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Argentine Agriculture Struggles With Policy Changes

By J. Dawson Ahalt

After decades of relatively little change, there are signs of new directions in Argentina's agricultural policy. These changes stem in part from the sharp decline in world agricultural prices and depressed export earnings. More importantly, they reflect the new found political strength of Argentine farmers especially in Buenos Aires, the nation's biggest and most important agricultural province. However, the ability to sustain these changes should be viewed in the context of Argentina's persistent economic problems.

For the first time in many years, Argentine farmers were courted by candidates in the recent federal congressional and gubernatorial elections. With the September 1987 mid-year elections expected to be close, farmers and the rest of the rural community found politicians interested in farm problems. In anticipation of the elections, the Government implemented a number of policy changes including elimination of some and reduction of other export taxes, higher farm product support prices, and increased availability of credit.

This change in the political standing of Argentine farmers has important implications for international markets and for U.S. farm producers. The shift, if maintained, could unleash significant production increases and expanded farm product exports by one of the top competitors of the United States in international grain and oilseed markets.

In turn, conditions in Argentina are affected by U.S. agricultural policy. For example, the lower U.S. loan rates and large deficiency payments to U.S. farmers associated with the 1985 farm legislation has led to lower world grain prices. These lower world grain prices have reduced the returns to Argentine farmers. In response the Government of Argentina has pointed to the U.S. Export Enhancement Program (EEP) as a principal cause of the fall in world grain prices.

Argentine farmers have responded to the lower relative world grain prices by increasing soybean and sunflower seed plantings at the expense of grains.

A Sleeping Giant

To clarify the implications of these policy changes, it is important to understand the production capabilities of Argentina's farm resources. Their potential production capabilities are immense and could be unleashed with further changes in policies that increase farm returns.

In this rich and sparsely populated country, agriculture is the nation's backbone. The nation's 500,000 farmers farm over 30 million hectares of cropland (compared to about 160 in the United States) and 100 million hectares of pasture land (compared to 270 in the United States). Argentine agriculture is endowed with rich soil, a moderate climate and

largely flat terrain.

Argentina produces far below its potential. Even so, in 1984, a peak production year, grain and oilseed output in the humid Pampas region totaled nearly 44 million tons. This production was equivalent to roughly 1.4 tons per person in

Argentina produces far below its potential.

Argentina—an amount significantly greater than demanded for domestic needs. The comparable level of output for the United States is 1.5 to 1.6 tons. This performance is why in some years Argentina is the United States' number one export competitor for grains and oilseeds.

Yet Argentine agriculture is a "sleeping giant," a name it was given decades ago. Unlike American and European farmers, Argentine farmers in the humid Pampas produce grains and oilseeds with little or no fertilizer. In addition, they operate over half of the nation's cattle herd—a herd that at one time outnumbered the human population by more than two to one.

There are two key farming regions besides the Pampas. The sub-tropical northern region produces everything from



Mild climate and fertile soils produce lush grazing year 'round in the Pampas. Photo by Eugenio Gruppali

citrus, tea, yerba mate, and sugar, to cotton, tobacco and dry beans. In addition to the Andean foothills in the west, this area boasts huge fruit crops and the fifth largest wine industry in the world.

Dry, wind-swept Patagonia in the south is the third major agricultural region. It is spotted with a few sheep ranches that account for roughly two-thirds of the nation's dwindling 25 to 30 million head of sheep.

In this bountiful country with roots deep in European culture, some in the agricultural community claim Argentine

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people have never known hunger. In fact, for a nation with average per capita reported income ranging between \$2,400 and \$2,700 per annum, average food consumption levels are quite high. Its per capita meat consumption is exceeded only by the United States. Annual beef consumption at 80 to 85 kilos per capita is the highest in the world.

Production Could Be Larger

Four decades of severe inflation and capital flight have left Argentine farms substantially undercapitalized. Chronic economic instability and lack of an economic "safety-net" have caused farmers to spread their risks by producing a number of products. Typical farms in much of the Pampas are mixed cattle-crop operations with crop rotations that include pastures to restore fertility. Higher crop prices in the 1970's led some farmers to sell their cattle and specialize in soybeans and corn. However, with today's lower crop prices, farmers who maintain livestock find themselves in less of a financial squeeze.

Argentina's farmers keep their production costs down by limiting purchases of capital and production inputs like fertilizer and pesticides. Tractor sales have dropped sharply in the past decade, and many machines operating today look ready for the museum. An industry source alleges that the average tractor in Argentina is 18 years old.

