conclusion is not that the poor country is forever condemned for its exploitation of the "devil's excrement" but rather that the regime can recapture some of the promise of the 1989-91 reform period, now that political Islam has been partly tamed and its violent elements discredited (Martinez 1998: 376). Concretely, the military leadership has an interest in removing itself from the political arena to protect its corporate identity. The civilian leadership put in place by the military may be able to exploit this opportunity by deepening alliances with emerging forces in civil society and overcoming rumors of its expected demise (Joffé 2002: 47). The parliamentary elections of May 30, 2002, have probably strengthened the reformers in the government despite low (47% nationwide, 32% in Algiers) turnout.

The depth of Algeria's political and economic crises cannot be exaggerated, but nobody who studies the country should take predestination theories seriously. Projected increases, with new discoveries, of oil and gas revenues will surely help, not hinder the country's economic recovery. As for the underlying political problem, a recovery of Algeria's shortlived democratic experiment (1989-91) could displace those other remembrances of things past. Some of the oil rent surplus, if invested wisely through the government's economic recovery program (2001-2004) in new civil society intermediaries and patronage networks, could help rather than hinder democracy.

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