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Argentina: crisis, adjustment policies and agricultural development, 1980-1985

*Luis R. Cuccia and Fernando H. Navajas**

This article is chiefly concerned with the dominant trends in agriculture and the economy up to the crisis of the 1970s and the adjustment programmes and their effects on the sector, and it offers some thoughts about the main challenges and the role of agriculture in tackling them.

The authors stress as important precursors to the crisis the changes in the supply of exportable goods resulting from the rapid expansion of the production of soybeans and other oil crops and from the closure of the European market to meat exports. In the regions, in contrast, they point to the increased output of certain industrial crops, which they attribute more to the allocation of resources than to improved productivity.

They then examine the effects of the crisis on the costs and incomes of farming enterprises. The exchange rate, export duties, and financial and monetary policies emerge as the decisive factors, as seems to be confirmed by the widespread surge between 1981 and 1983 in farm export production as a result of increased productivity and a steadily rising exchange rate. This period was followed by a recession, also widespread, which has continued to today. The decline in international prices finally nullified those favourable effects, and there has been a marked decline in agriculture since 1984.

The recovery of agricultural export activities as a result of the introduction of an exchange-rate policy designed to offset the low international prices poses a serious dilemma with respect to other goals such as income distribution and price stabilization.

*Economists. Consultants to the Joint ECLAC/FAO Agriculture Division.

I

Situation and trends in the 1970s

1. *The economy*

Towards the mid-1970s the Argentine economy was hit by a serious crisis which reversed the relative stability with growth that had characterized the period 1963-1974. The following years saw sharp falls and stagnation of the aggregate product, considerable de-industrialization, cuts in employment and real urban wages, and accentuated inflation. Investment, however, seemed to increase at a faster rate than in the past, raising questions about the effectiveness of the chosen policies. In foreign trade, exports performed well in the second half of the decade, with farm exports showing particular strength, and this produced positive trade balances.

The scene in the decade was dominated by two big experiments in economic policy: the populist policy of the Peronist government in 1973-1976 and then the neoliberal policy introduced by the military government between 1976 and 1980-1981. These two policies had different impacts on agricultural activity: the first hurt it by reducing the sector's incomes, and the second moved from a clearly favourable first stage (increased prices) to a second very unfavourable stage (exchange-rate slippage and higher cost of credit).

During the populist experiment there was a marked deterioration in the economic situation following encouragement of a sharp expansion of aggregate demand —by means of wage rises and generating fiscal and monetary imbalances— and the introduction at the time of price control measures; all this produced a big increase in inflation, which achieved monthly rates of 40 to 50% in early 1976. At these levels of inflation the overall functioning of the economy was altered considerably.

The military government which took power in 1976 adopted various policies to stabilize the economy, but this objective was achieved only partially. Between 1976 and 1978 real wages were first cut, then a brief period of control of industrial prices was established, followed immediately by stringent monetary restrictions. Later, at the end of 1978, an attempt was made to cut inflation by means of downward adjustment of the exchange rate and public tariffs. These measures produced some results in 1980, but the accumulated pressures on some key prices of the economy rendered these results ephemeral. This situation was exacerbated by the failure to pursue a policy of fiscal spending compatible with the other measures introduced.

The most important of all the repressed pressures were in the exchange rate —both in scale and in impact on the production structure— and in foreign borrowing and the surge in inflation which led to subsequent adjustment.

2. *Agricultural activity*

a) *General description of the sector*

Farm output supplies the home market and generates between 70 and 75% of the country's exports, which are concentrated in a few products: wheat, maize, sorghum, soybeans and sunflower seeds, oils and by-products of the oil-seed industry account for over 70% of the value of all exports.

In addition to this concentration on a few products there is the geographical concentration: 95% of grain output and 80% of the stock of cattle belong to the Pampas. Outside that region there is great heterogeneity, so that it is possible to speak of two categories of agriculture: the first, mainly agribusiness, uses modern and relatively homogeneous technology and reacts rapidly to changes in profit levels. The second, in contrast, caters to the whole of the domestic market, with intense heterogeneity and specialization at the regional level, and it has the inherent problems of small farms: unemployment and underemployment and low incomes. Its poor productivity denies it the possibility of competing in the external market.

