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THE PRIVATIZATION PROCESS IN ALGERIA

HACENE BOUKARAOUN

INTRODUCTION

At the end of 1986, Algerian public corporations became the scapegoat for the failure of an ambitious political goal aimed at freeing Algeria from the specter of economic dependency. Understanding the Algerian obsession with being freed from world market dependence is fundamental to any political or economic understanding of that country. Since independence in 1962 and mainly since 1967 Algerian economic policy has been built around a total commitment to industrialization. Economic growth has been carried out through public investment programs marginalizing the private initiative. During 1967–69 the capital formation represented 26.4 per cent of the national resources, then increased to 33.5 and 46.8 per cent respectively during the first (1970–73) and second (1974–77) four-year plans. It reached a "fantastic"[1] rate of 55.4 per cent in 1978. The socioeconomic upheavals experienced after thirteen years of this huge investment policy totally transformed Algerian society.

By the end of the seventies, after years of investment promotion policy, the bitter reality became evident to the policymakers: Algeria was more than ever dependent on foreign markets. Falling oil prices in 1986 and population explosion questioned the entire economic development process. The first to suffer from the oil price decrease were public corporations, because of the reduction in their credit allotment for the import of raw materials, spare parts, and so forth. But for many analysts public corporation inefficiency was the source of the alarming economic situation.

I. ECONOMIC REFORM

The financial and organizational restructuring during the period 1980–85 aimed at the double objective of (i) the separation of the production function from the

This is my third paper on Algerian public corporations. These papers offer a chronological analysis of public corporations since 1962. The first two papers were published in the *Ritsumeikan Business Review* in 1990. The first paper, "Some Aspects of the Public Corporations in Algeria (1962–1978)" [4], introduced political and economic reasons for the emergence of public corporations and their subsequent inefficiency. The second paper, "Public Corporations in Algeria (1980–1985): The Failure of the Restructuring Policy" [5], analyzed the failure of the restructuring policy launched by the government to redress the catastrophic situation of public corporations at the end of the seventies.

In the following text, all the quotations originally published in French were translated into English by the writer.

[1] The modifier used by Ourabah [23, p. 86].

commercial, and (ii) more specialization in production structure to enhance efficiency. However, four years after its implementation, the restructuring policy began to show its limitations and inevitable dysfunctions.

> There are also lacunas in the provisioning system, distribution networks. . .and a problem in market mastery. Newly created corporations have not accomplished their mission. The financial deficits that some corporations continue to register are a negative phenomenon I will no longer tolerate. This situation is not justified after the financial restructuring which cost the Treasury a considerable amount. . . .Next year will be a year of setting things in order.[2]

From the decrease in oil prices in 1985, and the market collapse during 1986–87, there emerged a new reality. Oil rent was no longer available. The billions of dinars in public corporation subsidies were needed to reimburse the external debt and to finance the population's basic needs that the corporations were unable to supply. It became obvious that restructuring was not the ideal policy for dealing with public corporation congenital inefficiency. It had dealt with only an in-house restructuring at that time, whereas the entire economic environment needed to be reformed. The public corporation's existence could not be isolated from its environment.

The government formed an ad hoc committee which published in December 1986 and in June 1987 its first and second reports concerning "enterprise autonomy." The reform project was seen as an undermining of the sacrosanct principles of "Algerian" socialism. But the adoption of the National Charter (1986) gave a new philosophical basis to the economic system. In the preceding charter of 1976 "socialism" was described as an "irreversible" option, while in this newly adopted charter emphasis was placed on the improvement and development of management modes in public enterprises and the amending and perfecting structures (environmental) in accordance with the new objectives.[3] This formulation allowed a wide spectrum of interpretations to be applied to the new charter's fundamental text.

A. *The Institutional Changes*

1. *"Enterprise autonomy"*

Economic reform in its broadest sense focused on public corporation autonomy. This autonomy was also comprehended in its widest sense: that is, managerial and financial autonomy of state-owned corporations and a departure from the traditional concept of tutelage. Reform of the public corporations meant their reorganization as joint stock or limited liability companies operating under private law.

This autonomy was to submit public corporations to direct market mechanism rules. Thus, profit-making was to be the sole consideration that directed their behavior after the implementation of the reforms. But the market mechanism

[2] Speech of the Algerian president at the closing ceremony of the Fourth National Conference on Development [11, Dec. 23, 1986].

[3] National Charter 1986, Title III.

itself at that stage of reform was inhibited by the total monopoly enjoyed by the different corporations in their own domains. There is no doubt that these corporations would register profits thanks to the lack of competition. After years of government price control, these enterprises, as soon as they became autonomous, increased prices instead of trying to eliminate the sources of their inefficiency, which were, in general, due to excessive manpower, management mistakes, and wildcat strikes

One year after enterprise autonomy was enacted, a total of 253 public corporations changed their status to an autonomous entity. This represented almost three-fourths of the 350 public corporations effected under this policy [11, June 30, 1989]. The necessary condition to be eligible for autonomy was that a public corporation should have positive net assets. Nevertheless, a special autonomy account was created to reorganize the financial structure of the corporations that qualified.

What is at stake behind this autonomy policy? The president of the Services Investment Trust Fund answered unequivocally to this fundamental question: "Any autonomous enterprise unable to control itself or unable to manage appropriately its portfolio will die at its own hand (*mourra de sa propre mort*)" [1, Nov. 1989]. At Air Algérie airlines, to cite an example, which had performed well in the past, the matter was taken differently. Its position was that,

> In the past Air Algérie could have become autonomous, but given present conditions I am quite pessimistic. Algeria being not an important international tourist destination..., [Air Algérie] will not be able to finance with hard currency its overseas expenditures. On the one hand, an airbus costs 82 million dollars..., on the other hand, our fleet is entirely redundant... [how can Air Algérie renew its fleet].[4]

Former general directors were appointed by presidential decrees; however, from February 28, 1990 the autonomy measures abolished this procedure. Thenceforth nominations will be the duty of the investment trust funds, and the appointee will no longer have any connection with any state body. After this date none of the autonomous public corporations will benefit from any state financial contribution. Only the businesslike relations of the enterprise's banks will allow it to finance its activities. (As can be seen here, the privatization technique used in the case of Japan's national railways is very similar to Algeria's enterprise autonomy policy in many respects.) After two years of reform all public corporations but eighteen have become autonomous, the remaining eighteen being submitted to a thorough auditing due to their suspect financial situations.

2. *Legislative reform*

As soon as the ad hoc committee submitted its second report in June 1987, the government elaborated six bills[5] to be discussed in Parliament to free public corporations from the former administrative environment. These six laws, if

[4] A representative of the company in an interview in *El Moudjahid* [11, June 30, 1989].

[5] The six laws were published in the *Journal officiel de la République Algérienne* [18, Jan. 13, 1988].

adopted, would transform twenty years of irrational management and would be "a rupture from past thinking and obsolete management that has clearly shown their limitations" [11, Nov. 22, 1987].

The reform policy implies a broad modification of the legislation in course. The concept of shareholding in public corporations was totally ignored by the Algerian code of commerce. Since the introduction of this concept necessary modifications from the legal point of view have had to be enforced. Among the most urgent reforms are worker participation in the management of the corporations (known as GSE), the labor law (called SGT),[6] the penal code, and the commercial code.

(i) Orientation Law: This law distinguishes between public corporations as partnerships and the state as a public power and shareholder. It states that although the corporations will be autonomous they should still remain public property. As such they have to respect the worker participation in the management of the corporation. After the discussion of the government's bill, the representatives in the Parliament added more detail to the project. After its adoption Article 2 of the law emphasized the "socialist nature" of public corporations, which did not exist in the original bill. One can wonder about the meaning of "socialist nature" of a corporation. Though Algerian public corporations did have a socialist "nature," thanks to this law, public corporations can now go bankrupt in the case of durable liquidity shortage or insolvency. The government was, however, given the possibility of subsidizing bankrupt corporations if they are in a strategic sector. The Economic Commission of the Parliament appended another article to the original government bill, which concerned the alienation of the assets of bankrupt corporations. This amendment stated that these assets should be alienated by tenders in priority to other public corporations. If no public tenders are interested in such an auction, then private individuals or enterprises can tender with the condition that the assets do not constitute "a homogeneous set of production." Underlying this, of course, is the apprehension that in the future takeovers of public corporations might be carried out by the private sector under a prearranged bankruptcy.

To avoid one of the main causes of deficit, the members of the Parliament added to the initial project that the government is requested to take charge of all corporation spending induced by all constraints it imposes on them. This law also defined the role of the board of directors. The mandate of its members was considered as incompatible with (a) direct or indirect possession of private business, (b) appointment to high posts of public responsibility, and (c) performing different functions other than public ones.

When discussion turned to worker participation, opposition arose to those who suggested that the workers should be given the opportunity to buy their corporations' stock and to those totally against such a move. The idea of participation itself was also rejected (Article 17 of the law).

[6] GSE stands for "Gestion socialiste des entreprises" (socialist management of enterprises) and SGT "Statut général du travailleur" (general status of the worker). See Boukaraoun [4].

(ii) Planning Law: Public corporations after the promulgation of the different regulations regarding their management autonomy were said to be responsible for their own management. The report of January 1988 elaborated by the ad hoc committee on the "system of plans" stressed the fact that corporations, being businesslike, might be in keeping with the national planning process. The new planning system made the corporations the first level of planning, unlike the former system in which these corporations were subsumed under central government body planning. And more dramatically the report stated that the corporations' medium-term plans would be the basis for the elaboration of the sector activity plan. Thus, enterprises had to move within the sectorial planning system. The system, which used to be national, centralized, and rigid, shifted to a decentralized one with indicative planning recommendations.

The Ministry of Planning was dissolved and replaced by a National Council of Planning,[7] which was constituted by six different ministries. The plan was no longer a matter of a centralized government structure, but the prerogative of a large body representing the whole economic spectrum. In contrast to its former rigidity the planning adopted more democratic recommendations which had originated from the corporations' plans.

