

## Institutional change in the context of a rentier economy: the Algerian case

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## IN SHORT

EN

- Despite global economic changes, the institutional configurations of the rentier system of accumulation in Algeria remain fundamentally the same.
- An analysis of this extractivist regime shows that the mode of regulation is at the root of the predominance of extractivist logic in the behaviour of economic stakeholders.
- Any economic initiative by the state seems to be politically oriented by two major imperatives: the consolidation of the legitimacy of political power and the need to control and regulate society.
- The Hirak movement in 2019 led to a reconfiguration of the balance of power within the dominant coalition, but without bringing about any real institutional change.

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- Trotz der wirtschaftlichen Veränderungen auf globaler Ebene bleiben die institutionellen Konfigurationen des akkumulativen Rentierregimes in Algerien unverändert.
- Die Analyse dieses Rohstoffregimes macht deutlich, dass die Ursache für die Dominanz des Extraktivismus auf das Verhalten der Wirtschaftsakteure zurückgeführt werden kann.
- Jede wirtschaftliche Initiative des Staates scheint politisch von zwei wichtigen Imperativen geleitet zu werden: der Konsolidierung der Legitimität der politischen Macht und der Notwendigkeit, die Gesellschaft zu kontrollieren.
- Die sogenannte "Hirak"-Bewegung im Jahr 2019 hat zu einer Neukonfiguration der Machtverhältnisse innerhalb der herrschenden Koalition geführt, ohne jedoch einen echten institutionellen Wandel herbeizuführen.

FR

- En dépit des changements économiques à l'échelle mondiale, les configurations institutionnelles du régime rentier d'accumulation en Algérie restent fondamentalement les mêmes.
- L'analyse de ce régime extractiviste montre que le mode de régulation est à l'origine de la prédominance de la logique extractiviste dans le comportement des acteurs économiques.
- Toute initiative économique de l'Etat semble être politiquement orientée par deux impératifs majeurs : la consolidation de la légitimité du pouvoir politique et la nécessité de contrôle et d'encadrement de la société.
- Le mouvement du "hirak" en 2019 a entraîné une reconfiguration des rapports de force au sein de la coalition dominante, sans toutefois induire un véritable changement institutionnel.

ES

- A pesar de los cambios económicos a escala mundial, las configuraciones institucionales del sistema rentista de acumulación en Argelia siguen siendo fundamentalmente las mismas.
- El análisis de este régimen extractivista muestra que el modo de regulación está en el origen del predominio de la lógica extractivista en el comportamiento de los actores económicos.
- Cualquier iniciativa económica del Estado parece estar orientada políticamente por dos grandes imperativos: la consolidación de la legitimidad del poder político y la necesidad de controlar y supervisar a la sociedad.
- El movimiento denominado "Hirak" en 2019 condujo a una reconfiguración del equilibrio de poder dentro de la coalición dominante sin aportar, sin embargo, ningún cambio institucional real.

## Introduction

The issue of institutional change in the context of a rentier economy such as the Algerian one is an acute one. The numerous studies devoted to analyzing the Algerian development experience highlight the country's inability to generate social compromises (in the form of institutional arrangements) in line with the requirements of economic and social evolution, particularly those relating to overcoming the rentier - extractivist - nature of the development model.<sup>1</sup>

Institutional change is an issue that calls for multidisciplinary approaches, and its analysis mobilizes concepts that very often go beyond the narrow confines of economic analysis.<sup>2</sup> However, it is possible to develop a few elements of analysis to account for the concrete dynamics observed in the case of the rentier accumulation regime at work in Algeria.

In this context, it is useful to insist on the notion of institutional blockage in the specific context of Algeria, in order to deduce the problematics. Ultimately, the questions to be answered are:

- Why is it that, in Algeria, despite the combined and recurrent effects of oil shocks and counter-

shocks, and the mutations at work in the global economy, the institutional forms characteristic of the rentier regime of accumulation (hereafter referred to as extractivism)<sup>3</sup> remain fundamentally the same, insofar as their concrete configurations prevent the emergence of a productive dynamics independent of rents?