Accordingly, the problems of the Pampas region relate to the levels, growth and composition of production and to technological change. For farms outside the Pampas, in contrast, the most important problems are low productivity, the small scale of the operations, the difficulties of accumulation and diversification of output, and the frequent episodes of overproduction.

b) *Trends in agricultural production in the 1970s*

Increased production of grains and oil crops was a feature of the 1970s, especially in the second half of the decade when soybean cultivation was introduced. Grain output rose at annual rates of 1.3% between 1970 and 1975 and 2.2% between 1975 and 1980; oil crops, however, increased at 2.7 and 23% a year respectively. Thus grain output rose at an annual rate of 4.5% throughout the decade (1.7 and 7.3% respectively for the two five-year periods). These increases were due to a considerable improvement in productivity which was in turn due to the introduction of new seeds, better management practices and increased use of pesticides, as well as to the increase in the area as a result of double cropping.

Beef production had a declining annual growth rate in the first five years but increased in the second. Its annual growth rate for the 10 years was 1.4%, lower than the 1.6% recorded in the previous decade. The reasons for this performance had to do with the closure of the European market in 1974 (the European Economic Community became an exporter), whereas the recovery was due to the opening of new markets. As a result of all this, Argentina's herds declined from 59 to 54.6 million head approximately. Milk production, destined almost exclusively for the home market, recorded an increase —and a large one in the first half of the decade.

In the regional economies the changes were due more to the allocation of resources than to improved productivity. The expansion of the cultivated area led to increased production of industrial cotton and sugar cane (3% for the decade) and of fruit (3.8% a year, a rate which remained unchanged throughout the decade). The production of vegetables, with the exception of beans for export, lagged behind the population growth rate.

The rural population declined by 9.5% between 1960 and 1980, while the total population increased by 40%. As a result the economically active rural population came to represent a smaller proportion of the total between those years —12 as against 18%. In the north-eastern region of the country the rural EAP remained high (30%) but its share in the total population fell.

The decade saw great differences both in the distribution of the fruits of development and in poverty. The increased output and productivity occurred in agribusiness, while output and productivity stood still on family farms. Accordingly the modernization was extremely unequal, and the remarkable agricultural growth was matched by the persistence of large pockets of rural poverty.

c) *Macro-economic policies and agricultural policies in the 1970s*

This article relates macro-economic policies to the agricultural sector in terms of the impact of global (not sectoral) policies on the sector's incomes and costs. The most important of these policies was the exchange-rate policy, by virtue of its influence on the relative price of tradeable (principally farming products) and non-tradeable goods. Other important factors were, for example, the financial policy in respect of its impact on interest rates, and the policy on regulation (in the macro-economic sense) of the tariffs of public services. Both affected the sector on the costs side.

A first examination of the (global and sectoral) policies pursued in the postwar period shows that agriculture was initially hurt by the trade and exchange-rate policies (which lowered the real exchange rate) but was then partially compensated by financial policies which reduced the cost of credit to the level of a subsidy. This pattern was maintained in the first half of the decade, but an attempt was then made to change it at the beginning of the second half. On the one hand, the reduction or abolition of withholdings on exports from 1976 involved a much higher effective exchange rate; on the other hand, the 1977 financial reform eliminated subsidized credit, and the sector was forced to make a rapid adjustment. Thus the purpose of both these steps was to change the mix of incentives and disincentives for the farming sector of the Pampas.

These changes had different effects. The price improvements between 1976 and 1978 occurred against a backdrop of increased productivity —a feature of the second half of the decade— although we cannot speak of a causal connection between the two. On the contrary, when the price trend was subsequently reversed, productivity continued to grow. The elimination of subsidized credit had more visible effects: purchases of machinery fell, crops were replaced by livestock, and the increased dependency on self-financing brought with it increased risk, which was why a large number of small and medium-sized producers rented out their properties to contractors who became producers instead of vendors of seed and harvesting services. The resultt was a clear tendency towards concentration of landholding.

Towards the end of the decade the use of the exchange rate as an anti-inflation tool reversed the upward trend in prices and caused a large drop in the sector's income, and as the financial policy remained in force, the situation ended up clearly unfavourable to producers.

Outside the Pampas, in areas of lower productivity and little capacity to adapt to shifts in the market, State intervention was necessary to offset the adverse effects. The removal of credit subsidies in 1977, together with the fall in the real exchange rate, eliminated the compensatory factors and hurt all areas of production, although to different degrees. Production for the home market had to compete on unfavourable terms with cheaper imports as a result of the sizeable reduction of tariffs. In view of the inability of these areas to adapt, the government had to forgive or liquidate the producers' debts as a means of compensating them.

