

130 Days: The Politics of Redistribution in Argentina

Michael Cohen¹

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The conflict over taxes on agricultural exports in Argentina has its historical roots in the fact that most governments in the 200 year history of the country have taxed agricultural exports to generate revenue for other purposes. The country has a huge potential for producing food and grains; a recent estimate is that it can produce enough food for 450 million people, in contrast to its population of about 38 million. It is also one of the most unequal countries in the world, with the top 10 percent receiving about 30 times what the bottom 10 percent receives, down from about 50 times in 2002. 30 percent of the population lives below the poverty line, many in rural areas. There has always been a significant group of powerful, wealthy rural landowners who appear on the political scene whenever their interests are being challenged.

On March 11, 2008 the Government announced the introduction of a new system of sliding taxes on soya, wheat, corn, and sunflower oil which would depend on world prices - as prices increase, the percentage of tax would increase - in order to capture some of the windfall gain but also to protect the purchasing power of Argentines by subsidizing various essential food items such as milk, cooking oils, and others. Global price increases of crops such as soya have seriously affected the prices of other foods in Argentina and other countries such as Brazil and Mexico as farmers substitute these high-priced crops for food crops.

The Government proposal involved a major increase – from 35 to 45 percent - in the export tax on soya, whose world price has increased from about \$330 a ton in March to about \$570 a ton in July. The objective of the tax increase was to raise funds to redistribute income from the rich to the poor, through subsidies, social services, and other programs. About US\$1.2 billion was the expected revenue for this purpose.

¹ Professor of International Affairs, The New School, New York

Large farmers organized and claimed that this was unfair and would cut into their projected incomes. Four major agricultural organizations joined together in the protest, including both older conservative organizations of large farmers with a federation of small producers - an unlikely coalition. They set up illegal blockades on various highways around the country and threatened to stop all shipments of food grains for export and also for consumption in urban areas. After about 2 weeks of negotiations during March, a one month ceasefire was decided, but after that time, with no agreement in sight, the farmers once again went on strike, holding demonstrations, and sounding increasingly political in their demands. Some of these organizations included people linked to the military dictatorship of 1976-1982.

The farmers' response was very striking because the ability to sell such quantities of commodities does not depend just on world prices but also on the Government's management of the value of the *peso* in relation to the dollar, allowing Argentine exports to be cheap for foreign purchasers but providing huge profits for the exporters. The Government's policies have very much been pro-farmer, including a wide variety of subsidies such as for fuel for trucks bringing crops to market.

In order to resolve the conflict, the Government announced in late March that these tax increases would not apply to small farmers and it also reduced the rates for medium-sized farmers and introduced additional subsidies of various kinds for small farmers. (An average small farm is about 200 hectares which is worth over US1 million, hardly small in terms of its value.) There are many informal laborers working at low wages on these farms and one of the Government's policies has been to try to bring these people into the formal labor system with health care, pensions, and of course, the obligation to pay taxes as well.

Despite various efforts since March to meet the demands of "el campo", the conflict continued over 130 days, demonstrating that the protestors were not so poor and that they had some powerful economic backing. Only in the latter stages of the conflict was the importance of the large multi-national exporting firms such as Cargill and seed companies such

as Monsanto been acknowledged as having major interests which could be affected by tax increases.

While the Government's policy orientation and intention was well-founded, it did not demonstrate the technical and political skill needed to effectively introduce the policy and to respond to the powerful rural farm groups supported by the media at key points during the conflict. These challenges included adequately explaining the measures at the beginning, as well as their objectives and the intended use of the additional revenue. In the face of an aggressive and professional media campaign by the farm groups, the Government was unable to distinguish between large, medium, and small farmers, with the result that it provoked more solidarity among farmers than should have been the case. Key unmentioned issues included the unequal distribution of land, for example with 40 families owning a substantial share of the best land in the country and wealthy foreigners such as Luciano Benetton, the Italian clothing magnate, owning 900,000 hectares. Even though eighteen companies control about 80 percent of grain exports which they sell through multi-national firms such as Monsanto, Cargill, Bunge, and others, this issue was largely overlooked in the discussion of export taxes.

The Government had difficulty sustaining a process of continuous dialogue with the farm organizations and allowed itself to be drawn into a conflict in which it did not demonstrate the asymmetrical character of the negotiations, i.e. that it was government and the farmers were only one segment of society. Here again, the Government was very much hindered by the media in which the two largest newspapers, *La Nacion* and *Clarín*, both have large agricultural holdings and interests themselves. The media, including most television channels, consistently sided with the farmers, and made it difficult for the Government to explain its position. With these obstacles, the Government was unable to find alternative ways to get out of the crisis.

