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Farm Protests Force Resignation of Argentine Economy Minister

by LADB Staff

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Argentina's Economy Minister Martin Lousteau resigned after less than five months in the post, forced out as farmers groups pressured the government of President Cristina Fernandez. The move shook the international financial establishment, which had placed stock in Lousteau's orthodox economic stance and viewed his replacement as a weaker loyalist to the president.

Adding to Fernandez's troubles, farmers renewed their strike in May, saying they would conduct an eight-day stoppage once a one-month "truce" elapsed. Protests mounted by farmers groups caused food shortages and blockaded roads around the country in March and early April, with leaders calling off the strike on April 2 as preparations for talks with the government began (see NotiSur, 2008-04-11).

The three-week strike had reportedly been the largest anti-government demonstration since 2001, when an economic meltdown brought down several presidents in a row.

Carlos Fernandez replaces Lousteau

The 37-year-old Lousteau resigned four months into President Fernandez's administration amid disputes over farm policies and accelerating inflation in South America's second-largest economy. He had struggled to address questions about the credibility of inflation data (see NotiSur, 2007-03-02) and avert the farming strike. His appointment to the Economy Ministry was one of the few Cabinet changes Fernandez made after succeeding her husband Nestor Kirchner as president Dec. 10.

Since the economic crisis of 2001, the economy minister has arguably been Argentina's most important official, second only to the president. Lousteau's ministry oversaw the new export-tax regime announced March 11 that led farmers to strike. It made exporting key agricultural products much more expensive, leading farmers to complain that they could not earn a living.

Carlos Fernandez, not related to the president, who was named as head of Argentina's tax agency in March, took over Lousteau's post. "I'm concerned about the economy," Fernandez told reporters April 25 outside his home on the outskirts of Buenos Aires. He asked farmers to "remain calm, I'll do my best."

Former President Nestor Kirchner (2003-2007) said on April 24 that farmers opposing the new variable export tax on grains and oilseeds are trying to "freeze" Argentina's economy, which has grown more than 8.5% in each of the past five years following the country's default on US$95 billion of bonds in 2001.
"They want to sell everything abroad because food prices are absolutely expensive," Kirchner said in a speech to supporters in Buenos Aires province. "They don't care about the stomachs or pocketbooks of Argentines."

**Strike erodes confidence in President Fernandez**

After the 21-day strike, confidence in Cristina Fernandez's government fell, according to a poll released April 24 by the Universidad Torcuato Di Tella (UTDT). The university's main confidence index measured from 0 to 5 fell to 1.74 from 1.86 in March, a 7% drop and 19% below April 2007. Confidence in the government's capacity to solve problems, measured in percentages, fell to 52% from 57% the month before, the survey showed, while the government's positive rating fell to 28% from 31%.

The university's poll of 1,200 people was conducted April 3 to April 11 by Poliarquia Consultores and has a margin of error of 2.9 percentage points. "The growing conflicts and a confrontational policy regarding farmers will deepen economic uncertainty and that will probably be reflected in more drops in President Fernandez's popularity," said Rosendo Fraga, a political analyst who runs Nueva Mayoria polling firm in Buenos Aires.

**New economy minister 'too loyal' to president**

After the Lousteau resignation, markets punished Argentine bond markets. Argentine bonds dropped sharply on April 25 and the benchmark Merval stock index was off 1.3% on jitters about long-term prospects for the country's economy.

"I'm not sure the change was positive because Carlos Fernandez will be stronger defending the government position against farmers," said Silvia Marengo, who manages US$130 million of emerging-market bonds at Clariden Bank, in a telephone interview from London. "The government has to find a solution but it seems that this appointment puts more pressure." "There was a need of a change," said Marengo. "It's terrible that the conflict with the farmers is making the country lose a big opportunity to boost exports amid high international prices of commodities."

Lousteau reportedly had run-ins with other officials regarding the direction of the economy after the farm strike a bitter fight with the government about how to divide the windfall proceeds of soaring grain prices. Incoming Minister Fernandez promised continuity with the government's current economic policies, saying, "With my appointment, nothing has to change."

Daniel Kerner, a Latin American analyst at the Eurasia Group, said Lousteau was one of the few voices in the Fernandez Cabinet challenging the overall direction of economic policy and growing inflationary imbalances. He said Fernandez's troubles are slowly changing perceptions that the economy has been bounding ahead year after year. "This is changing under Cristina as the government is affected by one crisis after another," he said. "This will reinforce the sense of chaos, a sense that Cristina cannot control political and economic dynamics."

Argentina's benchmark dollar bonds fell the most in nine months after the resignation. Standard & Poor's cut the outlook on the country's debt ratings to negative from stable, saying the resignation
of Lousteau "reflects the government's rejection of policies to correct the country's overheating economy." "This is a negative development," said Cristina Panait, an emerging-market strategist at Los Angeles-based Payden & Rygel, which manages more than US$50 billion in assets. "Lousteau was seen as an orthodox economist who would have been more likely to address the inflation problem."

