Arab Reform Initiative

Bawader / Commentary, 24 February 2022

Algeria's social support policy: Economic costs and the need for reform

Hacene Hami



In Algeria, the issue of budget allocations for social support and social benefits has resurfaced once again 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.

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 imports 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 support policy." Yet, this has become a staple of the government's rhetoric, especially when discussing the Budget Law – which are 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 support 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 support 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 economic intervention, as well as 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 society and its relations of production. This study does not intend to investigate all 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 support 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 relationship

between social support and the rentier state crisis. It also aims to determine whether the social support system should be dismantled or reformed, in light of social needs on the one hand, and the shrinking of financial resources on the other.

Historical and Ideological Underpinnings of the Welfare State in Algeria

Social support in Algeria cannot be discussed from a purely economic perspective, as it transcends financial considerations. It 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 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 emerged, we can better understand precarity, poverty, and underdevelopment in Algerian society after decades of colonization that destroyed the country's social and economic infrastructure. The colonial authorities confiscated all sources of wealth, drove the majority of society deep into the clutches of poverty, illiteracy, 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 relationship between the new state, its economy, and society.

For decades, **social support** 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.

Social Support and Social Benefit Structure

Social support aims 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, but also of capitalist nations founded on the concept of 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 support" 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 support 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 support as a necessary staple of financial laws, thereby setting in stone the State's social identity.

Social support has been linked to the so-called social benefit structure, which included 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.

Social Support and the Rentier State Crisis

Throughout the last two decades, the increase in social support 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, 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 support 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 support 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 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 support 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 support 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 the 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 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.

Financial and Economic Impact of the Social Support Policy

The decades-long social support policy has left behind massive impact on the national economy and treasury. The welfare state has also caused multi-faceted economic, financial, as well as 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 support policies by establishing a system of clannism to systematically divide 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 support is distributed to all income groups, whether low or high, although in principle this support should target people with limited incomes. This practice exacerbates the issue of inequality. According to a World Bank report on the social support 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.

Social Support System Reform: Should it be scaled down or developed?

In general, the circumstances that compel countries to either reform or abandon their social support 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 support system remain unavailable. What makes the situation more ambiguous are the contradictory official statements on the issue, particularly the criticism directed by the Prime Minister and Minister of Finance at the way social support allocations have been managed over the past few years.

The current situation is riddled with reluctance and uncertainty as the debate continues between economic logic and the political authority, which doesn't 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, discussions surrounding the issue of social support reforms tend to ask technical rather than economic questions. These technical questions include: What groups should benefit from social support? 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 support 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 support reform requires much more than technical and superficial solutions. Generally, this system goes beyond the direct forms of support associated with family support, education, health, 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 support may be greater on the public treasury than direct support. 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 support 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 support 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 in the midst of the COVID-19 pandemic.

For the foreseeable future, the State seems incapable of abandoning the policy of social support 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 time, the adoption of scientific evaluation tools, as well as a more transparent and accountable logistical and legislative structure that isn't populist. The current confusion and lack of clarity can only be resolved by shifting away from the rentier and obsolete bureaucratic management style, to a market and competition approach with clear plans based on accurate figures and timelines, away from arbitrariness and populism.

References

1. Algeria's Constitution of 1976.
2. Presentation by Prime Minister and Minister of Finance, Mr. Ayman Ben Abdul Rahman, of the 2022 Budget Law before the MPs at the People's National Assembly on November 9, 2021. Available on the following link: https://bit.ly/34dp55s.
3. The meeting of the President of the Republic with representatives of public and private media outlets on November 26, 2021. Available on the following link: https://bit.ly/32UqAVh.
4. Lahouari Addi, *The Impasse of Populism (L'Impasse du populisme)*, (Algiers: National Book Company, 1990), 4.
5. Ministry of Finance, statistical data of the Directorate-General of Forecasting and Policies (adapted), available on the following website: https://bit.ly/3JACm8r.
6. Subsidy Reform in Algeria, International Monetary Fund. Middle East and Central Asia Dept, Available at the link: https://bit.ly/3sRrT2i.
7. The World Bank, PPP conversion factor, GDP (LCU per international $), Algeria, available on the following link: https://bit.ly/32OLNAe.
8. Ahmed TOUIL - Radia BOUCHAOUR, Algerian Social Policies: Instruments for which Coherences? Publications of Research Governance & Social Economy, No. 01/September 2015.

Arab Reform Initiative

About the author

Hacene Hami
Lecturer, Faculty of Social Sciences and Humanities at the University Mohamed Lamine Debaghine - Setif 2

About Arab Reform Initiative

The Arab Reform Initiative is the leading 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. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality and social justice.

- We produce original research informed by local experiences and partner with institutions to achieve impact across the Arab world and globally
- We empower individuals and institutions to develop their own concept of policy solutions
- We mobilize stakeholders to build coalitions for positive change

Our aim is to see vibrant democratic societies emerge and grow in the region.

Founded in 2005, the Arab Reform Initiative is governed by a Plenary of its members and an Executive Committee.

arab-reform.net **contact@arab-reform.net**

© 2022 by the Arab Reform Initiative.
To view a copy of this licence, click here