The discussions in the Parliament turned around the questions of how to conciliate the requirements of profit-making (*commercialité*) and the imperatives of planning, as well as how to maintain regional equilibrium and how to ensure an equitable repartition of the national wealth. Since the corporations would maximize their profits they would certainly relocate in areas where the communications and facilities were available. These representatives did not see that the public corporations could not resolve these political questions. Instead of focusing on the economic objectives that were at first sight improving the efficiency of these corporations, the debate over the corporations autonomy did not leave the political domain.

(iii) Laws on Banking and Investment: Although the Law on Banking and Credit was promulgated in 1986, the reform movement later caused it to be amended again. The new proposals were made in line with the spirit of autonomy policy. Thus, the banks had to act as profit-making businesses as all other corporations. The new approach allowed the banks to create new structures, to participate financially at various horizontal or vertical levels such as bank to bank or bank to corporation. Oil income decreases forced the government to enforce broad offensive measures to permit banks to collect the large amounts of money hoarded. Under the 1971 law of finance, public corporations had been obliged to be serviced exclusively by a specified bank without the possibility of moving to another. At present, corporations are allowed to choose their own bank. This permitted them to free themselves from the former bank's *diktat* [11, Nov. 23, 1987].

(iv) Foreign Trade Monopoly: The state foreign trade monopoly was regulated by the Law 78-02. This law was amended in July 1988[8] and finally repealed in

[7] Created by the Presidential Decree 87-266 of December 1987.
[8] Law 88-29 of July 19, 1988.

TABLE I

LAWS AND BILLS IN THE REFORM

Law Amendments and New Laws	No.	Date
Banking and Credit Law	86-06	Aug. 1986
Orientation Law	88-01	Jan. 1988
Planning Law	88-02	Jan. 1988
Investment Trust Fund Law	88-03	Jan. 1988
Modification of the Code of Commerce	88-04	Jan. 1988
Modification of 1984 Finance Law	88-05	Jan. 1988
Modification of the Banking and Credit Law	88-06	Jan. 1988
Banking and Investment Law	90-10	Apr. 1990
Bills to Be Submitted to the Parliament		
Code of Commerce		
Laws of Finance (Budget)		
Labor Law (SGT)		
Law on Fair Competition and Commercial Transactions		
Law on External Auditors (*commissariat aux comptes*)		

1990. The state, since the Constitution of February 1989, abandoned its monopoly on foreign trade and is now promoting a new organization to regulate it. Despite the uninterrupted criticism of the act since its promulgation in 1978, the government needed twelve years to recognize the well-foundedness of these criticisms. It said that "monopolies given to public corporations produced more monopolies. Because of this, foreign corporations had, consequently, increased the cost of our foreign trade by 20 per cent."[9]

(v) Labor Law (SGT): Labor relations in public corporations were regulated by the "Statut général du travailleur" promulgated in 1978. This law was the source of the most controversy between managers and policymakers because fixing salaries was considered to be a government duty (see [5]). Despite the juridical upheaval experienced during the first years of the reforms, this law was not amended. It took more than four years of negotiations to attempt even some modifications. The amended law stipulated that in case of economic difficulties corporations were permitted to lay off their surpluses of manpower. It was stipulated also that before engaging in any workers' dismissal, corporations had to look for all means possible such as (a) reducing the working hours, (b) allowing part-time work, or (c) proceeding to anticipated retirement. As can be seen, these are rules regulating labor relations in any private company.

The labor unions were allowed to create their own structures inside private and public corporations. The law makes no distinction between them [11, Mar. 21, 1990].

3. *Joint ventures*

The Algerian debate on foreign capital investment has always been more passionate than rational. Therefore, economic rationality in analyzing such an issue

[9] Prime Minister Hamrouche's interview in *El Moudjahid* [11, June 6, 1990].

was biased from the start. Foreign capital was until recently synonymous with neo-colonialism for the many people traumatized by a long history of colonial injustice, which was characterized by a deliberate 132-year policy of depossession.[10] Stimulating foreign capital was identified as an open door to economic imperialism.[11] The rare joint venture companies tolerated were those operating in the oil and gas industry. The government desire to nationalize the French oil companies[12] and a lack of advanced technological knowhow forced it to set up in the 1960s several joint ventures (mainly with American companies) for technology transfer purposes (Table II).

The abundance of oil income and the huge borrowing capacity during the seventies permitted Algeria to avoid any recourse to foreign capital. At the beginning of the eighties the crucial problem of dealing with public corporation inefficiency created a new reality. Due to the technological choices and an incoherent policy concerning the industrialization options, the enormous need for foreign assistance forced a new approach to joint ventures, which was meant to be palliative to the insufficiencies of the Algerian economy. The government decided to update the old and very severe investment regulations of 1966. In 1982 a new bill was submitted to the Parliament for approval.[13] Although majority shareholding was guaranteed to the Algerian partner through a 51–49 per cent participation rule, in an extremely vocal debate at the time, the government was accused of selling out the national economy and mortgaging the political future of the country.

The unforgettable debate, which had already taken place in 1982, appeared again in 1986. While submitting a new bill to promote a policy urging more joint ventures, the government once more provoked another wave of accusations and widespread rumors about its commitment to safeguarding the national interest. The main argument developed by the opponents of the project was still that national sovereignty would be endangered if such a law was adopted. "Stormy debates, an overheated arena caused by a virulent and passionate interventions on a burning theme: the joint ventures companies" [2, Mar. 30–Apr. 5, 1989, p. 23]. Such was one description of the Parliament atmosphere while the government bill was being discussed in 1986. The reason for this complaint was that the government proposed to eliminate the "51–49 per cent dogma," as it was called by many economists, which constituted a major obstacle for foreign capital. It proposed that in some particular cases the rate of participation should be lowered to 35 per cent. The MPs rejected categorically this proposition to lower the participation rate. The argumentation which sustained this rejection was that "giving more than

10 *Financial Times* wrote, "...Algeria's bloody colonial experience still makes the country's leadership wary of any significant foreign presence. This wariness also complicates the task of liberalizing the economy from central government constraints" [12, Oct. 17, 1988].

11 *Financial Times* wrote, "To date, many Algerians, particularly among ruling Front de Liberation National [*sic*] hardliners, remain nervous about any significant foreign presence" ("Algeria Fails to Tempt Investors") [12, Nov. 24, 1988].

12 They were nationalized in February 24, 1971. For more detail on the nationalization policy, see Boukaraoun [4].

13 Ordinance 66-24 of September 15, 1966. Law 82-13 of August 28, 1982 concerning the regulations of joint ventures.

TABLE II
SONATRACH'S JOINT VENTURES FOR TECHNOLOGY TRANSFER

(Million dinars)

	Year	Capital	Share of SH* (%)	Partnership: Share (%)	Partnership: Partner Companies	Partnership: (Nationality)	Technology of
CAMEL	1962	62,200	48.8	40.0	CONH International	(U.S.A.)	Management of the gas liquification factory of Arzew City
				5.6	Le Méthane Liquide	(France)	
				2.4	Socaldex	(France)	
				1.6	Cofidal	(France)	
				1.6	SDRS	(France)	
ALFOR	1966	3,000	51.0	49.0	Southeastern Drilling Co.	(U.S.A.)	Drilling
ALGEO	1966	1,000	51.0	49.0	Teledyne Exploration	(U.S.A.)	Geophysical works+
ALTRA	1967	5,000	51.0	49.0	Union Industrielle et d'Entreprise	(U.S.A., U.K.)	Civil engineering works
SONEMS	1967	942	50.0	28.0	Ente Mineralio Siciliano	(Italy)	Survey of the gas pipeline between Algeria and Sicily
				20.0	ENI	(Italy)	
				2.0	Bank of Italy	(Italy)	
ALCORE	1969	1,000	51.0	49.0	Core Laboratories Inc.	(U.S.A.)	Geological production and exploration surveys
ALFLUID	1969	2,000	51.0	49.0	Davis Mud and Chemicals	(U.S.A.)	Drilling mud
ALREG	1969		51.0	49.0	Globe Universal Sciences	(U.S.A.)	Geophysical survey

TABLE II (Continued)

	Year	Capital	Share of SH* (%)	Partnership: Share (%)	Partner Companies	(Nationality)	Technology of
ALDIA	1970	50	51.0	49.0	Dresser Industries	(U.S.A.)	Oil wells sounding and diagrams establishing
ALTEST	1970	2,000	51.0	49.0	Baker Oil Tools	(U.S.A.)	Test-drilling, temperature & pressure measurements
ALMER	1970	2,200	60.0	40.0	Société Italienne de Résine	(Italy)	Methanol, resins
ALDIM	1970		51.0	49.0	Christensen Diamon	(U.S.A.)	Casting drilling tools
ALREM			51.0	49.0	DRAVO	(U.S.A.)	Mining research
ALCIP			51.0	49.0	SAIPEM	(Italy)	
ALTEC	1970	250	60.0	40.0	Scandinavia Engineering Corp. Halder Topsoe	(Denmark)	Engineering
ALOCEAN			50.0	50.0	GAZOCEAN	(France)	Methane transportation

Sources: [10, pp. 38, 342] [25, pp. 213, 229].
* Sonatrach Algerian oil public corporation is also known as SH.
+ In 1973, shareholding changed as follows: Sonatrach, 30 per cent; Sneri, 10 per cent; Sonacome, 10 per cent; SNS, 10 per cent; BUM, 25 per cent; and DIAG, 15 per cent. The first four companies are Algerian, while BUM and DIAG are West German.

49 per cent to the foreign partner is enforcing its power over the enterprise, which represents a danger to the national economy and thus questions our political independence." The law was passed and two and a half years later only three joint ventures were established.[14] This law was unattractive for three reasons:

First, the famous "51–49 per cent dogma" discouraged many investors not only because of majority of control issues, but also mainly because it created a psychological barrier. There are many joint ventures in the world created with foreign partners holding less than 49 per cent of the partnership. But the atmosphere which surrounded the discussion of the law demonstrated the "will of domination"[15] by the Algerian side.

The second reason is that the law did not explicitly detail the participation of the foreign partner in the management of the joint venture.

The third reason is related to the duration of the joint venture, which was fifteen years. It is a well-known fact that to reach optimum efficiency many industries need more than this short enterprise time.

