

# Argentine Industrial Downturn Hurting Agriculture

## ARGENTINA

The March 1976 military coup that put an end to the Peronist government found Argentina in its worst economic downturn ever experienced. The new Finance Minister and personal friend of David Rockefeller, Martinez de Hoz, was presented by Argentina's creditors with two policy alternatives: either dismantle small and medium industry to obtain liquidity; or channel all efforts behind an agricultural plan to increase production and exports, while maintaining industry at a zero growth level. The new government of General Videla opted for the latter, and the New York banks granted a six-month debt moratorium to give time for the expected "recovery."

One year later, the agricultural sector has indeed carried a significant part of the debt load. But the promised economic recovery has not occurred; further, industry has stagnated at the low levels of 1975 and is headed for a probable further downward turn during the

coming year. This is already directly affecting agricultural production as well. The following graph of manufacturing value added demonstrates that there has been a consistent decline since the fourth quarter of 1974. The index of general industrial production (Table 1) shows an identical trend.

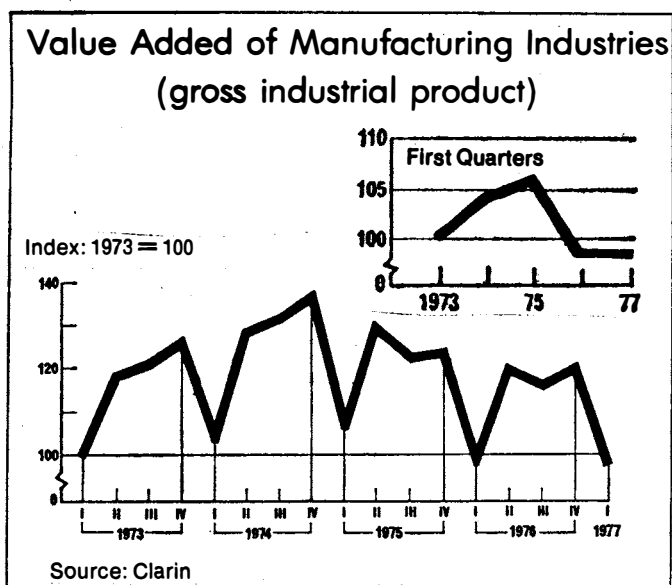
The steel industry provides the most striking example of the effects of De Hoz' zero growth policy. From 1969 to 1974 steel production showed a steady average rate of increase of almost 5 percent per annum. In 1975, however, crude steel production fell to 183,000 metric tons from 196,000 metric tons produced in 1974, a drop of over 6 percent. Production levels for 1976 remained almost stagnant.

From July 1976 forward, the decline in production has resumed. This threatens to get worse throughout 1977, given that the main projects that have permitted the steel industry to survive are scheduled to be slowed or eliminated altogether. The government recently announced that the construction of four of the six state hydroelectric projects is going to be halted — as part of the austerity program for the state sector that is even closing existing state enterprises. Prospects for the steel

Table 1 — Industrial Production

|          | GENERAL<br>INDUSTRIAL<br>PRODUCTION<br>1970=100 | MANU-<br>FACTURING<br>INDUSTRY<br>1970=100 | CRUDE<br>STEEL<br>1000s<br>METRIC<br>TONS | TEXTILE<br>1000s<br>METRIC<br>TONS | CHEMICALS<br>1000s<br>METRIC<br>TONS | CEMENT<br>1000s<br>METRIC<br>TONS |
|----------|---|--|---|------------------------------------|--------------------------------------|-----------------------------------|
| 1974     | 130   | 131  | 196                                       | 0.81                               | 20.2                                 | 435                               |
| 1975     | 127   | 127  | 183                                       | 1.19                               | 18.8                                 | ---                               |
| 1976 JAN | ---   | ---  | 160                                       | 0.41                               | 14.5                                 | 457                               |
| FEB      | ---   | ---  | 160                                       | 1.05                               | 19.                                  | 441                               |
| MAR      | 112   | 111  | 195                                       | 1.24                               | 20.2                                 | 488                               |
| APR      | ---   | ---  | 225                                       | 1.25                               | 17.6                                 | 462                               |
| MAY      | ---   | ---  | 245                                       | 1.17                               | 21.4                                 | ---                               |
| JUN      | 127   | 127  | 232                                       | 0.82                               | 17.5                                 | ---                               |
| JUL      | ---   | ---  | 251                                       | ----                               | ----                                 | ---                               |
| AUG      | ---   | ---  | 183                                       | ----                               | 20.7                                 | 418                               |
| SEP      | 123   | 122  | 186                                       | 0.74                               | 18.7                                 | ---                               |
| OCT      | ---   | ---  | 198                                       | ----                               | ----                                 | ---                               |
| NOV      | ---   | ---  | 150                                       | ----                               | ----                                 | ---                               |
| DEC      | ---   | ---  | ---                                       | ----                               | ----                                 | ---                               |

SOURCE: UN MONTHLY BULLETIN



industry will depend primarily on the demand for exports of steel goods, and to a lesser extent on domestic motor-vehicle and tractor production.

Last year, railroad car production increased by 30 percent, due to increased foreign demand coming mainly from Cuba. However, this year foreign demand would have to show a similar and unlikely substantial rise in orders to even maintain steel production at 1975 levels. The motor-vehicle and tractor industry, two key sectors which absorb a lot of steel, hold little promise given their

own recent production declines, which show no signs of recovery.

The motor-vehicle industry was the most affected sector of the economy during last year. During the first eleven months of 1976, production declined by 22 percent over the same period of 1975. Domestic sales dropped drastically due to the tenfold price increase over the last two years, while motor vehicle exports also dropped slightly (Table 2).

