By Mark Pabst, Senior Correspondent

The Bill Comes Due

The Algerian government's preferred method for avoiding largescale civil disturbances is to throw money at the problem, buying off the biggest potential troublemakers. However, with oil prices scraping along at lows not seen since the Great Recession, Algiers is running out of the cash it uses to avoid widespread social unrest.

American writer PJ O'Rourke once described a government as a giant piñata full of things like "full employment, low interest rates, affordable housing, comprehensive medical benefits, a balanced budget and other goodies." According to O'Rourke a "voter is blindfolded and given a stick… (and expected to) swing the stick wildly in every direction, trying to hit a political candidate on the head and knock some sense into the silly bastard." The writer likely intended the quote to be more humorous than accurate, but the piñata metaphor is extremely apt when attempting to understand how the Algerian government works.

During the Arab Spring, when popular uprisings toppled neighboring governments in Libya and Tunisia, the Algerian street was comparably staid. Part of the reason may have been because local protests were already common across the country, with Algerians taking to the streets fairly regularly to protest things like lack of jobs and discrimination against the country's Berber minority. Others speculate that Algeria avoided the more violent elements that characterized parts of the Arab Spring because the Algerian population was too exhausted from the lingering effects of a previous civil conflict. After the military nullified the results of popular elections in 1991 anywhere between 44,000 to 200,000 Algerians (estimates vary widely) died in the decade of politically motivated violence that followed.

However, while the government has remained firmly in control, Algeria did not escape the Arab Spring completely unaffected. In early January 2011, just as protests in neighboring Tunisia looked like they might actually bring down the government, demonstrators took to the streets throughout Algeria. Unlike previous actions, which were usually localized and prompted by a single issue, the 2011 demonstrations were widespread and seemed to encompass anger over everything from high food prices to youth unemployment and the government's practice of occasionally bulldozing squatters' shantytowns. By January 5 major riots had broken out in a number of Algerian cities, with young men burning tires, looting shops, and setting up impromptu road blocks.

The government managed to restore order by using a combined carrot and stick approach. A vigorous police crackdown cleared the streets, but the government also tried to address some of the issues behind the rioting. Taxes on sugar and cooking oil were slashed, civil servants saw their wages increase by almost 50%, and the authorities boosted spending on infrastructure. While the increased government spending and tax cuts did not end all the protests, demonstrations generally went back to being localized phenomena. Ultimately the decision to cut taxes and increase spending undoubtedly played a role in keeping the Algerian power structure intact and the majority of the population compliant. When the International Monetary Fund concluded its consultation with Algeria in 2012, it noted that the country's economy was characterized by a "buoyant non-hydrocarbon sector bolstered by public spending."

Of course, all the public spending that made the non-hydrocarbon sector so buoyant by 2012 was financed largely by the roughly two thirds of government revenue that comes from oil and gas. While various Algerian regimes have paid lip service to diversifying the economy since independence, energy still accounts for 97% of exports. Now, with oil prices down at levels not seen since the darkest days of the Great Recession, Algerians are becoming notably nervous about what the loss in oil revenue will mean for both generous government spending and political stability. Initially the government anticipated an oil price of $90 a barrel when calculating its 2015 budget, a figure it later revised downward to $60. In late July Algiers announced it expected government revenue to fall 50% for the year from previous predictions, and said it would trim spending in its 2015 budget by 1.35%.

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The modest reduction in the budget, even in the face of collapsing oil revenue, reflects a determination on the part of the Algerian authorities to show they are committed to supporting public welfare programs. In early July Algerie Presse Service quoted Prime Minister Abdelmalek Sellal as saying, "(the) government will not adopt a policy of austerity, but a policy of expenses rationalization." However, the economic fundamentals will not allow Sellal and the rest of Algeria's big men to avoid austerity forever. In the first half of 2015 the country posted a trade deficit of $7.78 billion for the first half of 2015, down from a $3.2 billion surplus over the same period a year earlier. Already there is a hint of desperation in the air. Energy Minister Salah Khabri has even publically suggested convening an extraordinary meeting of OPEC to boost prices, something seen as a long shot at best.

Still, there are some who see Algeria's situation as an opportunity. Two Algerian think tanks, *Cercled' Actionet de Reflexionautour de l'Entreprise* (CARE) and *Notre Algerie Batie sur de Nouvellesidees* (NABNI), think the time is right to push through reforms they have long been advocating. Specifically, the groups want the government to restructure social spending to get public funds to the most vulnerable parts of the population. Currently many members of the middle and upper classes enjoy the government's largesse, which means a portion of the $24 billion Algeria budgeted for social subsidies this year are going to people who really do not need the money. Of course, taking government subsidies away from better off Algerians is not without its own types of risks. While the middle class and elites are unlikely to burn tires in the streets and set up their own road blocks, they have a level of political clout that does not exist among Algeria's less privileged. As a result, the government will have to tread carefully when instituting any types of reforms.

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Of course, with the total bill for social subsidies topping out at $156 billion between 1999 and 2012, the government has obviously become accustomed to doling out fairly generous awards to its citizens. If given the choice, Algiers would undoubtedly maintain the current status quo. However, unless oil rebounds significantly in the coming months, the country will be forced to make some sort of change. Ultimately, the current budget problems could turn out to be a blessing in disguise. While the current fiscal problems are painful, they may force the government to make much needed reforms, and the Arab Spring showed that governments slow to initiate much needed reforms can suddenly be swept aside.