On the other hand, the law excluded Algerian private investors from associating with foreign capital. This position is expressed by many economists, among them Professor Benachenhou, who stated that "the national private bourgeoisie should stay under state control and must be imperatively isolated from foreign capital."[16] According to the *Financial Times,* "the fact that the Algerian private sector was barred from associating with foreign ones does not encourage foreign investors to go to Algeria" [12, Nov. 24, 1988].

The economic crisis which followed falling world prices for oil and gas led the government to drastically reduce imports. Combined with the incapacity of public corporations to respond to market needs, social life deteriorated into the dramatic rioting of October 1988 which allegedly left 157 dead. Algeria, since independence, was a politically stable country that had enjoyed a rapidly rising standard of living. These violent disorders so profoundly shocked Algerian society that widespread political reform was launched just four months after the rioting by the adoption of a constitutional amendment abolishing one-party rule and allowing the formation of numerous new parties. Despite this political liberalization, economic conditions continued to deteriorate.

This new political climate led the government in June 1989 to launch a new tentative effort to abolish the "51–49 per cent dogma," in order to attract foreign investors. It submitted a bill to reduce public corporation participation to 35 per cent instead of 51 per cent. During the discussion it added an amendment diminishing the rate still further to 11 per cent. To defend its proposal the government argued that the facts showed that (1) less than ten joint ventures were constituted

[14] Telecommunications (Ericsson), tourism (Daewoo), and car production (Fiat) [12, Oct. 17, 1988].

[15] *Algérie actualité*'s interview with an official in the Ministry of Heavy Industry who participated in the redaction of the bill submitted to the Parliament in 1986 [2, Mar. 3, 1989].

[16] [2, Mar. 3, 1989]. To understand Benachenhou's position it is suitable to say that he was president of the Economic and Social Commission of the sole political party in power, then one of the members of the Algerian *nomenklatura.*

since 1982, and (2) since they had become autonomous, in many cases public corporations were unable, without the help of the government, to finance the necessary 51 per cent of the capital needed. On the other hand, the law to promote joint ventures was an important means to stimulate industrial activity, to enlarge the field of quality production, which in turn leads to a diminishing of imports and an increase in exports. This would improve the balance of payments, generate job opportunities, and develop domestic markets. To convince the Parliament of the good intentions of the government's propositions, the minister of finance cited the example of tires, all of which are imported and accounted for 1 billion dinars per year. The creation of a joint venture for the same amount produced domestically would bring at least technology and knowhow to Algerian industry [11, July 20, 1989]. Neither the efforts by the government to ease the rigidities of the law nor the political shock of October 1988 moved the Parliament from its "ultra-nationalism" or to many economists from their stubborn attitudes shown in 1982 and 1986. The entire bill was purely and simply rejected.

Three months later in March 1990 the government, attempting to face Algeria's present bitter political and economic realities, submitted a new bill which gave every Algerian (not just public corporations) the right to enter into partnership with foreign investors in order to perform any type of business activity including banking and insurance, which had been considered, until that time, as strategic and impermissible even to Algerian investors. More importantly the bill permitted these businesses on a domestic as well as offshore basis. It introduced more attractive fiscal advantages. Contrary to the former law which did not recognize any conflict arbitration but the Algerian one, the proposed bill admitted that the settlement of eventual conflicts may be submitted to international arbitration. Moreover, the bill foresaw the possibility of acquisition, on a majority or an exclusivity basis, of a joint venture by foreign partners. The experience of 1982, 1986, and June 1989 showed that the government was treated almost like a traitor for less than it was suggesting this time. But contrary to all expectations the bill passed, and the Banking and Investment Law[17] was promulgated.[18] Since March 1990 corporations can be owned 100 per cent by foreign capital. All profits can be repatriated. Foreign banks are allowed to open branches. What was years before, even only three months before, "inconceivable" became acceptable and legal.

B. *Threats to Reform*

Enforcement of new laws had little impact in correcting public corporation inefficiency. The restriction on hard currency that was meant to provision industrial units with capital led to a drastic reduction in firm output. Combined with the reduction of imported goods for social needs this created explosive social tension, which erupted in rioting between October 5 and 10, 1988.[19]

[17] Law 90-10 of April 1990.

[18] *Financial Times* wrote, "A *revolutionary* finance law introduced in Algeria..." (italics added) [12, Mar. 23, 1990].

[19] The government official sources numbered 157 (Minister of Home Affairs) and 154 victims

Large-scale political reform was conducted after the rioting. However, freedom of the political expression which was granted for the first time in Algerian post-independence history, was dangerous for the enterprise autonomy policy, since various political forces were using the corporations as a political confrontation field. Since the liberalization of political activity in 1989, no less than twenty political parties were formed. Before that time, worker protests had not been permitted and strikes in the public sector had been banned. As soon as political change occurred these interdictions were ignored and an uninterrupted succession of wildcat strikes inundated all public corporations. Satisfying worker's demands was beyond any enterprise's capability. These claims varied from an increase in salaries to demands for housing. In almost all cases workers barred managers from entering work places at the enterprises and demanded their replacement. The public corporations had now become political arenas where different parties were trying to gain as much influence as possible from the widening strikes.

The economic situation in 1989 reached quasi-catastrophic proportions. Instead of the projected 5 per cent increase, production (excluding agriculture and oil and gas) registered only 0.7 per cent. Industrial production decreased by 2.7 per cent, and construction decreased by 2 per cent. Algeria's foreign debt increased by 1 billion dollars, reaching a total of U.S.$23.8 billion. The creation of 76,000 jobs was 15.5 per cent under the projections. Per capita GDP plunged to U.S.$2,033, compared with the U.S.$2,764 in 1987.[20]

The employment situation was more dramatic. The economic crisis left 1.2 million persons jobless in 1989 [24, Dec. 15, 1989, p. 29]. The unemployment rate in 1988 reached 22 per cent as opposed to 16.4 per cent in 1984.

These results were being recorded at a time when the evolution of external factors was favorable: oil prices were relatively stable, the dollar exchange rate had appreciated, contentious gas contracts had finally been settled. Even climatic conditions permitted a good harvest which helped to reduce cereal imports.

We can therefore conclude that the problems were mainly domestic and the economic crisis had its source not in external factors but within the country itself. If this is the case, during the time that reform legislation was being promulgated, the main reason for the negative results can probably be found in the administrative, bureaucratic management of the existing regulations.

> To complete the economic reforms there is not much else to do, only the full application of reforms has to be achieved. . . .if not, then either centralized management, or the economic liberalism of the developing countries as we know it will force itself to return.[21]

The still-born restructuring policy of the period 1980–85 demonstrated that any approach toward corporation efficiency must begin with the reform of the whole corporate environment. After two years of "revolution" in the legal system,

(Minister of Justice). But mass media reported that at least five hundred people were killed.

[20] Central Bank of Algeria, "Direction des Etudes."

[21] Minister of Finance in an interview in *Algérie actualité* [2, Feb. 8–14, 1990].

and despite the promulgation and total change of the entire legislative texts, regulations and laws in effect, the roots of the former obstacles still had not been removed. The "environment" in the reformers' minds meant the bureaucratic structures, and its essential element was left intact: i.e., those persons who were behind these structures. The poor economic results that were achieved were not only due to a decrease in oil income, which influenced the corporation capital provisioning, but should also be searched for in the managerial methods which did not allow the emergence of a new breed of managers. Those who were conducting the reform locomotive at the highest levels were all former bureaucrats. They only transferred the methods of the seventies and the early eighties to the new situation created by the textual legislative reforms. And more dangerously, the total distrust of political strata after the bloody repression of October 1988 made almost the entire Algerian society reluctant to the sacrifices asked for by the government in order to improve the economy. To add more fuel to the fire of the economic crisis, former Prime Minister Brahimi reported that 26 billion dollars had been embezzled during the industrialization process. Although not confirming this amount, the present prime minister when commenting on the "state foreign trade monopoly law" issue recognized that "the reforms put an end to the gangrene of the state apparatus which was caused by corruption and which has led our country in certain domains into the hands of foreign intelligence services."[22] To succeed, economic reforms need the total commitment and understanding of the Algerians. At present, this is astronomically far from being the case.

II. CAPITALISM WITHOUT CAPITALISTS

A. *Investment Trust Funds*

After the adoption of the six bills at the beginning of 1988, the government formed an ad hoc committee to produce a report on the creation of investment trust funds based on the philosophy contained in these new laws. The report written by this group of scholars and public managers concentrated on ways of transferring and building up state assets.

1. *Ownership transfer*

To avoid the confusion of ownership between public corporation property and the assets of the public domain, the transfer of state ownership to enterprises was realized through the creation of investment trust funds called *fonds de participation.* These investment trust funds, which are presently share (or equity) trust funds, are allowed to act in the name and on behalf of the state. The funds are used to capitalize former public corporations that have become autonomous up to a defined level. The investment trust funds were allowed to manage and to fructify this state capital. In doing so they were empowered to manage the portfolio according to strictly profit-making principles.

[22] Prime Minister Hamrouche's interview in *El Moudjahid* [11, Mar. 5, 1990].

What are these "investment trust funds"? They are public corporations, acting as state trustees, entrusted with public capital in the form of shares in their corporations, thus ensuring their financial solvency and profitability. Their business is the management of investment assets. The investment trust fund is state property and as such is untransferable, inalienable, and not distrainable.

The ownership rights of the state are exercised through the trustees. This fact in the Algerian legislator's mind allows a dissociation between the state as proprietor and the state as public power. Eight investment trust funds, as shown below, were created for managing the public corporations' portfolios (Table III).

F1: Fishing and Food Industry Investment Trust Fund
F2: Mining, Oil and Gas, and Hydraulic Investment Trust Fund
F3: Means of Production Investment Trust Fund
F4: Construction Investment Trust Fund
F5: Chemistry, Petrochemical, and Pharmaceutical Investment Trust Fund
F6: Electronic, Telecommunications, and Computer Industry Investment Trust Fund
F7: Textiles, Leather, Shoes, and Furniture Investment Trust Fund
F8: Services Investment Trust Fund

Since the trust funds were set up as profit-making companies, they have the same hierarchical organizational structure as those adopted for all autonomous public enterprises (Figure 1).

