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Argentina Farmers Strike: Refusing to Foot the Bill for the Kirchners' Populist Politics

James M. Roberts

Peronists Néstor Kirchner and Cristina Fernandez de Kirchner, the presidential couple who have ruled Argentina since 2003, have exploited record-high commodity prices to finance their leftist-populist policies. Keeping the peso artificially low, they have overheated the economy and stoked exports and inflation, heavily taxing the former and attempting to conceal the latter. Now their soybean-stuffed chickens have come home to roost.

When President Cristina Kirchner's now-former Finance Minister Martín Lousteau raised taxes on agricultural exports to 44 percent earlier this year (the third increase in six months), the farmers said "basta!" (enough!); staged a 21-day strike; and blocked shipments of food, both for export and to Argentine cities. The farmers demonstrated peacefully, but the government responded at times with police brutality and deployed their usual populist weapon—Communist rent-a-mobs.¹ A 30-day truce ended May 2, but the Kirchners have refused to negotiate a lower tax rate with the farmers. On May 7, the farmers resumed the strike with little hope of a settlement.

Instead of perpetuating wasteful welfare state handouts and income redistribution based on an unsustainable economic model, the Argentine government should look west and emulate the success that Chile has enjoyed from a combination of neo-classical economic reforms, privatizations, and limited government.

Farmers vs. Fascists. There is an old political economy joke about cows:

SOCIALISM: You have two cows. The [S]tate takes one and gives it to someone else.

COMMUNISM: You have two cows. The State takes both of them; gives you the milk.

FASCISM: You have two cows. The State takes both of them and sells you the milk.²

Then there is the current version of **PERONISM:** You have two cows. Néstor and Cristina Kirchner take the milk, export it for record-high world commodities prices, and give the farmers whatever money is left over after the Kirchners pay off their political cronies and subsidize their urban-poor political base. If the farmers can't cover their costs, too bad.

Reduced Economic Freedom. Néstor Kirchner (President from 2003–2007) and his wife and successor, former Senator and current President Cristina Fernandez de Kirchner, have used revenues from commodities exports to finance the leftist-populist policies that have kept General Juan Peron and his political progeny in power in Argentina more or less continuously since the 1940s with a simple but economically destructive formula: wasteful welfare state handouts, a swollen bureaucracy to redistribute wealth, and powerful closed-

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(202) 546-4400 • heritage.org

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shop trade unions protected from foreign competition, all of it generously lubricated with corruption. Anyone raising serious objections risks a visit from political thugs.

Of course, the Kirchners' policies have exacted a terrible human toll: Some families in poor Peronist barrios have been unemployed and on welfare for three generations.³ As the *CIA World Factbook* reports:

Although one of the world's wealthiest countries 100 years ago, Argentina suffered during most of the 20th century from recurring economic crises, persistent fiscal and current account deficits, high inflation, mounting external debt, and capital flight. A severe depression, growing public and external indebtedness, and a bank run culminated in 2001 in the most serious economic, social, and political crisis in the country's turbulent history.⁴

At the Mercy of the State. The structural problems in Argentina's economy are outlined in the *2008 Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*, which reports low scores on property rights, labor freedom, freedom from corruption, and especially financial freedom:

The [2001–2002] foreign debt crisis remains unresolved, and local capital markets are not healthy for entrepreneurs. Political interference with an inefficient judiciary hinders foreign investment, and numerous popular and official obstructions of due process make international courts preferable to Argentine courts.⁵

Argentina scored only 55.1 out of a possible 100 (with zero being “least free” and 100 indicating “most free”), making it only the world's 108th freest economy out of the 157 countries ranked in the *Index*. Its low rank (23rd out of 29 Western Hemisphere countries) reflects how far behind Argentines are from those they consider peers: Canada, the U.S., and Chile.⁶

The *2008 Index of Economic Freedom* specifically praises the Chilean government's openness to foreign investment as well as its effort to fight corruption and protect property rights. Overall, rule of law in Chile is “remarkably open and transparent.”⁷ Rather than reviving Juan Peron's disastrous 1960s-era protectionist “import substitution” policies,⁸ the Chileans are leading South America in seeking free trade agreements with any and all potential trading partners. They see the value of globalization and are not afraid of it.

Even fellow leftist and President of Brazil Luiz Inacio Lula is doing a better job of governing than the Kirchners. Lula has called inflation a “degrading disease,” preferring fiscal restraint and support for Brazil's central bank anti-inflation measures. “Foreign direct investment to Argentina rose just 12 percent last year, compared with an 84 percent increase (to a record \$35 billion) in Brazil.”⁹

The Kirchners' Smoke and Mirrors. To launch Argentina's economic recovery in 2002, the government devalued the peso and defaulted on foreign debt. As *The Economist* notes, “Devaluation worked: the economy roared back to life.”¹⁰ President Néstor Kirchner assumed office in 2003 and continued