Juan Jose Vazquez, senior analyst at Bull Market Brokers in Buenos Aires, said Lousteau had recommended raising energy rates for residential customers, increasing public expenditures to fight inflation, and being more conciliatory with farmers. By appointing a "status-quo minister, the government has shown no new flexibility in fighting inflation and in reaching accords with farmers," Vazquez said.

Argentina, an agricultural powerhouse, is both profiting and suffering from the global food-price crisis, as farmers benefit from a price bonanza and the poor-a quarter of the nation's 40 million people contend with skyrocketing food costs. The government has been using price-control accords with beef suppliers, dairy producers, and bakers to hold back inflation, first under Kirchner and now under Cristina Fernandez. Inflation rose 8.5 % by official estimates last year but independent estimates say it was more than twice that.

International Monetary Fund (IMF) managing director Dominique Strauss-Kahn met the new president in December when she took office and urged her to address complaints Argentina was not accurately tracking consumer price inflation. Government inflation data has been questioned by opposition leaders, economists, and institutions including the IMF since Kirchner started replacing personnel at the national statistics institute in January 2007.

Kirchner said the moves were made to "improve operations." Critics, including former economy minister Roberto Lavagna, called it manipulation. "We know how much inflation affects income," Lousteau had said April 22 in a speech in Buenos Aires, days before his resignation. "The best administration is the one that has the country grow at the highest sustainable rate possible." According to the government, Argentine inflation accelerated to 1.1% in March from February and to 8.8% from the same month a year earlier.

Claudio Mauro, an economist at M&S Consultores in Buenos Aires, said April 10 that annual inflation is closer to 22%. Critics of the government say price accords have lost effectiveness against inflation. But Kirchner defended them April 24 in a speech that some say may have triggered Lousteau's departure. "There should be no more talk about cooling the economy," Kirchner said, referring to Lousteau's recommendation a few days earlier that the government try to decelerate growth as an anti-inflationary measure.

Some opposition leaders called the personnel change an attempt by the former president to keep power over economic decisions by bringing in a member of his inner circle. "The ex-president is out of control," said Gerardo Morales of the Union Civica Radical (UCR). "There continues to be a dual leadership."
Farm-tax protest blockades renewed

The face-off between President Fernandez and the farmers groups remained intractable after the Lousteau resignation, with the president insisting the export taxes were vital to the economy. Fernandez argues the taxes redistribute farm profits to less fortunate Argentines and encourage growers to produce fewer soybeans and more food that would be eaten at home. Farmers say they are barely getting by under the duties, now as high as 45%, on a business that reaped Argentina some US$13.5 billion last year.

But many consumers side with Fernandez that farmers should be more generous with the windfall to subsidize basic foodstuffs and keep prices low. "A lot of times I hardly get enough to eat," complained Norberto Monastirsky, 54, who hawks pens on subway trains and complains farmers are fat with profits from grains and beef sold abroad in dollars and euros. "If they could, they would export the whole cow, not just steaks," he said.

Farm-strike leader Luciano Miguens had reported some progress in talks with the government but said April 25 that Lousteau's departure created a new and "uncertain stage." The uncertain stage devolved into renewed conflict. After the May 2 deadline for resolving their complaints had passed, farmers prepared renewed blockades.

The leaders of Argentina's four biggest agricultural associations said May 7 that their supporters would stop trucks carrying crops for sale abroad for eight days, allowing other vehicles to pass. Cabinet chief Alberto Fernandez earlier called the threat to take to the roads to disrupt shipments "extortion."

"We've been committed to resolving these problems but the government has chosen to be confrontational," Federacion Agraria Argentina president Eduardo Buzzi said during a news conference in Buenos Aires. "We're starting a new phase in this battle." "We can't ask farmers to give the government more time," Ricardo Buryaile, vice president of the Confederaciones Rurales Argentinas (CRA), said by telephone from Santa Fe province. "Farmers feel impotent because it seems like the government is more interested in avoiding protests than in finding solutions."

Farmers began stopping trucks on a highway in Entre Rios province linking Argentina with Brazil after the talks broke down. Another group was prepared to halt convoys on a road connecting Cordoba, the biggest soybean-growing province, with ports on the Parana River, farmer Alejandro Ferrero said. "I'm not going to work with people who think that the best way of resolving things is by cutting roads and causing shortages," Cabinet chief Fernandez said in a May 7 interview on Radio 10 in Buenos Aires.

Some analysts say Argentine public opinion will look badly on both parties in the dispute. "To take this conflict to a level where both sides shut the door to each other is suicide for both," Graciela Romer, head of polling firm Graciela Romer & Asociados in Buenos Aires, said on May 6. Argentina is the world's second-largest corn exporter behind the US and the third-largest for soybeans, after the US and Brazil. A strike and protests by farmers may reduce global food inventories and boost prices for countries including Haiti and Yemen, which buy grains from the South American country.
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