3. *Visible or latent structural problems at the end of the decade*

a) *In the economy*

— Crisis of output and distribution from 1975 on. The country has still not returned to the yield levels of 1963-1974.
— The crisis affected the urban sector more than the rural. The industrial sector was hit hardest for it experienced disaccumulation, falls in employment and wages, and considerable openness to the exterior with an overvalued exchange rate. The situation worsened as there was no alternative to the imports substitution model.
— Increased foreign debt and considerable outflow of capital encouraged by the overvalued

exchange rate and the financial liberalization.
- Increased public debt as a result of unproductive investments, the limitation of public tariffs, and the transformation of private foreign debt into public debt, all of which caused a serious financial crisis in the State.
- Deterioration in income distribution, both functional and between the various groups of wage earners.

These problems extend to the medium and long terms but they also impose serious restrictions in the short term, thus creating instability.

b) *In agricultural activity*

i) *Pampas region*

- Reduced investment.
- Increased borrowing and risk as a result of more self-financing.
- Very large cut in the numbers of livestock as a means of obtaining self-financing.
- Tendency towards soil exhaustion as a result of double cropping without livestock.
- Displacement of livestock to more marginal land as a result of shifts in profitability and financing needs.
- Limits on the expansion of the farming area.

ii) *Regional economies*

- Drop in profits owing to higher interest rates, lower subsidies and other factors, all of which led to reduced investment in machinery and equipment and the failure to replace or replant perennial crops.
- Increase in the productivity gap between modern and family farming.
- Weakening of the family segment with a consequent increase in the size of small farms.

II

Plans, programmes and adjustment policies, 1981-1985

After the "adjustment" made in response to the acute payments crisis which began in 1981 six successive economic teams came to government, giving priority to different goals in accordance with their different approaches. Accordingly, instead of being an ordered and coherent process, economic policy became a series of abrupt shifts for short-term purposes against a background of resurgent inflation, until it ended with the stabilization programme of June 1985. A certain logic can be seen in these policy shifts if they are accepted as "solutions" or "responses" which the successive authorities found for the most pressing problems. First, in 1981, the devaluation to correct the external imbalance; then in 1982 a policy designed to reduce the real value of the domestic obligations of businesses and the financial system in order to prevent their collapse; and later, in 1983-1984, the attempt to ease social tensions by yielding to the demands for redistribution and for reactivation of the production apparatus; and finally in 1985 the emphasis on control of the worsening inflation. The degree of use of given policy tools in the period depended on the changing priorities of the objectives. Thus, while at the beginning of the adjustment period the scene was dominated by measures designed to cover the external deficit (basically adjustment of the exchange rate and reform of the foreign-exchange and trade systems), towards the end it was taken over by measures to combat the internal imbalance (fiscal and monetary adjustment and, in the first stage, freezing of prices, wages and exchange rate, etc.).

III
The impact of the adjustment policies on agriculture

The impact of these abrupt shifts in economic policy on the agricultural sector is obvious when it is remembered that the most important variable which summarizes the effects of macroeconomic policy on the sector was the exchange rate. This instrument and export duties (both shape the effective exchange rate) have traditionally determined the policy of incentives and disincentives for exportable agricultural production, undergoing fluctuations which have tended to offset changes in international prices, productivity, and the availability of exportable surpluses. Next in importance comes monetary policy (availability of credit and interest rates). Macroeconomic policies also determine the specific economic measures adopted for the sector, such as minimum prices, support buying, direct producer subsidies, and income tax policy. The only independent area is the policy on agricultural research and extension.

Within a general framework of crisis and disincentive reflected in the reduced investment of the last years of the 1970s, the period 1981-1983 saw a widespread surge in farm production for export (the cultivated area, stocks of animals and expenditure on inputs and capital goods all increased), followed by a period of equally widespread recession (all the above-mentioned indicators fell) which continued until 1985.

This remarkable change of direction in the sector's activity was due mainly to the sharp and widespread drop in international prices from 1982 which offset the beneficial effect of an increasingly more favourable real exchange rate (throughout the period except in the first part of 1984) and increased productivity. Lastly, a favourable demand for the sector's products, which was to be expected in a period of exchange rate adjustment, did not come about, owing to the fall in international prices. Furthermore, the cost of imported inputs and of those with a high imported content rose as a result of the higher exchange rate, as did the prices of domestically produced goods. Fuel stands out in this latter group, for its price rose significantly as a result of the policy of updating public tariffs in order to reduce the fiscal deficit.