The low use of chemical fertilizers and pesticides is due to high interest rates and the virtual unavailability of credit in Argentina, coupled with depressed world commodity prices in the past several years. In recent years, Argentine farmers have applied only about 90 thousand tons of nitrogen fertilizer (nutrient basis) to produce 37 to 44 million tons of grains and oilseeds annually. In contrast, U.S. farmers use about 10 million tons of nitrogen annually to produce over 400 million tons of grains and oilseeds. While greatly over simplified, the ratio of grain and oilseed output per ton of nitrogen fertilizer is about 400:1 for Argentina versus 40:1 tons for the U.S.

Antiquated Market System

The infrastructure to move Argentine farm products to market is perhaps in worse disrepair than are the farms. Argentina once had highways and railroads unmatched in Latin America and envied in much of the world. Today its transportation system is badly worn out and it is costly and time consuming to use. Highways in the interior are potholed and railroads are dilapidated. Some freight trains reportedly can reach speeds of no more than 20-25 miles per hour, and rail costs are so high that most grains are trucked to market. Rivers are badly silted and need dredging. In addition, old laws restrict the use of river barges and further escalate shipping costs.

Dominance of Agriculture

Despite undercapitalization, agriculture remains Argentina's most competitive industry. Production agriculture alone accounts for about 15 percent of the nation's reported GDP.



Trucking grain to export terminals such as this is costly to the Argentine farmer.

Farm product exports generate 70-80 percent of Argentina's foreign exchange earnings, and a system of export taxes in recent years has produced as much as 15 percent of its federal revenue. In 1986, export taxes were reduced causing this source of revenue to drop to 8 percent of the federal total.

Traditional Counterproductive Policies

Exploiting Argentina's agriculture to the benefit of consumers began in the mid 1940s during Peron's first presidency. Despite a series of democratically elected governments and a host of military takeovers, Argentina has not permitted its farmers unlimited economic freedom for any length of time.

Argentina has been described as having the most counterproductive agricultural policies among the exporting countries. Export taxes are only one of many policies that have stifled production and contributed to low farm product prices.

Farm prices run at levels equal to roughly half to two-thirds of those in the United States.

Other policies which have penalized agriculture are: overvalued official exchange rates which reduce the competitiveness of Argentine products in world markets; import restrictions (duties and sometimes outright bans) which push up farmers' input costs; and official efforts to hold down food prices (through price ceilings, and government threats to cut off beef exports and permit beef imports and actually importing poultry and pork to augment domestic supplies). Another government effort—"beefless days" in restaurants—is occasionally imposed. These irritate both farmers and consumers.

These counterproductive policies, in combination with high marketing costs and abundant resources, cause farm prices to run at levels equal to roughly half to two-thirds of those in the United States.

New Political Muscle For Farmers

Military governments ruled Argentina from 1976 to 1983. At first there was a substantial opening up of the economy, specifically in reducing or in some cases eliminating export taxes. This relief, however, was short lived. Argentine currency became grossly overvalued, causing exports to become less competitive. Some even called the overvaluation a replacement for export taxes. Later, large government spending on military activities led to huge devaluations of the currency and export taxes were reimposed.

Alfonsin's democratically elected government, which took office in 1983, promised to relieve some of the repressive policies that have long plagued Argentine agriculture. During its first three years in office it honored some of the promises. Import barriers were cut and in some cases eliminated, especially on pesticides and fertilizers. The most significant change came through reductions in export taxes on minor commodities.

With world prices increasingly depressed, Argentine farmers and farm groups continued to press the government for additional relief. The pressure mounted during the second half of 1985 and continued through 1986. Demonstrations broke out, farmers threatened to stop paying taxes, and the Secretary of Agriculture was publicly declared "persona non-grata" by one major farm group. The Argentine government's public response was to try to pin the blame on the export subsidy practices of the European Community and the United States.

The World Bank Enters the Scene

A new signal emerged in 1986. A \$350 million World Bank "restructuring loan" was granted to Argentina in order to permit reductions in export taxes. However since Argentina was short on federal revenue, the loan agreement required that the system of export taxes be replaced with a federal land tax. Since land taxes, in contrast to export taxes, are generally viewed as encouraging productivity, the Alfonsin administration quickly developed a legislative proposal and sent it to the Argentine Congress.

Farmers and farm groups, however, objected strongly to the proposal on the grounds that they were already paying real estate taxes at the provincial level. Moreover, they argued that even though the federal government was reducing export taxes, it still had the authority to raise or reimpose them. The farm community pointed out that export taxes had been reimposed or increased many times in the past when federal revenues were short.