2. *The general shareholders meeting*

The state being the sole shareholder, the general meeting of the investment trust fund assembled at the beginning only members of the government. The president is the prime minister. This general meeting is the same for all the investment trust funds. After a new government was formed, the members of the general meeting are no longer in the government. Nonetheless there still are high bureaucrats in the government organization who participate in the structure of the ruling political party.[23]

In the case of the public enterprises, the general meeting brings together the representatives of the investment trust funds in proportion to their participation in capitalizing the corporations. Companies are administrated by a board of directors composed of at least seven members and a maximum of twelve. The state is allowed to designate two more administrators, but since its promotion of enterprise autonomy it has not used this right for any company. The workers are represented by two representatives. Administrators are designated for six years with one-third being replaced every two years. The board of directors elects among its members a president for the rest of his mandate as administrator. If the general direction of the autonomous enterprise is not assumed by the president of the board of directors, a general director is designated to manage the enterprise. The board is invested with full power to act in the enterprise's name unless that power is a prerogative of the general shareholders meeting.

[23] Since the adoption of the new Constitution in February 1989, the FLN party (National Liberation Front) is no longer the sole political party in Algeria. Up to now, twenty parties have been legalized and officially run for power.

TABLE III

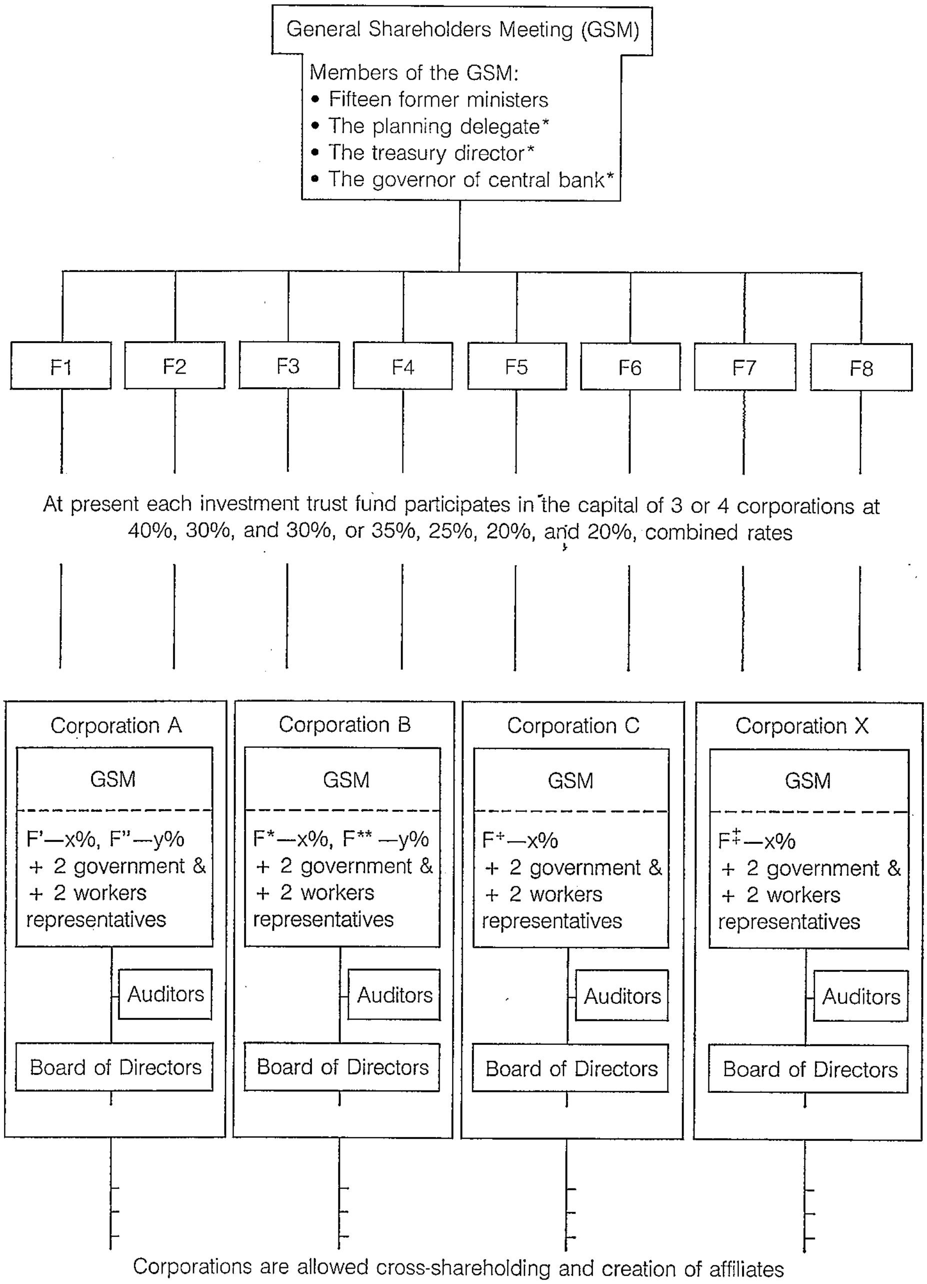
BALANCE SHEET OF THE EIGHT INVESTMENT TRUST FUNDS

(%)

	Total (Million Dinars)	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6	Fund7	Fund 8
Investment	319,222	5	25	21	10	14	15	4	6
Net investment	176,860	6	25	21	10	12	15	4	7
Inventories	48,039	7	16	25	15	10	14	5	8
Net inventories	46,844	7	16	25	15	9	14	6	8
Claims	252,093	9	23	20	9	15	13	4	7
Net claims	251,298	9	23	20	9	15	13	4	7
Total assets	475,002	8	23	21	10	13	14	4	7
Net capital and reserves	48,863	0.5	36	19	7	15	17	−0.5	5
Debts:	426,139	8	21	21	11	13	14	5	7
Investment debt	199,682	4	25	22	9	15	17	3	5
Total liabilities	475,002	8	23	21	10	13	14	4	7
Deficits	−3,842	−21		−24	−19		−2	−15	−19
Profits	185		35			65			

Source: [13, Vol. 4, p. 141].
Note: For the identification of trust funds in this table, see text.

Fig. 1. Organization Chart of the Investment Trust Funds and Public Enterprises



Note: Asterisked members of the GSM have a consultative vote.

The investment trust funds, being public corporations, are under the management of a board of directors and the control of a general shareholders meeting (GSM), which supervises their policy. The first incomprehensible decision with regard to the government's desire to promote corporation autonomy was the nature and quality of shareholder representatives at the general meeting: they were all members of the government. The GSM is the same for all eight investment trust funds[24] and acts in both ordinary or extraordinary sessions. It is very hard to believe that these ministers will act differently than they did when they held direct power over the corporations. The only difference now is that the investment trust funds themselves, which are legally supposed to be free from any external influence, are actually under the hierarchical guidance of the government through the ministers inside the GSM. Before, the tutelage of the minister (then in the government) concerned was carried out through the administrative structure of the ministry. But under the spirit of the law the government is not a stockholder in the enterprise, nor does it exercise any control over the broad policies followed by the management.

3. *The "dominant" investment trust fund*

According to the law the investment trust funds should neither administer nor interfere in the corporation's day to day management. But it has been reported from many sources that in fact there are still numerous cases of intervention in the corporation's affairs by the investment trust funds. Indeed, company managers themselves have requested orientation or directives from their dominant investment trust funds.

When the legislature became aware of the bureaucracy's interventionist tendencies, to avoid the reemergence of the former system of tutelage and intervention into the corporations' management, it ruled that no investment trust fund would hold absolute majority shareholding. Thus, there is at least three investment trust fund shareholders in each corporation. On the other hand, investment trust funds are not holding companies and could not act as such. Investment trust funds are not allowed to hold more than 40 per cent equity in any one corporation. For the time being the participation rate combinations are of two kinds. The first is participation by four investment trust funds at rates of 35, 25, 20, and 20 per cent; the second is participation by three investment trust funds at rates of 40, 30, and 30 per cent. But there is no limitation to the number of trust funds that can participate in the shareholding of one corporation.

The trust fund holding the majority is legally designated as "dominant." As it will be explained, the fact of being called dominant created a confusing situation in the minds of public corporation managers. None of them had experienced management under the shareholding concept during their entire careers. They were used to receiving orders from their client ministers concerning even the most insignificant duties they were expected to carry out. The new situation forbidding the ministries from intervening in the corporations' business[25] led these managers

[24] Act 3 of the Decree 88-119.

[25] The law describes any intervention in the corporations management from any bureaucrat or official as *délit d'ingérence* or misdemeanor interference which is considered by the law as crime.

to seek guidance from the dominant trust fund. Being "dominant" in the managers mind and in the trustees' understanding was a new kind of tutelage. Professor Henni of Algiers University, who was mandated as a member of the board of directors of several corporations, described this fact as follows:

> At the time of their installation, the board of directors elected a president and sometimes nominated a general director. The president was often mandated by the *dominant* trust fund, which led to the confusion in the sense that (i) it [the investment trust fund] was the sole head holding a 40 per cent share of the corporation, and (ii) the president of the board was a quasi-official personage above the other members who attributed to him a role and authority which the law had not conferred on him.... [This fact] has so much perverted the behavior of many general directors or presidents of boards that they come to take their "orders" from the supposedly *dominant* trust fund of their sector [15].

B. *Managerial Instruments*

1. *Financial aspects*

The deficit incurred by public corporations during fiscal year 1988 reached 42 billion dinars. Even the banks were owed by the national treasury, which had borrowed from the central bank 117 billion dinars during the period of the five-year plan. Of the 550 billion dinar investment program within this plan, the public corporations' allotment reached 192 billion dinars compared with state investment of 218 billion. The remainder (25.5 per cent) could not be spent because of various constraints.[26]

Because of the complete interconnection between various financial institutions and the confusion it led to, the financial aspects of the reforms necessitated a total reorganization of the entire financial sector. To allow corporations the necessary commercial assistance from the banking system, the role of the treasury in the financing of investment was abolished. A new law implemented a monetary policy for refinancing the economy by the central bank, which had become autonomous from the Ministry of Finance. Given this law a local capital market had to be developed.[27]

(i) Investment Procedure: At the beginning of 1987 the government promulgated a series of decisions to allow corporations autonomous decision-making in various fields, which included their investment policy.[28] The new approach entirely abolished the former system and totally freed enterprises from the different approvals they had to obtain [4] (long delays involving almost one year) before finalizing any investment. The new procedures neutralized this entire system and allowed the corporations to decide their own policy without any meddling from the ministry in charge. After elaborating their investment plans, the corporations were to negotiate directly the financing of the project with their banks, which

[26] A. Bouzidi in *El Moudjahid* [11, Mar. 12, 1990].