With this disposition of forces, the Right, represented by the farmers, appears to have anyway been preparing to attack the intention of the new Government of President Cristina Fernandez de Kirchner to redistribute income towards the poor and, as the export tax blockades demonstrated, it was prepared to use non-institutional means to do so. The farmers'

organizations severely disrupted the country from March through July 2008, limiting supplies of food, gasoline, medicines, and many other goods which were needed by the population. While these actions were clearly extra-institutional and thus “anti-democratic”, the Government did not forcibly remove protesters from the more than 150 highways which were cut - not wanting to introduce violence into the situation, given Argentina's past history. There was much debate about whether this response was too lenient and allowed things to get out of hand.

After many marches and demonstrations, the President, Cristina Fernandez de Kirchner, decided in mid-June to send the draft tax law to the Congress - which she could have done in March and avoided much of this crisis. This decision seemed to calm down the crisis but the legislative rules did not allow real changes to be made in the draft law, so there was much bad feeling. Some governors, mayors, and other supporters of the Government deserted the ruling party.

On June 25, the Government took out a full page advertisement in the country's newspapers under the title, “Each Argentine has the right to be informed”, which included the following points:

- In the first five months of 2008 the country had exported 28.8 million tons of grains, or 893,000 more than in the same period in 2007. Exporters had earned 63 percent more than in 2007.
- By May 31, 2008, producers had exported 18 percent more soya than in 2007, and 80 percent of this had been exported during the conflict.
- Argentina remained the second largest exporter of corn in the world, having exported 7.4 million tons up to May 31, or 9 percent more than in 2007, with a 71 percent increase in earnings.
- The country had exported 144,000 tons of meat up to May 31, or 14 percent less than in 2007, but this had earned 13 percent more than in 2007.
- Export earnings were 175 percent more than 2007.

- Sunflower oil exports had increased by 25 percent but earnings had increased 144 percent.
- The Government concluded that this lockout had not been for exports, but had created scarcity for Argentines. The exports showed that the times were good for the exporters. The lockout had been domestic, not external.
- The Argentine people and their representatives should know the truth.²

On July 5 the bill passed the Lower House by 129 to 122. In the two week interval preceding the vote in the Senate, there were large demonstrations both for and against the proposal to be decided upon by the Senate. On July 17, at 4 am, the proposal was surprisingly defeated in the Senate 37 to 36. After the senators ended up with two tie votes, the Vice-President, Julio Cobos, from the Radical Party but still a member of the Government and constitutionally President of the Senate, cast the deciding vote against his own government's proposal. This dramatic decision followed a long explanation by Cobos in which he stressed that his concern was to reach a consensus on the export taxes and not just to support a proposal which did not have the support of the majority of the country. He said he had asked for time to look for alternatives but this did not appear possible. He concluded his remarks with the comment, "history will judge memy vote is not positive."

On July 18, the President announced that the Government would follow the wishes of the Congress and rescinded the tax regulations which had gone into effect on March 11. This meant that the tax rate for soya exports dropped from 45 to 35 percent and immediately handed a windfall gain to rich farmers and the multi-national exporting companies. This additional profit is estimated by Critica, an independent and anti-Government newspaper, to be about US\$530 million. At the same time, the small farmers

The President also met with the 150 legislators who supported the Government's intention to redistribute income to the poor. She pledged to continue this policy orientation

² *Presidencia de la Nacion, "Todo Argentino tiene derecho a estar informado"* in La Nacion, June 25, 2008, p.11

and emphasized the importance of supporting democratic institutions and processes. The role of the Vice-President, Julio Cobos, remains to be determined.

This episode of 130 days clearly shows that the politics of redistribution are very tough and, given the history of Argentina, sometimes quite scary. As of end July, it appears that the Right has managed to stop this tax measure and has seriously weakened a government with progressive intentions. But the Government has many tools and means to continue to address the issue of inequality in the country. Cabinet changes at the end of the month are intended to reset the President's agenda and to start to follow through on what she describes as "a political project."

It is also important to stress that this episode fits within a larger set of current global conflicts about the issues of food and energy price increases and their impacts on the poor. These have not only appeared in Latin America, but are also occurring in Asia, Africa, Europe, and even in North America. As some observers have noted, including the World Bank, one of the causes of food price increases has been global financial speculation: as financial markets have fallen in the United States and Europe due to the mortgage crisis and recession, speculators have sought other more profitable investments. Food and other commodities have been obvious opportunities for speculation. The world at large and individual governments are only now learning about the political, economic, and social costs of price increases and the difficulties to cushion the poor from the greed of profiteers and market forces.