- Why is it that new configurations, intended primarily to foster the emergence of a new development model, fail to emerge when the old ones have proved their limits?
- Why does the institutional transition that was meant to lead to a healthy exit from the rentier regime seem to have stalled?

From the foregoing questions, it follows that it is actually the issue of the advent of a new regime of accumulation (or development model) that needs to be studied, since it is a matter of establishing what social compromise, assumed by institutional forms, and therefore by politics, could favor (or not) the emergence of a new regime of accumulation.

## Regulation at issue

While analyses of institutional change in rentier-accumulation countries have strongly emphasized the inability of institutional forms adapted to the rentier regime to respond to the required changes,<sup>4</sup> they also point out that it is the dependence of these institutional forms on the rentier circuit that prevents, or makes

difficult, the transformation of the domestic economic regime.

The dependence of institutional regulation on the circulation of rents can be seen in specific configurations:

- Structural overvaluation of the national currency, favoring imports and consumption to

products. Another definition would be to consider the rentier regime as one in which accumulation is financed by a transfer, in the form of Ricardian rents (mining, oil, agricultural, etc.), of external origin. In empirical terms, the rentier nature of the accumulation regime can be seen in statistics relating to the resource structure of GDP, the share of external rents in state budget resources and the structure of exports.

<sup>4</sup> See mainly Ominami (1986); Hausmann and Marquez (1986); Ahmed (1991); Talha (2001).

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<sup>1</sup> See mainly Addi (1990); Amarouche (2006); and Dahmani (1999).

<sup>2</sup> For a quick overview of analyses in terms of institutions, see Chavance (2012).

<sup>3</sup> It should be pointed out that the notion of rentier regime is often used in substantially different senses. One definition (Lanzarotti, 1992), based on Marx's sectional division, identifies the rentier regime as one in which the import of capital and technological goods (section 1 goods) is financed by the export of primary

the detriment of production, and hindering the export of non-mineral products.

- Economic frontiers were widely opened, along with a rapid and abrupt process of customs dismantling, often the result of external pressure. In 1991, the state monopoly on foreign trade was abolished. This openness was reinforced by the agreements on the rescheduling of foreign debt (1994-1998), thus forcing the country to further liberalize its foreign trade.
- Prevalence of clientelist wage relationships, particularly in the industrial public sector. The latter, which is crumbling under the weight of structural overstaffing, is more akin to a political market, not only because its managers are often appointed on a patron-client basis, but also because its recruitment, operation and activities are governed less by the economic imperatives of profitability than by political interference and intervention. Over the long term, such a situation is only tenable if considerable external resources are mobilized to finance the resulting structural deficits.
- An allocation of public spending that is more in line with a "political" logic of redistribution than with an economic logic of sustaining accumulation. In general, the economic imperative of financing accumulation and the political imperative of redistribution often find themselves in competition, and the balance between the two is resolved, in practice, according to the degree of intensity of the imperative of legitimizing the political regime in place, on the one hand, and the degree of that regime's ability to control and mobilize society, on the other hand. While during the 90s, the economic imperative of adjustment prevailed over the rest,<sup>5</sup> from 2000 onwards, the distributive logic seems, thanks to the steady recovery in oil prices, to have gained a clear advantage.
- A "structuralist" management of the monetary constraint, based on an ex-post settlement of the rent distribution conflict, according to the

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<sup>5</sup> Undoubtedly because of the external constraints facing the country at the time.

<sup>6</sup> The use of the expressions "institutional compromise" and "institutional arrangements", which refer to nothing other than the mode of regulation, serves to emphasize the conflicting nature of social relations and the diversity

clientele game, implying an inflationary redistribution process that requires the permanent manipulation of the monetary variable (through money creation). This type of management corresponds in fact to the clientelist mode of resolving the dispute over distribution.