Accordingly, the crisis and the adjustment policies did not bring about any big structural changes in agriculture or in its relationship with public policy and the other economic sectors, or in the sector itself.

The fall in international prices and the simultaneous rise in costs associated with policies designed to cover the domestic deficit brought about a large and increasing decline in profits from 1984, on top of the loss of a number of harvests. The higher interest rate caused renewed borrowing and financial restriction, which was also reflected in the increased costs, and it also limited production capacity. In this context of relatively high interest rates (for agricultural prices) the expansion of production in 1981-1983 was made possible in part by the "liquidation" of debts which culminated in the 1982 reform, but most of all by the greater degree of self-financing which was made possible by increased productivity.

If what happened to output is examined in detail, it can be seen that between the 1980/1981 and 1983/1984 seasons the increases were concentrated in exportable items, while goods for the domestic market remained at a standstill. Thus the devaluation improved the position of the first group but the position of the second was impaired by the higher costs.

It can also be seen that the production increases occurred in crops whose productivity had been rising since the 1970s (wheat, sorghum, soybeans, sunflower seeds and maize). To the improved productivity must therefore be added the effects of the devaluation, and the two factors more than offset the decline in international prices up to 1983-1984. In 1984 the drop in the exchange rate was greater than the recovery of international prices, while in 1985 its rise was nullified by the drop in these prices.

Changes were caused in the relative structure of the agriculture sector by the increased output of oil crops and the lower output of wheat and sorghum. The devaluations did not have a great effect on cattle owing to the low international prices and the drop in the export volume, for this meant that the cattle cycle depended more on domestic conditions (which were unfavourable), such as interest rate fluctuations, expectation of inflation, relative profitability, etc. As a result the areas of permanent grazing land were reduced in favour of crops, which were cultivated intensively by the double-cropping method, while the herds were shifted largely to inferior land.

In short, the sector's response to the fall in profits was to cut investment (continuing the downward trend initiated in the middle of the previous decade, which had been interrupted during part of the initial surge in that period), spending on inputs, areas cultivated, and stocks of animals. Of particular importance by reason of its impact on exports was the decline in the area under grain crops from the 1983/1984 farming season and, by reason of its short- or medium-term impact on domestic prices, the reduction of cattle herds from 1984.

IV
Future prospects and restrictions

From the perspective of economic policy this period has illustrated the limits of the capacity to carry through an exchange-rate policy designed to offset falls in international prices, when this entails raising the exchange rate beyond a level at which it begins to pose an excessive threat to other objectives (such as income redistribution and price stabilization). Moreover, the policy pursued to achieve domestic balance eliminated the traditional mechanisms for offsetting disincentives to agricultural production (such as direct subsidies, credit on preferential terms, etc.). In short, the prospect is of an agriculture less discriminated against by a low exchange rate (given the intensity and persistence of the external restriction) but also less favoured by the compensatory mechanisms that operate on the costs side.

The most obvious consequences of these changes within the sector are probably the accentuation of the trend observed since the end of the previous decade for concentration of capital and production. This concentration has been achieved at the expense of the small and medium-sized producers, who do not have sufficient capital to assume the risk of production, given the high cost of capital replacement.

The analysis set out in this article shows that agricultural development in the future will be heavily influenced by the direction taken by economic policy, the situation in external markets, and in particular the sector's capacity to step up productivity. Given the heavy burden of the interest on the foreign debt, the challenge facing economic policy is to reconcile this decline in the country's investment capacity with sustained growth within a framework of macro-economic stability and some equity in distribution. As the main producer of export goods, the agriculture sector will be a decisive factor in such a strategy. Accordingly, the policy on the real effective exchange rate (which includes taxes on exports) will remain the basic tool for relating macro-economic policies to the sector. In the short term the limits to a policy of high real exchange rates (as a strategy based on a single tool) point to the shifting behaviour of international markets and policies to promote investment in technology as the factors that will shape the sector's productivity. However, other changes in the direction of medium- and long-term economic policies, such as rationalization of the administrative and production apparatus of the State, the openness of industrial production to the exterior, and the rebuilding of the capital market could have positive effects on the sector to the extent that they affect the real exchange rate of economic equilibrium and reduce the costs of inputs.