[27] Law 90-10 concerning banking and investment.

[28] "Circulaire du 28 Février 1987": an interministerial guidance of the Ministry of Finance and the Ministry of Planning.

could either accept or refuse to lend on a strictly financially profitable basis. The guidelines gave to the banks a maximum of two months to answer the corporations demand [11, Apr. 26, 1987].

(ii) The Fiscal System: After July 1986 the fiscal burden of the public corporations was lightened and new tax rates were promulgated. They were fixed at 50 per cent of profits after a deduction of the one-third for worker profit-sharing. This reduction of the income tax, from the government's viewpoint, should permit public corporations in the same way as private enterprises to reinvest a portion of their profits. To encourage this, the amount of profit to be reinvested is taxed at the rate of 20 per cent instead of 50 per cent. Public corporations are now permitted to consolidate their income statements and are taxed on a corporation by corporation basis. This is the departure from the former system which taxed public enterprises on an unconsolidated basis.[29]

This period of reform has been characterized by regrettable confusion and the adoption of regulations which while justified at the time had to be changed or concealed some months later. For example, one can cite the income tax which was lowered from 60 to 50 per cent on January 1, 1986 only to be increased one year later (from January 1, 1987) to 55 per cent.

2. *Labor relations*

(i) Strikes and Labor Unions: Labor relations in the spirit of reform follow a total commitment of what is happening in the Western countries. Since the enterprises are no longer subjected to any social function and since their only goal is profit-making, the former legal restrictions have been gradually abolished. The enterprises were allowed total freedom in their policy of hiring and firing. On the other hand, since the Constitution of February 1989 legalized the multi-party system, the monopoly held by the Algeria's sole labor union was officially abolished. Law 90-02[30] allowed workers the right to join the labor union of their choice and the strike was institutionalized as a fundamental worker's right. Only one exception to this right was introduced in the law. Article 43 of the law stipulates that the recourse to strike is forbidden in the domain of essential activities where its interruption would endanger the life, security, or health of citizens, or where its effects would entrain a grave economic crisis.

The approach toward employment taken by the Commission of Economy in the Parliament stated that if the reform were unable to create new job opportunities, this did not necessarily imply a reduction in manpower [11, Nov. 22, 1988]. This totally contradicts the spirit of corporation autonomy. But how could it be otherwise when "hundreds of thousands of government officials and bureaucrats, as well as workers in nationalized companies, are accustomed to job security, free insurance and free health services acquired during a quarter-century of one party

[29] Article 14 of the 1986 finance law.

[30] Law 90-02 of February 6, 1990 concerning the prevention and settlement of collective labor conflicts and the right to strike ("relative à la prévention et au règlement des conflits collectifs de travail et à l'exercice du droit de grève").

rule" [19]. In 1988, 64.9 per cent of the fired workers were from the public sector, 28.8 per cent from foreign enterprises, and 6.3 per cent from Algerian private enterprises [24, Jan. 19, 1990, p. 39]. The new approach as far as the labor relations were concerned is that corporations should not bear any social responsibility and that worker demands must be negotiated freely on a contractual basis. Compared with the so-called GSE and SGT acts of 1971 and 1978 respectively,[31] this decision constituted in 1989 an unexpected and an absolutely revolutionary event in the corporation management. Obviously the abolition of the former single labor union (UGTA) and the formation of numerous new ones in each economic sector and even within some enterprises represents the government's desire to diminish the negotiating power of the workers. This atomization of the UGTA has considerably affected worker unanimity of the previous years.

(ii) Remuneration: As described in an earlier paper [5, pp. 167–69, 174–75], since 1978 worker remuneration and public corporation wage policy was decided by the government. Public corporations were denied any initiative in the field of wages and salaries which had no relation to their financial situation. The reform in this field opened the door to total freedom to fix wages through negotiations between the corporations and workers.

The remuneration of the administrators in the general shareholders meeting comes in the form of a fee for attendance and a percentage of the profits. They are not entitled to any salary. But in the specific case of the investment trust fund the administrators who perform permanent duties in the trust funds are allowed a fixed salary in addition to the usual remuneration.

3. *Globalization*

The organic restructuring policy promoted between 1980 to 1985 split up the so-called "big" corporations, dividing them according to the various activities they were conducting. This specialization concerned mainly the separation of activities into engineering, production, and trading sectors. The negative consequences of such a policy on the public corporations were so disastrous that two years after the restructuring the policymakers totally reversed their former decision and again allowed these enterprises to diversify their activities. One should recall that the economic reforms launched after 1986 were said to be a continuous restructuring process started in 1980. However, the government has shown on numerous occasions its inability to be consistent with that policy. This is also true for the Law on Banking and Credit promulgated in 1986, abolished in 1990, and replaced by the Banking and Investment Law. In the light of these reforms globalization of the corporation's development strategy was considered as more appropriate.

C. *A "Third Way" to Development?*

This section will attempt to show that Algeria's reform policy was deeply concerned with liberalizing public enterprise management. The reform process constituted *stricto sensu* privatization without selling public equity to private

[31] See footnote 6. For detail, see Boukaraoun [4, pp. 73–76].

capital. In the capitalist world enterprise profitability is mainly the result of efficiency and risk-taking on the part of entrepreneurial managers. Market mechanism sanctions do apply not only to competition but also to the manager initiative and the owner's will to protect his capital. In the Algerian case the general shareholders meeting is entirely comprised of bureaucrats, who do not manipulate their own capital, but rather public capital. How could their behavior be any different from the previous twenty-five-year-old approach of direct bureaucratic management? The success of public enterprise reform greatly depends on these bureaucrats. It is amazing and also troublesome to see that the government has entrusted the management of such colossal assets to those who had led many public corporations into bankruptcy prior to the reforms. Investment trust funds are believed to be the necessary barrier to protect public enterprises from bureaucratic meddling. But are they sufficient to make these enterprises efficient? At this stage the answer would be rather difficult to guess. From the viewpoint of liberal economic theory, the failure of Algerian reforms is inevitable and the logical next step in the present process. Nevertheless, succeeding in the reforms would permit Algerian policymakers to legitimately claim discovery of that chimerical "third way" to development.

III. GRADUAL PRIVATIZATION

The Algerian economic system has been described as state capitalism, "Algerian" socialism, social capitalism, social statism, and so forth. Excluding the rhetoric and the propagandistic aspects of a one-party system trying to maintain its *nomenklatura* in power, one can state that there was not any "system" at all, rather a system with an undefined ideological orientation. Opportunism and inconsistency made Algeria an open laboratory for some politicians who through verbal means and coercion experimented with megalomania. Private and public entrepreneurship was among the victims of such a system. The ruling party, although it ignored the private sector to a certain degree and for a certain period, was progressively forced under economic pressure to revise its opinion on the contribution of the private sector to national development. Two points should be made here. First, the existence and the importance of the private sector in economic activity has been related mainly to oil income. From 1962 to 1971 the private sector was encouraged to develop. But because the volume of investment did not come up to government expectations due to the lack of domestic capital, the public sector started to replace the deficient private initiative. Starting from nationalization of foreign oil companies in 1967, oil income and external borrowing became the only sources of investment. This was done under public entrepreneurship. Table IV shows the share of both sectors in the gross fixed capital formation during the 1960s and 1970s. The private share plunged from 153.71 per cent in 1965 to 10.94 per cent in 1974. Such a situation has its roots in oil income oversupply, which opened unexpected doors to bureaucratic ambitions.

Second, as soon as the oil income vanished, the logic of all the system was questioned. The bureaucracy with its chameleon-like policy pushed a multi-

TABLE IV

PUBLIC AND PRIVATE SHARES IN GROSS FIXED CAPITAL FORMATION

(Million dinars)

	Total Investment	Gross Fixed Capital Formation			b/a (%)
		Total	Public (a)	Private (b)	
1965	2,872	2,409 [*sic*]	944	1,415	153.71
1966	2,170	2,199	1,261	938	74.39
1967	3,229	2,719	1,968	750	38.11
1968	4,730	4,130	3,330	800	24.04
1969	6,109	5,745	5,045	700	13.88
1970	8,260	7,600	6,093	1,507	24.73
1971	8,700	8,600	7,215	1,385	19.20
1972	10,440	9,560	9,122	438	4.80
1973	14,300	13,300	11,800	1,500	12.71
1974	21,950	17,750	16,000	1,750	10.94
1975	30,840	27,340	25,340	2,000	7.89
1976	34,585	33,985	31,785	2,200	6.92
1977	41,729	39,348	36,900	2,448	6.63

Source: A. C. Ilmane, "Place, rôle et dynamique du capital privé dans le processus d'industrialisation en Algérie 1966–1977," *Cahier du centre de recherche sur le monde arabe contemporain* (1980), cited by A. Amirouche in [7, p. 67].

directional policy of liberalization by (i) encouraging the private sector, (ii) conducting severe economic austerity programs, and (iii) emphasizing the privatization of public enterprise management.

A. *The Private Sector before Reform*

Algerian policy toward the private sector has been regulated by a succession of laws since independence. Until 1982 the regulations were not very strict. After the adoption of the National Charter in 1976, which stressed for the first time the official ideological approach of the party toward private ownership, this sector was submitted to a set of rules and was recognized for its contribution to the building of the national economy. In 1982, the Domestic Private Investment Act was promulgated and has been in effect since that time, ruling over private sector development. This law outlined a set of objectives, which included among many others (i) employment creation, (ii) participation in the enlargement of national productive capacities, (iii) complementing the public sector in the transformation of industry and subcontracting activities, and (iv) filling the gap in regional development. This law allowed investment projects up to a maximum of 35 million dinars (U.S.$7.6 million in 1982).