- Restricting competition through restrictive regulation of market access for factors of production and maintenance of administrative control of prices covering a wide range of products and services. The regulatory role of prices is constantly called into question. In reality, the extent of the scope of market exchange depended on the availability of rents: the expansion of market exchange during the 90s followed the drying-up of rents during this period, which led to the abolition of the various subsidies allocated to maintain administered prices. With the sustained upturn in oil prices since 1999, the State seems to have regained the financial means to, if not reduce, at least contain the extent of the sphere of market exchange.

The institutional compromise<sup>6</sup> embodied in the mode of regulation conveyed by these specific figures (which would benefit from being spelled out in greater detail) is fraught with ambiguity. To mention but the most significant, we should recall the following:

- The minor and auxiliary status of the wage relationship in the economic reproduction of society as a whole, which is based more on external rent than on work (or productive effort). In fact, the wage relationship, which is a central, pivotal institution in market economies, occupies only a secondary and minor place in Algeria, with, even more so, a fragmented configuration. It is not at the core of overall economic regulation. This seems to be dominated by the mode of international integration of the national economy (through the oil revenue variable) and the State (through the budget).

of modes of regulation, respectively. It is not, therefore, a case of giving in to the tyranny of words to use these different expressions to ultimately designate the same object.

- The persistence of incompatibilities between partial regulations, depriving the State's (and therefore the country's) economic policy of the coherence that would have given it the outline of a development project. In sum, the State's economic practice lacks visibility and its economic project, if any, and quoting Boudjema (2011), is bereft of the elements that would make it scientifically identifiable.
- And, finally, a recognized inability of the institutional arrangement currently in operation to generate a productive accumulation process, as a result of the incompatibility of partial regulations. This inability stems from the fact that the institutional hierarchy remains shaped by the State and international integration. In a rentier regime such as the one at work in Algeria, the basic rent has the capacity to "intoxicate", through institutional forms, the behavior of agents and actors in such a way that the latter find themselves incited to seek out opportunities to transform themselves into places and forms of rent capture. Rent-seeking behavior is a result of the institutional environment. This is a widely held belief today. Using an image, North (2005) writes that if the most profitable activity in an economy is piracy, we can expect agents and actors to invest in the skills and knowledge that will make them better pirates. This seems to be the main challenge faced by productive activity in a rentier country like Algeria: how can it be ensured that high returns are generated by

production? In other words, how are the players encouraged to focus on production activities instead of speculative or service activities?

In addition to discouraging production and favoring imports and consumption, this specific configuration is at the root of a system for capturing rents.

Does this mean that the rent-seeking economy is organically linked to the rentier regime? Our hypothesis is that it is fundamentally the mode of regulation that is at the root of the predominance of the rentier logic in the behaviour of economic actors and agents, a logic that can in turn contaminate the overall functioning of the economy and trigger a crisis, in more or less the long term.

In Algeria, institutional dynamics are inseparable from politics. It is this latter that determines the content and pace of the changes taking place in both the economic and social spheres.

It goes without saying that this situation stems from the fact that the State is the exclusive owner of the mining rent, and is therefore solely responsible for how this rent is used. As a result, the relative weight of the social partners (unions, employers, associations, etc.) is insignificant compared with that of the State.

The political dimension, which is not unrelated to the way in which mining rents are appropriated, can be seen as a blocking factor, but also as a factor in the success of institutional change, which, in this case, must be understood as the overcoming of the rentier (extractivist) nature of the development model.

## Change, hostage to rent

At the root of all this is the economic indeterminacy of the external rent held by the State. The economic indeterminacy of rent means that its mode of use escapes the valuation constraints that govern profit and wages, as is the case in a market economy. Rent reproduces itself, so to speak, "naturally", without the need to reinject it into production, at least as long as

natural resources are not exhausted. The effect of this indeterminacy is accentuated by the fact that the rent-producing sector operates like an enclosed enclave.<sup>7</sup>

This indeterminacy generates several effects. In particular:

insofar as its knock-on impact on the rest of the economy is weak to inexistent.