Congressmen from key farming areas supported the farmers' complaints on this matter and the administration's legislative proposal did not move beyond the House Agricultural Committee. Sensing farmer discontent and congressional concern, the administration announced that the federal land tax would be deferred until 1988—after the mid-term elec-

tion. This development was one of the first solid signs of the new political strength of Argentine farmers and their ability to lobby.

Earlier, another combination of significant developments unfolded. They reinforce the view that agriculture has political influence in the current democratic political system. In the 1985 election, members in the President's Union Cívica Radical (UCR) ruling party did poorly in the rural areas in the province of Córdoba. These results apparently caused the "Radicals" to recognize that they would face difficult challenges in the mid-term 1987 elections, not only in Córdoba but in other provinces as well. There was special concern by the Radicals about their prospects in the province of Buenos Aires, the largest and most important province in Argentina.

The Radical party has never had widespread backing by farmers. However, it has always enjoyed more support in rural areas than the Peronist party which traditionally has identified strongly with urban workers especially in the city of Buenos Aires. The farm community and the rural population are much smaller in number than the urban workers. However, the farm community population is sufficiently large that it became a potential swing factor between the two major parties.

Enter a New Secretary of Agriculture

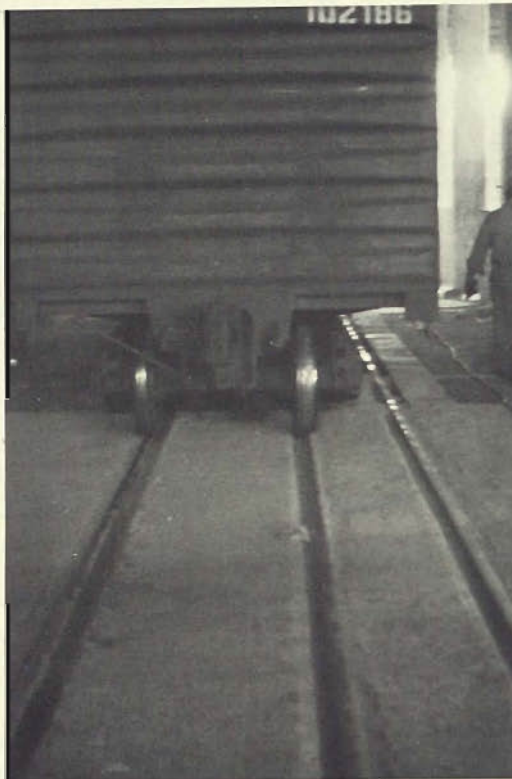
When commodity prices dropped sharply during 1986 and farmers reduced plantings for the second year in a row, the Alfonsin government became increasingly concerned that the rural community would not support its party, the UCR or "radicals." In late December 1986 the Secretary of Agriculture, Lucio Reca, resigned. Reca, an internationally known agricultural economist, was immediately replaced by Ernesto Figueras, whom President Alfonsin described as a "politician." Figueras is a farmer and a grain dealer in the province of Buenos Aires, and was a member of Congress where he served on the Agricultural committee in the lower house.

Although Figueras had maintained a relatively low profile as a member of Congress, he has been anything but a low-profile Secretary of Agriculture. Immediately after assuming office, he

increased the support price for wheat, established for the first time support prices for corn and sorghum, and several months later further increased support prices for these commodities. Then he removed export taxes on cotton and lowered taxes on other commodities.

Working with the Economics Ministry and the Central Bank, Figueras launched a 3-year program to refinance existing loans to farmers with subsidized interest rates. Additionally, Figueras proposed a new, though limited, production credit program for farmers. These steps were noticed by farmers and were hailed by all the major farm organizations, even though most argued for a larger program.

Perhaps what won Figueras the strongest farmer support were his actions and public position on export taxes. He made it clear soon after becoming Secretary of Agriculture that he would like to see them eliminated. Despite budgetary pressures, in mid-July the Government announced the elimination of export taxes on grains and some minor products as well as reductions in the taxes on a number of other commodities.



Various width rails add to cost of marketing
Photo by Robert Zortman

The Focus on Export Taxes

The farm community's enthusiasm for the elimination of export taxes is due not only to economic relief gained by their removal but also for the shift in government attitude that such a policy change implies. Farmers have long accused the government of using export taxes in order to hold down domestic food prices as well as to generate federal revenue. Hence, the near-complete removal of export taxes is perceived as a new direction from Argentina's time-honored policy of trying to maintain low consumer food prices.