Despite the total priority given by the government to its development policy in the public sector, the private sector did have some relative importance in economic activity. It produced 80 per cent of the value added in agriculture, 63.8 per cent in commerce, 30 per cent in construction and public works activities, and between 7 to 45 per cent in the light industries. Nevertheless, Algerian industry was dominated by public enterprises which were creating in 1987 88 per cent of value added in the industrial sector, where private enterprises tend to concentrate in the food industry, accounting for almost 30 per cent of the value added. Textiles, leather and shoes, and wood and paper also account for 30 to 50 per cent. Textile industries are very competitive. Private enterprise production surpasses public production (Table V). The industrial private sector in 1987 was constituted by 838 enterprises with more than twenty employees and 14,081 enterprises with less than twenty employees (Table VI).

The Algerian industrial sector network is constituted, as can be seen from Table VI, of 76.2 per cent small enterprises, which are almost totally privately owned. As for the work force, almost 19 per cent is employed in private enterprises. Table VI also shows that the 88 enterprises which employ more than one thousand workers are exclusively public ones. The analysis for 1987 shows the total work force in the private sector came to 100,138. If we add the owners and the family members who add labor this number reaches 120,641 workers. Compared with the past years one can say that this sector stagnated during 1987.

From Table VII it can be seen that, excluding civil servants (called in Algeria *administration*), the share of public corporations in total employment has increased since 1967. Nonetheless, as this paper is being written, the private sector is still providing most of the employment opportunities in an economic system proclaiming "socialism" as its doctrine.[32] However, comparatively speaking, the rate of employment increase does not correspond to the colossal investment carried out by these same public corporations. It is due mainly to the imported technologies. On the other hand, Table VII shows that in the industrial sector the share of public corporations has expanded considerably since 1967.

As for wages, the average salary in the industrial private sector is far below than that for public enterprises. In the local public sector average salaries increased from 28,400 dinars in 1984 to 42,200 dinars in 1986 due to the SGT law. For the same period salaries increased from 23,100 to 32,600 dinars in the private sector. According to the National Bureau of Statistics this is mainly due to the fact that private sector activities require more unskilled worker than the public sector. The above-mentioned increases were realized mainly in the chemical and machinery industries.

Productivity in the private sector compared with local public enterprises shows that production/work force (PR/L) figures for this sector is well above its counterpart. But, if production is reported in terms of value added (PR/AD), then its efficiency is not much higher (Table VIII).

Professor Bouzidi of Algiers University [7, p. 22] has reached the following conclusions regarding the performances of public corporations and private enterprises: (i) private enterprises have incontestable superiority in management and business "handling"; and (ii) given the same investment ratio, private enterprises realized fivefold the public corporation turnover.

32 It should be noted that Algerian politicians never accepted nor admitted that any economic decision was inspired by Marxism. They use the concept of "Algerian" socialism, which is in my view based on the concept of "social justice." Moreover, these politicians have referred to "Algerian" socialism as being the quintessence of Islamic teaching.

TABLE V

PRODUCTION AND VALUE ADDED OF THE ALGERIAN INDUSTRIES (1987)

(Million dinars)

Industries	Gross Production				Gross Value Added			
	Total	Public Sector		Private Sector	Total	Public Sector		Private Sector
		National	Local*			National	Local*	
Energy and water	4,575.3	4,575.4			3,369.6	3,369.6		
Petroleum and gas	90,020.0	90,020.0			44,882.3	44,882.3		
Mining and quarries	1,225.6	1,014.9	65.9	144.8	855.2	689.1	50.4	115.6
Steel, machinery, and electric	30,696.7	27,363.2	724.4	2,609.2	14,439.9	12,507.4	403.3	1,529.2
Construction materials	6,158.3	4,458.3	876.0	824.0	4,131.4	3,056.1	594.6	480.7
Chemical	5,845.0	4,512.1	232.5	1,100.4	2,158.7	1,569.6	117.4	471.8
Food	22,701.0	18,005.1	37.4	4,658.4	7,760.6	5,590.5	17.9	2,152.2
Textiles	8,466.8	3,894.2	144.8	4,427.8	4,469.2	2,262.5	69.6	2,137.0
Leather, shoes	2,383.1	1,524.3	0.0	858.8	1,160.1	733.5	0.0	426.6
Wood, paper	5,181.7	3,165.7	353.4	1,662.2	2,600.2	1,567.8	235.9	796.5
Miscellaneous	1,122.7	120.1	10.0	992.6	663.6	96.5	7.4	559.8
Total	178,376.3	158,653.3	2,444.4	17,278.6	86,490.8	76,324.9	1,496.5	8,669.4

Source: [22].
* Local collective enterprises.

TABLE VI

PRIVATE ENTERPRISES IN THE INDUSTRIAL SECTOR (1987)

Number of Employees	Enterprises				Work Force			
	Total		Private Share		Total		Private Share	
	Number (a)	(%)	Number (b)	b/a (%)	Number (c)	(%)	Number (d)	d/c (%)
0–9	11,633	76.2	11,629	99.96	34,156	6.4	34,132	99.93
10–19	2,466	16.1	2,452	99.43	34,234	6.4	34,026	99.39
20–49	765	5.0	685	89.54	20,179	3.8	17,264	85.55
50–99	165	1.1	109	66.06	10,670	2.0	7,084	66.39
100–199	77	0.5	34	44.16	10,450	2.0	4,470	42.78
200–499	53	0.3	9	16.98	15,885	3.0	2,374	14.94
500–999	24	0.2	1	0.04	16,427	3.0	788	4.80
1,000–1,999	28	0.2	0	—	40,685	7.6	0	—
2,000–4,999	37	0.2	0	—	114,279	21.4	0	—
5,000 and above	23	0.2	0	—	236,657	44.4	0	—
Total	15,271	100.0	14,919	97.70	533,622	100.0	100,138	18.77

Source: [22, pp. 14, 112].

TABLE VII

SHARE OF THE PUBLIC SECTOR IN TOTAL EMPLOYMENT

(%)

	1967	1970	1974	1977	1979
Agriculture	—	25.3	29.9	32.5	31.9
Industry	48.2	66.1	61.3	65.9	70.5
Construction	43.3	48.2	38.3	42.9	63.3
Services and trade	10.0	14.3	25.4	34.4	33.5
Public transportation	60.0	68.5	68.1	—	54.0
Total (civil servants included)	40.1	42.41	51.96	58.06	57.6
Total (civil servants excluded)	27.2	25.79	32.15	37.47	46.72

Sources: "Rapport annuel d'exécution du plan national" (1982); "Avant-projet du rapport synthétique sur l'emploi" (1983); and "Enquêtes emplois et statistiques," cited by A. Mouffok, "L'emploi en Algérie: Evolution de 1967 à 1983," in [9, p. 137].

TABLE VIII

PRODUCTIVITY RATIOS

	1984		1985		1986	
	PR/L	PR/AD	PR/L	PR/AD	PR/L	PR/AD
Private enterprises	133.2	55.6	171.2	75.6	199.6	97.5
Local public enterprises	100.9	63.1	121.9	73.3	137.1	84.0
National public enterprises	397.1	235.5			235.5	189.7

Source: [22, pp. 29, 71].

Note: PR/L=production/work force. PR/AD=production/value added.

TABLE IX

SOME INDUSTRIAL HIHGLIGHTS AND PRIVATE ENTERPRISE'S SHARE (1987)

(U.S.$ million)

	Public Enterprises			Private Enterprises	Grand Total
	National	Local	Total		
Gross production	32,378.22	498.86	32,877.08	3,526.24	36,403.32
Consumption	16,801.71	193.45	16,995.16	1,756.98	18,752.14
Gross value added	15,576.51	305.41	15,881.92	1,769.27	17,651.19
Remunerations	4,186.84	174.90	4,361.73	655.12	5,016.86
Taxes on production	2,095.49	16.47	2,111.96	440.08	2,552.04
Income before taxes	9,294.18	114.04	9,408.22	674.06	10,082.28
Gross accumulation of fixed asset	3,061.49	45.18	3,106.67	362.59	3,469.26
Amortization allowance	3,639.86	48.75	3,688.61	54.98	3,743.59
Inventories variation	205.99	−60.37	145.62	5.86	151.48
Gross savings	4,676.41	61.84	4,738.25	416.86	5,155.11
Financing capacity	1,502.59	79.37	1,581.96	44.92	1,626.88
Net flux of claims	6,096.98	−102.41	5,994.57	18.49	6,013.06
Net flux of debts	7,409.06	−287.10	7,121.96	40.59	7,162.55
Gross cash flow	6,812.99	89.99	6,902.98	152.53	7,055.51
Net cash flow	2,387.63	64.69	2,452.32	99.80	2,552.12

Source: [22, p. 18].
Note: U.S.$1=4.9 dinars in 1987.

To complement the public sector's deficiency, for example in the maintenance of industrial equipment, the government by easing restrictions on private investment tried to promote and fiscally motivate private capital to invest in this field. This policy was a total failure. The high return on capital in the black market and the commercial sector made investment in the productive sector less attractive than in the underground economy. The private sector, which was marginalized (Table IX) during the industrialization process, invested mainly in speculative activities leading to the realization of colossal fortunes over very short terms.[33] Financially this sector might have been able, if given the opportunity, to take on any activity the government would have allowed. But technically (i.e., in terms of industrial mentality or management initiative), it is doubtful at this stage that the private sector could have overcome the real problems of providing jobs and generating prosperity. In general, it limited its activity to the last transformation process; namely, developing consumption market. Because of market dysfunction due to price regulation and the lack of competition, private enterprises invested systematically in short-term productive activities.

[33] It was reported that already in 1975, just thirteen years after independence, there were already five thousand Algerian billionairs (*Algérie actualité* [2, Aug. 17–23, 1989] citing *El Moudjahid* of 1975).