<sup>7</sup> The notion of enclave refers to the idea that the extractive industry is, in this case, an enclave activity

- **It makes state intervention compulsory, but confers a special dimension on it.**

The ambivalent and indeterminate nature of oil rents means that nothing compels the State to use them productively, i.e., for accumulation, if not for random extra-economic factors. While the state is dependent on rents, it is autonomous with regard to society. As a result, the state finds itself in a situation where, despite being the sole owner of the rent and therefore the only entity required to find an appropriate use for it, it is not subject to any economic constraint requiring it, for example, to transform it into productive capital.

It is generally accepted that there is a dialectical relationship between the political nature of the State and the presence of rentier resources. Such a dialectical relationship is inherent in any rentier regime, regardless of the physical nature of the surplus product whose export provides the rentier income. The standard schema usually described in economic literature does not allow us to grasp national specificities, often marked by the weight of sociological legacies and historical circumstances.

In Algeria, it would seem that the State's use of oil revenues is part of a political concept rooted in the country's recent history, and in the political ideology that accompanied the country's liberation movement. In other words, the mobilization of rents for economic and social development seems to be dictated by the need to legitimize the political regime, on the one hand, and on the other, by the need to control and supervise society in order to maintain the country's political unity. In Algeria, the State has chosen to be the main actor in accumulation, and in this choice, all economic action seems politically guided by the two imperatives of consolidating the legitimacy of political power and the need to control and supervise society.

- **It also creates a structural imbalance in relations between State and society, which can take several forms.**

In Algeria, politics dominates and exploits rents. The lack of autonomy between the economic and political spheres is an essential factor here, as it hinders the emergence of a

civil society, a sine qua non condition for the emergence of collective actors for institutional change.

But beyond its formal expressions, the problem with the articulation between politics and economics is that it enshrines clientelism as a mode of political action in the economic sphere. In so doing, it removes from the scope of the State's economic action the objective of rehabilitating productive activity, the only way to ensure a sustainable rise in the population's standard of living, in favor of a rationale based on the "political redistribution" of oil revenues. On another plane, the subjugation of economic society to political power is also reflected in the fact that economic relations are often interwoven with political networks, rendering the very notion of competition meaningless. As a result, the economic performance of private enterprise depends more on its clan affiliation and clientelist relations with the political elite than on its productive effectiveness. Under these conditions, the challenge of institutional change would be to establish competitive economic relations that would free or liberate the market sphere from any subordination to political hierarchies. From a certain point of view, the liberal reform project in Algeria is reminiscent of the historical experience of the emergence of capitalism in Europe: to institute the competitive market by freeing individual entrepreneurs from the relations of dependence that bind them to politics. This liberation would go hand in hand with submission, not to individuals, but to rules—the rules of competition—which would tend to constrain economic effectiveness.

- **It gives the symbolic and representations (i.e., the ideological) a disproportionate role in institutional dynamics.**

Visions and representations are said to drive institutional change, just as they constitute an institutional order (Boyer, 2003). Analyzing institutional change in Algeria from this perspective is certainly relevant. The indeterminacy of rents opens up a wide range of possibilities for symbolic or ideological considerations to broaden their scope of expression, to the point of materializing through specific institutional configurations. It

is therefore useful to consider discourse as a vector of change, particularly when analyzing the transformations that have taken place since the end of the 1980s, and which bear the imprint of such discourse.

From this perspective, the pre-eminence of populist ideology is no stranger to institutional deadlock. Populist ideology permeates the workings of both the state (the dominant

coalition) and society. Change in the direction of market rationality is unanimously rejected, even by those who are supposed to support it outright: the national private sector. Beyond its nature, whether rational or not, this unanimity raises the question of the place of ideological, cultural and even religious factors in the dynamics of institutional change.

## Political economy: an asset for change?

In its current configuration, the Algerian economy is more concerned with the transition to a productive economy. The challenge is to encourage the creation of a surplus in value within the national community, and this can only be achieved through an appropriate institutional arrangement, the configuration of which is largely dependent on the State's action.