Unfortunately, the overvalued exchange rate erodes most of the gains from the tax reductions. In addition, export taxes were only reduced slightly on raw farm products such as soybeans, sunflower seeds, flax, and wool which are further processed into byproducts and taxed at lower rates. The resulting "export tax differentials" enable Argentine processors to purchase raw materials at below world price levels, process them into various byproducts, and export them without, or at reduced export taxes. This differential taxing benefits the Argentine processing industry at the expense of farmers. In addition, the U.S. soybean processing industry claims this constitutes a subsidy and has requested GATT action against Argentine processors. This case has led to considerable discussions between U.S. and Argentine officials over narrowing the tax differential.

Brooding Over Beef

Secretary Figueras has also been vocal about livestock prices. Rather than blame inflation on rising meat prices—a government tactic in the past—Figueras took a different approach. In early 1987 he publicly noted that cattle numbers were dwindling and that the only thing that would encourage farmers to rebuild herds would be higher prices so cattle raising returns could be competitive with other opportunities.

At the same time, government officials fear rising beef prices could set off another round of wage increases and runaway inflation. These fears stem from several factors. First, in this beef-consuming country, beef accounts for 13 percent of the consumer price index. Second, except for agricultural products, most of Argentina's goods and services cannot compete in international markets. Hence, industries are free from the discipline of world markets and when workers press for pay hikes to cover inflation, the cost increases are relatively easy to pass on in the form of higher prices. Moreover, authorities were well aware that cattle herds have been dwindling for several years and that efforts to rebuild herds in an election year would push meat prices up sharply. These concerns led to a decision to import poultry and pork in 1986.

The approach changed in 1987. Less was said publicly about importing meat. On the other hand, a relatively tight monetary policy produced high interest rates which in turn has encouraged investments in financial markets rather than rebuilding cattle herds.

Despite the changes in policy that favor farmers, much discontent and even suspicion continues among Argentina's farmers. One regional farm organization has been especially critical. Additionally, many farmers continue to grumble over general economic problems which they believe are in large part due to mismanaged government policy. Others admit there have been changes, but say they have fallen short of what is needed. Still others fear what may come in 1988 as politicians interpret the results of the 1987 elections.

The 1987 Elections

To the surprise of many, the President's radical party in September was broadly defeated in many districts in the province of Buenos Aires and in other provinces in the September 1987 elections. The radicals' party candidates for Congress and especially for the Governor did not attract sufficient farm and rural vote to offset the larger number of urban voters who apparently supported the Peronist party. In some rural areas of the province of Buenos Aires, rural voters may have shifted their support to the more conservative Union of Democratic Centrist Party (UDC) or other conservative candidates.

Part of the reason for the radical party's poor showing may lie with poor performance of the economy. Some believe that if the government had made

changes in other parts of the economy as it had in agriculture, the outcome may have been different.

These election results do not necessarily mean a reversal to the extremely discriminatory policies toward agriculture. For example, the nation's poor economic results in late September and early October were of great concern to the Alfonsín administration. Rumors spread in early October that export taxes would likely be reinstated at the budget Secretary's urging to capture needed federal revenues. This development dominated the news in agricultural circles for a short while. But it also sparked a public threat of resignation by Secretary Figueras should export taxes be reimposed. In the end, export taxes were not reimposed even though federal revenue was desperately needed. In contrast, late in the year the Argentine government developed a legislative tax package designed to raise revenue from a variety of sources. Taxes on petroleum products including diesel fuel were increased sharply. As could be expected, these proposals sparked stiff opposition from all farm groups.

Also raising discontent was the mid-October decision by the federal government to impose price ceilings on major consumer goods (including meat) at retail. However, it went even further and placed price ceilings on live cattle and old-crop commodities for several months. It would seem the motivation for action was to demonstrate to urban workers that price controls were being applied equitably across the board. Even so, the discontent created in the farm community at spring planting time has unraveled a large share of the political support gained earlier in the year.

New Policy Noticed

Nonetheless, there are some clear signs that some shifts in policy have taken place. Seasoned farmers readily admit that 1987 was the first time an elected government overtly courted the farm vote. The president of the most prestigious and

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most conservative farm organization in Argentina publicly called Secretary Figueras an "interlocutor real" (a real spokesman) for farmers. While the longer-term outcome remains to be seen, the magnitude and impact of these changes will be closely watched both inside Argentina and abroad.