Since July 1988, as economic reforms were launched, a new law was promulgated[34] to facilitate the promotion of private investment. Formerly the procedures of agreement were under the authority of the Ministry of Planning. When this ministry was abolished, the procedures were lightened and transferred to the provincial chambers of commerce. The investment project ceiling of 35 million dinars was removed.

B. *The Privatization Approach*

The fundamental reason for public corporation restructuring between 1980 and 1986 was to increase their efficiency and then increase their production, thus diminishing Algeria's enormous dependency on foreign markets. This policy was directly backed by the faction that was blaming the public corporations for Algeria's economic woes. One should recall that an uninterrupted debate raged for seven years on the correction of public corporation inefficiency. Some analysts (mainly from the Ministry of Finance) accused the public corporations of being the cause of Algeria's economic dependency on foreign markets. Others replied that public corporate environment was not adequate, therefore the principal reasons for their inefficiency was to be looked for in bureaucratic regulations and the inability to understand the constraints of economic development.

No efficiency enhancing changes were made during the restructuring period in the business environment, commerce (provisioning, distribution), financing procedures, or labor regulations. Worker productivity was as low as before the restructuring option was taken. Housing shortages and public transportation inadequacies provoked high worker turnovers that enormously and detrimentally influenced efficiency.

The economic reforms were intended to make public corporations efficient and profitable. Unfortunately these reforms were carried out too late; and, once promoted, the political situation made them already obsolete before any result could be reached.

Relevant IMF policies had worked nowhere. There was a time when, to cite the Brazilian example, the private sector in particular and capitalism in general was the pride of the liberalizing proponents. The result of such liberalism led to the well-known present squeeze. Algeria with its total commitment to a strategy centered around public corporations has not performed any better than Brazil. Algeria's external debt service presently represents more than 60 per cent of exports. Would privatizing the economy be the panacea to cure this initial economic crisis? The Algerian policy of half-measures to manage former political dinosaurs (which are seen in the reforms to undermine their colossal privileges)[35] and to transform the economy from the bankrupt system will not succeed unless a more radical strategy is carried out.

It has been reported that thanks to some *comprehension* (which means complicity), an estimated 50 billion dinars and 10 billion French francs (together

[34] Law 88-25 of July 12, 1988 concerning the orientation of the national private investment.

[35] The former Prime Minister Brahimi declared in a press conference that 26 billion dollars were embezzled by the policymakers while the external debt was currently 23.8 billion dollars.

equivalent to 10 billion U.S. dollars at the current exchange rate) have been dealt in the parallel financial market [11, June 6, 1990]. It should be noted that the changes that have already taken place constitute an economic revolution in comparison to the former system. Yet, they have not brought about any perceptible economic change. On the contrary, wildcat strikes, double-digit inflation, falling living standards of the Algerian majority constitute the source of an infernal vicious circle. The reforms actually paved the way to future privatization in the strictest sense.

This "disastrous"[36] situation of the public corporations led more and more forces inside the party to lobby for the privatization of agriculture and the industrial sector. Economic reforms were the response in opposition to these insiders. But as the facts show, in 1987 the government leased to farmers for perpetual use the lands it had nationalized in 1971. All the means of production were sold to the former salaried farmers.[37] Despite the former juridical status of these properties making them untransferable, inalienable, and not distrainable when privately owned, in actuality they became transferable, alienable, and distrainable. Inheritance of leases was legalized. "Now government action is replacing rhetoric and jargon. It includes the long-term leasing of land to private individuals and small groups of farmers, greater autonomy for state companies, and encouragement for the private sector. Together, they amount to a minor economic revolution" [12, May 4, 1989]. When the six bills were sent to Parliament in 1987, the government suggested worker shareholding in the corporations. An overwhelming majority of the Parliament's Economic Commission rejected this proposition. The split on the economic policy issue between the government and the Parliament becomes less understandable when one recalls that the MPs were in their totality members of the ruling party just as the government members were. Now in 1990 a new tentative move has been made allowing public corporation shares to be sold to the workers.[38] On the other hand, the law concerning banking and investment forbids expressly any cession of the investment trust fund portfolio to any private, national, or foreign interest.

At first sight this may appear as a contradiction or as an inconsistency from government policy; however, it was a policy well calculated toward radical change in that it was taken very seriously in counterattacks by the parliamentarian conservative faction.

Privatization, in many countries, has intended to deal with (and in some cases specifically target) the permanent inefficiency of public corporations. Since its worldwide promotion, the concept of privatization has had no limited definition. Indeed, empirical research shows as many definitions as the number of countries which have promoted the policy. For some countries, like the United Kingdom and

[36] The modifier used by Prime Minister Hamrouche in an interview in *El Moudjahid* [11, Mar. 5, 1990].

[37] Although the law related to this privatization stressed expressly that only former farmers were to benefit from repartition of land, actually many beneficiaries were the former *nomenklatura* members [11, Apr. 22, 1990].

[38] Prime Minister's interview in *El Moudjahid* [11, Mar. 5, 1990].

France, privatization is selling public corporations in part or in totality to private shareholders. On the other hand, for other countries selling shares is neither necessary nor obligatory to privatize the state-owned corporations. Japan National Railways (JNR) was "privatized" in 1986 and still in 1990 the Japanese government holds 100 per cent of newly formed JR's shares. The "privatization" of JNR was concerned with its management. JNR was regulated and managed as "public law establishment" before its privatization under the Japan National Railways Law. Thus the civil and commercial laws which are normally applicable to private enterprises were not applicable to JNR [26, p. 7]. Privatization in JNR's case was the transfer of this public corporation from its former status to a "private law establishment," in which the corporation would be managed under civil and commercial laws. If corporations are defined as private in this way, then in Algeria there have never been any public corporations. Algerian public corporations have been since their establishment required to be profit-making corporations and have been regulated under civil and commercial laws. However, at no time were these corporations considered by the powers that be as "private" corporations. The colossal deficits they registered led the government to implement the "restructuring" policy of 1980–85. Since this policy failed to achieve their recovery, the government underwent in 1987 an economic reform calling for "enterprises autonomy." As described above, more than four hundred public corporations were affected by the autonomy policy. By JNR's standards this policy can be defined without doubt as "privatization." "The example of Sofretu [French corporations] can be cited in this respect; in the United States and Singapore it is considered as a private company, whereas in Algeria and in Malaysia it is seen as a state-owned enterprise" [3, p. 112]. In Algeria the word "privatization" is still taboo, although the new Constitution of 1989 no longer refers to "Algerian" socialism, which had been described as an irreversible option in the former National Charter.

From a general theoretical approach, exponents of liberalization developed those same traditional arguments related to private ownership that have led to economic success in the developed countries, and also insisted that private ownership is more efficient than public ownership. In my view, efficiency is not synonymous with private ownership. The Nippon Telephone and Telegraph's case in Japan shows a public corporation can be a profitable enterprise. Furthermore, the fact that workers do not own anything under either state or private ownership leads one to the question of whether workers are not exploited. Therefore, one should wonder if efficiency is not merely the consequence of exploitation. This introduces another aspect to the question of public versus private ownership. The fruits of public corporate exploitation are confiscated by an army of bureaucrats and *nomenklatura* members, while private corporation profits are appropriated by a privileged few.

To argue that the growth of developed nations is a consequence of private ownership is nonsensical since in actual fact this development was achieved thanks to centuries of plundering and exploiting former colonies. At present this continues through the manipulation of raw material prices [14, pp. 332, 337–40] and currency exchange rates, aggravating more and more the despoilment of the Third World by transfers induced by external debt. The Algerian minister of finance declared in a conference in Tokyo that 80 per cent of the increase in the debt outstanding between 1985 and 1988 was due to a fall in the exchange rate of the U.S. dollar with respect to the currencies in which Algerian debt is denominated.[39] The IMF adjustment policy regarding Third World countries does not work and in my opinion will never work. The countries of the Third World in general do not possess the historical conditions of primitive capital accumulation like the developed countries. Opening the door to privatization leads automatically to the dynamics of international corporate capitalism. Brazil, Argentina, and Mexico among others are countries who followed this road. In April 1974, in his address to the sixth special session of the UN General Assembly, the Algerian president said:

> Owing to the fact that the developed countries have virtual control of the raw materials markets and what practically amounts to a monopoly on manufactured products and capital equipment, while at the same time they hold monopolies on capital and services, they have been able to proceed at will in fixing the prices of both the raw materials they take from the developing countries and the goods and services with which they furnish those countries. Consequently, they are in a position to drain the resources of the third world through a multiplicity of channels to their own advantage [6, p. 190].

It seems that with the East European situation, privatization will be considered the panacea to overcome the decades of communist economic mismanagement. Yet despite, or perhaps because of the economic shortcomings in these countries, the privatization dogma is causing total blindness to another human threat, which is none other than corporate capitalism. Mankind, with the collapse of socialist development model, seems to have no other choice than the capitalist road. But it is also a well-known fact that development and prosperity of such a system cannot be reached unless it is done at the expense of the popular majority in developed or developing countries alike. The catastrophic consequences of the 1929 crisis ruined millions of small shareholders. The Third World countries (and those who are concerned with their dramatic regression) know very well the slave conditions of their existence. Economic pillaging by international capital with the complicity of local powers totally committed and encouraged to do so is a sad reality. Privatization in the developing countries will not solve their economic problems. Privatization will not help unless a new international economic order is seriously promoted.

Public enterprises exist in all economies whether capitalist or otherwise. Bitter debate with no answers has confronted economists of all tendencies. During the seventeenth and the beginning of the eighteenth century, the mercantilists were the precursors of increasing national wealth and power by means of regulation. Then followed the thought of the classical school, which saw no welfare except in competition and endless laissez-faire policy. Marxist economics questioned very

[39] The statement in "Algeria's Adjustment Efforts: Main Aspects of the Government Programme," a document distributed at the conference held in Tokyo on November 20, 1989, p. 10.

dramatically private ownership considering it no less than theft; while, on the other side, the liberal economist, Keynes, also rejected no less dramatically laissez-faire policies.