Here, the State is recognized primarily in terms of its ability to define and implement economic policies. But once a certain autonomy for politics is recognized, a fortiori in the context of a rentier regime, the possibility of the state playing the role of promoter of a specific national modality of integration into the global economy can be considered entirely politically possible.

Historically, the Algerian State has demonstrated such political capacity, even though the implemented project ended in deadlock. In the new international context, characterized by the deepening of international economic relations, such an undertaking may seem extremely arduous, not to say futile. Globalization is often presented as a factor inhibiting any attempt to define an autonomous national trajectory.

In the face of globalization, however, the range of political choices available to the State remains very wide, all the more so since, contrary to what is taught by the dominant theory of international trade, international relations are not reduced to market relations, but often involve decisive political negotiations between states. As with currency and the budget, almost every aspect of a country's international integration is subject to political arbitration.

Many other reasons can explain why it is so difficult for the State to promote a specific national form of integration into global economy.

Recent experience suggests that starting from the autonomy of politics in relation to economics is a highly fruitful avenue of analysis. A historical analysis of the economic practices of the Algerian state shows that the latter is largely autonomous in terms of the institutionalized compromises it codifies and implements. However, this autonomy does not mean absolute independence: it is relative to the historical process of differentiation between both orders, the political and the economic.

The process of differentiation between the political and the economic is the work of stakeholders whose actions are deployed in both fields, in different but not necessarily divergent ways in terms of the respective consequences they have on the nature of the articulation between the political and the economic, and hence on institutional dynamics.

In the specific Algerian context, the following stakeholders in the dominant coalition can be identified:

- In the foreground, a more or less restricted, more or less homogeneous military hierarchy, whose ideological preferences are more focused on limiting access (economic and political) than on opening it up. It is this restricted hierarchy that controls political and economic society via the State;
- A trade-union technostructure, essentially made up of the official UGTA union and a few



other satellite organizations, linked to the State and representing the wage-earning society;

- A private bourgeoisie, linked to military society, operating mainly in import activities or in activities directly linked to public contracts (construction, services). The industrial profile is very much in the minority.
- A technostructure of managers of state enterprises and the administration that is "umbilically" related to the state.

This typology of stakeholders has remained fundamentally unchanged since the opening-up process began in the late 1980s. However, the index of dominance has seemingly undergone a degree of evolution, one of the main features of which is the

increased weight of private capital. The Hirak movement (February 2019) has reshaped the balance of power within the dominant coalition, to the detriment of a segment of private capital.

The role of politics in institutional change is emphasized by all these considerations. A Northian reading of the dynamics at work within the dominant coalition would provide fruitful insights into this question. (North and Weingast, 2010).

These are just some of the issues raised by the question of institutional change in Algeria. An empirical and factual analysis of the changes at play in society is likely to underpin the somewhat abstract account developed in the foregoing lines.

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# EXTRACTIVISM

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## | The Project

The collaborative research project *extractivism.de* links the Universities of Kassel and Marburg. The project scrutinizes the extractivist development model and proposes new economic, political, and sociological conceptions of extractivism. It preliminarily focuses on Latin America and the Maghreb patterns. The project researches the conditions under which these patterns affect the persistence and transformative capacity of extractivism and its respective institutional settings. Finally, it explores how extractivism affects cultural processes and habitual routines and questions under what conditions and how far the development model extends into institution-building and social practice, i.e., everyday life.

The project aims to understand extractive societies not as deviants from the Western trajectory of development but in their own logic and their own particularities. The project, therefore, combines a strong empirical focus with theoretical work. It links both broad field research and data gathering of primary data and the qualitative and quantitative analysis of available secondary sources with a stringent transregional comparison. It develops methods in cross-area studies and investigates whether and why similar patterns of social change emerge in different areas and world regions despite significant cultural, social, or religious differences. Finally, the project intends to translate the findings for politics, society, and development cooperation.

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