1. Author's notes, visit to Buenos Aires, Argentina, March 25–April 2, 2008.
2. John J. Stiver, Ph.D., “Economic Jokes,” University of Notre Dame, Mendoza College of Business, at <http://www.nd.edu/~jstiver/jokes.htm> (April 29, 2008).
3. Author's notes, visit to Argentina, March 26, 2008.
4. U.S. Central Intelligence Agency, *The World Factbook*, “Argentina,” April 15, 2008, at <https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html> (May 2, 2008).
5. Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc. 2008), pp. 83–84, at <http://www.heritage.org/index/countries.cfm>.
6. *Ibid.*
7. Holmes, Feulner, and O'Grady, *2008 Index of Economic Freedom*, pp. 137–138.
8. Daniel T. Griswold, “Open Trade: An Important Milestone,” in Marc A. Miles, ed., *The Road to Prosperity: The 21st Century Approach to Economic Development* (Washington, D.C.: The Heritage Foundation, 2004), pp. 82–84.
9. “The Tortoise and the Hare; Brazil and Argentina,” *The Economist*, March 22, 2008.

the weak-peso policy “mainly to protect local industry,” but foreign investors, having been burned before, did not rush to return.¹¹ The U.S. State Department reports that continuing Argentine arrears include over \$20 billion in default claims by international bondholders and over \$6 billion owed to official creditors, “legacies of the 2001/2002 economic crisis that remain to be resolved and adversely impact Argentina’s investment climate.”¹²

Mr. Kirchner’s solution to insufficient new private investment was to increase government spending and raise wages and pensions. Growth continued, but inflation skyrocketed.¹³ The Kirchners “white-washed the effects of inflation” by canceling publication of poverty statistics by the government.¹⁴ Their ideological soul mate, Venezuelan President Hugo Chávez, helped by paying off much of Argentina’s \$5 billion-plus official debt.¹⁵

Néstor Kirchner turned over the reins of power to Cristina Kirchner in late 2007, but his heavy hand remains visible. Most of her ministers are holdovers. The Economist Intelligence Unit summarizes Cristina Kirchner’s current policies: “continued commitment to a weak currency policy... and to the heterodox measures, such as price caps, cross-subsidies and export taxes, which have been used to contain the resultant acceleration of inflation.”¹⁶

Farmers Have Had Enough. Leaders of the striking farmers maintain that the real source of economic growth since 2001 is increases in prices and quantities of soybean exports. “Cultivation of soy has nearly quadrupled since 1990 and now consumes about half the country’s farmland, generating nearly \$25 billion a year in export income.”¹⁷ Farmers complain that they “are being asked to carry an excessive burden by a populist government that is unable to get its spending in line.”¹⁸

Cristina Kirchner has managed to make the farmers more united than at any other time in the past 50 years.¹⁹ During their 21-day protest in March, “thousands of farmers erected some 400 road blocks in central Argentina, leading to unprecedented shortages of food and raw materials in major urban centers.”²⁰

Although they declared a 30-day truce to allow the government to climb down from Cristina’s initial “authoritarian and unstatesmanlike”²¹ response to the strike, the Kirchners apparently did not like the advice on how to resolve the situation from their bright young Finance Minister, Martin Lousteau—one of the few new faces in their government. He resigned on April 24, reportedly frustrated that the Kirchners blocked his efforts to “restore credibility to official statistics” by announcing that the true rate of inflation in Argentina is 25 percent (versus the official figure of 9 percent).²²

10. *Ibid.*

11. *Ibid.*

12. U.S. Department of State, Bureau of Western Hemisphere Affairs, “Background Note: Argentina,” February 2008, at <http://www.state.gov/r/pa/ei/bgn/26516.htm> (May 2, 2008).

13. “The Tortoise and the Hare; Brazil and Argentina.”

14. Monte Reel, “Argentina Tries to Reconcile Exporting Food with Prices at Home,” *The Washington Post*, April 26, 2008, p. A8.

15. Daniel Helft, “Argentina Pays Off Entire \$9.5 Bln Debt to IMF (Update3),” Bloomberg News, January 3, 2006, at http://www.bloomberg.com/apps/news?pid=10000086&sid=aHzqoAPRdVKw&refer=news_index (May 5, 2008).

16. Economist Intelligence Unit, *Argentina: 2008–2009 Country Outlook*, EIU ViewsWire, February 1, 2008.

17. Reel, “Argentina Tries to Reconcile Exporting Food with Prices at Home.”

18. Drew Benson and Matt Moffett, “Argentine Farmers Find Voice: Alfredo De Angeli’s Folksy Style Looms Large in Tax Fight,” *The Wall Street Journal*, April 28, 2008, p. A13, at <http://online.wsj.com/article/SB120934065973348401.html> (April 30, 2008; subscription required).

19. Cristina in the Land of Make-Believe,” *The Economist*, May 3, 2008, p. 46.

20. Argentine Economy Minister Fired,” Agence France-Presse, April 25, 2008.

21. Cristina in the Land of Make-Believe.”

22. *Ibid.*

After encountering continuing intransigence from the Kirchners since suspending the strike, the farmers returned to the blockades on May 7. Cristina Kirchner's popularity has fallen dramatically since the strikes began and is now down to only 23 percent.²³

Conclusion. Instead of wasteful welfare state handouts and income redistribution based on an unsustainable economic model, the Argentine gov-

ernment should look west and emulate the success that Chile has enjoyed from a combination of neo-classical economic reforms, privatizations, and limited government.

—James M. Roberts is Research Fellow for Economic Freedom and Growth in the Center for International Trade and Economics (CITE) at The Heritage Foundation.

23. Bill Faries, "Argentine Farmers May Suspend Strike to Revive Talks," Bloomberg.com, May 20, 2008, at <http://www.bloomberg.com/apps/news?pid=20601086&sid=aiHIR1gW7QJ8&refer=news> (May 20, 2008).