Public versus private ownership was and still is a deeply debated subject of economic theory. It remains as a fundamental struggle between economics and ideology. The focus on public corporations shows that there is no contradiction between liberalism and public ownership. The debates on public enterprise are numerous. Thatcher's privatization policy and Reagan's deregulation of U.S. corporations constituted an economic approach to solve a well-calculated and well-created "inefficiency" at that time. On the other hand, in 1986 France demonstrated that privatization issues could be used more for ideological confrontation than for real economic needs.

Contrary to what is happening in Poland and many other developing countries, it seems that Algerian policymakers, despite colossal social pressures, have avoided hurling themselves headlong down the privatization road. A wise approach to the impossibility of erasing thirty years of public and bureaucratic mismanagement has led to the step by step policy of removing the state from its role as entrepreneur. The government opted for an economy regulated by the market mechanism and imposed deep institutional changes such as promoting competition, price liberalization, and granting total autonomy to the public corporations by promulgating the so-called *délit d'ingérence,* which considers any intervention in the public corporation management as crime and punished as such.

The privatization process has followed three steps:

1: In 1981, the state sold the entire real estate it inherited after the departure of the French landlords.

2: In 1987, the agricultural sectors were entirely reorganized. This reorganization was based on a privatization of the state farms accounting for 2.5 million hectares, or one-third of the country's cultivated areas.

3: Public enterprises were freed from former bureaucratic tutelage and were transformed by the Law 88-01 of January 12, 1988 into commercial enterprises. But it should be added that their equity is not transferable outside the public sector.

C. *IMF Measures without the IMF*

Paralleling the broad-based reform conducted to implement an efficient public sector, the Algerian government carried out an austerity policy to cut its budget deficit from U.S.$2,230 million in 1986 to U.S.$770 million in 1987. Imports were drastically cut to improve its balance of external accounts and services (Table X). Foreign debt amounted to U.S.$12.5 billion in 1984 and reached U.S.$23.8 billion in 1989. The direct consequences of the import reduction not only hit daily life but also adversely affected enterprises production because of a scarcity of raw materials and spare parts. This austerity program went so far that even Algerian tourists were directly affected when the government decided to restrict the already insignificant travel allowance. Until 1985 travellers were

TABLE X
EXPORTS AND IMPORTS (1963–88)

(Billion dinars)

	Export	Import	Total		Export	Import	Total
1963	3.6	2.9	6.5	1976	22.2	22.2	44.4
1964	3.6	3.5	7.1	1977	24.4	29.0	53.4
1965	3.2	3.3	6.5	1978	24.2	34.0	58.2
				1979	36.8	32.5	69.3
1966	3.1	3.2	6.3	1980	52.6	40.5	93.1
1967	3.6	3.2	6.8				
1968	4.1	4.0	8.1	1981	62.8	48.7	111.5
1969	4.6	5.0	9.6	1982	60.5	49.4	109.9
1970	5.0	6.2	11.2	1983	60.7	49.8	110.5
				1984	63.8	51.3	115.1
1971	4.2	6.0	10.2	1985	64.6	49.5	114.1
1972	5.9	6.7	12.6				
1973	7.5	8.9	16.4	1986	34.9	43.4	78.3
1974	19.6	17.8	37.4	1987	41.7	34.2	75.9
1975	18.6	23.8	42.4	1988	48.1	43.9	92.0

Source: [21, pp. 43–45].

TABLE XI
CONSUMER PRICES IN ALGIERS

(1980=100)

	1985	1986	1987	1988
General indices	126.6	142.2	152.8	161.8
Food indices	127.5	149.2	160.6	166.6

Source: [16].

allowed to exchange 1,000 dinars (U.S.$209) a year as a travel allowance. In 1986 this allowance was cut back from yearly to every two years for Algerians over eighteen years old. In 1987 a decision was taken by the Ministry of Finance to allow this exchange once every three years. Then it was totally prohibited later the same year. Up until today the only way to exchange foreign currency is through the black market.

Adding to this, a total price liberalization was implemented, which increased inflation to an average of 15 per cent. Although this rate might be considered as reasonable by Third World standards, prices for daily basic needs rose to between 20 and 30 per cent (Table XI).

On the other hand, the government did not act to stop dinar depreciation which reached an official rate of 1:2 French francs. On the black market, it is exchanged at a rate of 1:7. Relative to the U.S. dollar the depreciation is also extremely important as Table XII shows.

TABLE XII
EXCHANGE RATE: THE U.S. DOLLAR TO ALGERIAN DINAR

1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
4.4	4.6	4.9	5.1	4.8	4.8	4.9	6.7	8.0	8.0*

Source: [17, p. 89].
* Exchange rate in January 1990.

The heavy debt service payment had a negative impact on the supply of foreign imports. The government decided to deal with the constraints and, despite the social and economic difficulties involved, promoted the economic austerity program. Since the government considers IMF adjustment policy to be meddling in its internal affairs and reducing national sovereignty, the austerity program carried out was more severe than what is usually imposed by IMF. GDP per capita decreased from U.S.$2,764 in 1987 to U.S.$2,254 in 1988. It plunged to U.S.$2,033 in 1989, a 26.4 per cent drop from 1988.[40]

In Zaire and Morocco, to cite two examples, the IMF delegated its own experts to their financial institutions to elaborate economic liberalization policy. This is one of the inescapable conditions imposed by the IMF to approving necessary debt service rescheduling, a practice which dangerously impedes economic development.

The Algerian debt service reached 60 to 70 per cent of exports between 1987 and 1990. Rescheduling debt maturity is an economic necessity. But in the Algerian policymakers' minds history has shown that when political options interfere economic necessity has never been taken into consideration. At this level an irrational economic approach comes to the forefront and has as its source an inflexible political logic. Calling Paris Club meant passing national political decisions into the hands of foreign institutions. This option is unimaginable in Algeria, where the entire economic development strategy has been built around a total commitment to the promotion of industrialization. This industrialization was financed by oil revenue and external borrowing. Out and out industrialization and public enterprise promotion to excess were the ways chosen to attain the long dreamed of freedom of political decision without foreign interferences. As long as oil income was large this policy proved correct. But this development "model" neglected two factors, which would ultimately cause its failure. The first factor concerned the technology that was transferred by foreign corporations selling their factories and production process. This technology was obsolete and thus did not allow Algeria to compete with the same corporations on foreign markets or even fulfill domestic market demand. This led to a total dependency on imports for public enterprise raw materials as well as the basic needs of the population. The second factor concerns the demographic pressure, resulting from an increase in population from 10 million in 1962 to 25 million in 1990. This yearly 3.2 per cent birth rate is one of the highest in the world. The needs induced by such a growing population eliminated all of its benefits in helping to growth of industry,

40 Central Bank of Algeria, "Direction des Etudes," November 1989.

which is at present unable to satisfy domestic market demand without recourse to importing every product imaginable.

The weight of the foreign debt service poses three alternative solutions to overcome its problems: (i) unilaterally refusing payment (this solution was adopted by the Peruvian government), (ii) soliciting the IMF for rescheduling (which is the common solution adopted by all debtor nations in the world), or (iii) meeting at maturity the heavy repayment with all the expected negative social consequences. Algeria, rejecting the first solution due to a certain undermining of national credibility in its international relations, and refusing any kind of meddling in national affairs by the IMF, opted for the third solution. Algeria is at present the only country in the world which has chosen such a solution.

Price liberalization, import reduction, fiscal restraints on almost all kinds of spending (except for the productive sector), cuts in public spending, devaluation of the dinar, privatization of land and selling of public buildings, and privatization of public enterprise management were all part of the government austerity program to deal with its international obligations. All these measures are IMF recommendations (in effect requirements) for any country hoping for a rescheduling program. Algeria has applied it independently without the benefits it would have expected if done under IMF direction.

CONCLUSION

What are the real differences between public and private enterprises? Why has this "privatization fever" become so widespread? In responding to such a broad question, one can at least summarize the main framework which has led to worldwide privatization policies: (1) public corporations are a priori inefficient, therefore, it is assumed that their privatization is the solution to make them profitable; (2) double-digit (in many cases triple-digit) inflation in many countries can be eliminated, or at least drastically reduced, by selling state property; and (3) ideological struggle.

In the Algerian case, debate over public corporations since 1978 has not yet reached the question of their privatization. At no time was privatization, in the sense of selling shares, even hinted at by the government. The analysis conducted on public enterprise inefficiency came to the conclusion that the government had to create an environment where state enterprises had to meet the liberalized economic conditions: that is to say, they had to come to grips with market mechanism sanctions. The ownership dilemma was resolved through the total separation of state and enterprise property by creating what is said in Algeria *fonds de participation* which can be translated as "investment (or share) trust funds." Through these investment trust funds, reform fathered a new concept where the public corporations no longer had any social responsibility. Their former status was modified so that the institutionalized approach toward social function disappeared, while yet it leaving the way for no-less institutionalized profit-making, which was now to direct the actions of their management. Almost all the literature dealing with the congenital inefficiency of public enterprises emphasizes the fact that these enterprises obey government policy whose objectives (social ones) are diametrically opposed to the goals of private enterprises, whose focus is maximizing profits. At this step the question is what would be the financial situation of public enterprises if they had been allowed by the government to pursue profit-making goals? Obviously, the answer is a political one. Economic reform ("revolution" according to the *Financial Times*)[41] conducted in Algeria since 1988 prepared the ground for a total liberalization of public enterprises due to many reasons mentioned throughout this paper, but also because of the *délit d'ingérence* rule, which can send any bureaucrat or political authority to jail for interference in the management of these enterprises. It is already certain that public corporations will manage their own businesses without any bureaucratic intervention. On the other hand, any financial loss incurred by these enterprises due to external meddling should be given total compensation from the authority which caused the loss. The managers of public enterprises are no longer government appointees. Their status as government bureaucrats was abolished after February 1990. Their unique objective is to be businesslike. Bankruptcy is the fatal issue of any mismanagement.

Without any doubt these management conditions are those of any private enterprise in the free world. Can public enterprises be efficient? Certainly yes. But one has to add that since these enterprises operate in an imperfect market where competition is absent, the efficiency target needs to be redefined. Here is where another aspect of the efficiency concept is to be found in a market closed by government protectionist policy excluding foreign competition and even denying investment freedom to domestic capital in numerous activities.

(March 31, 1990)

[41] See footnote 18.

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