The tractor industry presents a somewhat different picture, due to the increase in agricultural production which resulted in a slight increase for 1976 in domestic sales and production of tractors. Nevertheless, 1976 levels are far lower than 1974, when domestic sales reached the record figure of 20,650. Since then, however, mechanization of agriculture has dropped off. In 1974 9.9 million hectares were sown to produce almost 22 million metric tons of grain, whereas in 1976 it took almost twice the hectareage to produce only a minimal increase in production. The serious drop in yields (Table 3) is a direct reflection of lower mechanization in agriculture. In other words, even the traditionally highly mechanized Argentine agriculture is now deteriorating rapidly, paving the way for still more labor-intensive exploitation of the land.

#### *De Hoz' Bumper Crop*

The government claims that Argentina's 1976 bumper crop of 11.5 million metric tons of wheat is paving the way for economic recovery. So far the only thing that this 40 percent increase in wheat production has been used

**Table 2 — Motor Vehicles**

(NUMBER OF VEHICLES)

|              | PRODUCTION     |                | DOMESTIC SALES |                | EXPORTS       |               |
|--------------|----------------|----------------|----------------|----------------|---------------|---------------|
|              | 1975           | 1976           | 1975           | 1976           | 1975          | 1976          |
| JAN          | 25,325         | 18,668         | 21,205         | 14,710         | 1,035         | 1,193         |
| FEB          | 8,432          | 8,239          | 13,110         | 11,850         | 657           | 2,041         |
| MAR          | 22,758         | 13,573         | 21,068         | 11,112         | 669           | 830           |
| APR          | 26,790         | 22,386         | 25,564         | 16,045         | 1,118         | 1,916         |
| MAY          | 26,731         | 16,037         | 26,788         | 9,961          | 269           | 1,730         |
| JUN          | 17,672         | 14,170         | 18,819         | 10,444         | 260           | 1,715         |
| JUL          | 17,074         | 12,480         | 12,786         | 13,969         | 961           | 1,775         |
| AUG          | 17,505         | 14,880         | 11,506         | 17,101         | 1,157         | 522           |
| SEP          | 20,183         | 16,698         | 18,413         | 19,699         | 1,860         | 280           |
| OCT          | 22,593         | 18,052         | 24,350         | 16,959         | 2,131         | 494           |
| NOV          | 16,929         | 18,285         | 17,487         | 18,103         | 1,801         | 486           |
| DEC          | 17,044         | 20,049         | 15,735         | 17,712         | 1,823         | 554           |
| <b>TOTAL</b> | <b>240,036</b> | <b>193,517</b> | <b>226,831</b> | <b>177,665</b> | <b>13,741</b> | <b>13,536</b> |

SOURCE: LA OPINION FROM BUENOS AIRES

Table 3 — Tractors Produced in Relation to Grain Production and Area Sown

|      | TRACTORS<br>PRODUCED<br>(UNITS) | DOMESTIC<br>SALES<br>(UNITS) | GRAIN**<br>(MN. TONS) | AREA<br>SOWN<br>(MN.<br>HECTARES) | YIELD<br>(TONS/<br>HECTARES) |
|------|---------------------------------|------------------------------|-----------------------|-----------------------------------|------------------------------|
| 1973 | 21,306                          | 18,782                       | 21,4                  | 9,6                               | 2,2                          |
| 1974 | 24,573                          | 20,650                       | 21,9                  | 9,9                               | 2,2                          |
| 1975 | 18,827                          | 15,208                       | 20,0                  | 10,6                              | 1,8                          |
| 1976 | 19,896*                         | 17,378*                      | 24,5                  | 18,0                              | 1,3                          |

\*PROVISIONAL

\*\*WHEAT, CORN AND SORGHUM

SOURCE: BANK OF BOSTON AND FAO MONTHLY BULLETIN

for is to keep meeting payments on Argentina's \$12 billion foreign debt. Neither wheat producers nor the government were prepared for the bumper crop, and have run into serious problems of shortage of storage facilities and lack of markets for wheat exports. By mid-February 1977, only 3.8 million tons, or one third of the crop, had been sold, leaving 4.0 million tons for domestic consumption and 3.7 to be exported. The situation since then has been aggravated by a serious shortage of storage capacity.

Through the end of last year and the beginning of the current one, an unusually heavy rainfall in the entire Buenos Aires, La Pampa and Santa Fe wheat belt seriously damaged

harvested. Most producers were forced to sell out their wheat at very low prices in an attempt to prevent further losses. A top spokesman for the agricultural producers recently demanded that the government adopt new policies that would integrate the agro sector with industry, in order to avoid problems like those described above.

De Hoz's policy is also coming under fire from industrialists, who had previously agreed to a year of "sacrifice." During that period the industrial sector has been forced to eliminate nearly all its imports of capital goods to save foreign exchange, and sharp raw material price increases have made it almost impossible for industrialists to kick off an actual recovery.

## Brazil To Become A Soybean Economy?

### BRAZIL

Brazil is in the process of degeneration to a "soybean economy," the price now being paid for the much-touted "economic miracle" initiated nine years ago. The phenomenal growth rates of 1968-73 were achieved through pyramiding debt and destructive accumulation off working class living standards, the labor power of the nation.

The "economic miracle" effectively shut down in 1973, but Brazil is only now feeling the full weight of its consequences. To meet steadily increasing servicing obligations on an external debt conservatively estimated at \$33 billion, the Brazilian government is systematically scrapping industrial growth in favor of light industrial and agricultural production which produces quick cash returns — either in export earnings or in import-substitution foreign exchange "savings."

Given the recent consolidation of political hegemony of

the "ultra-hard" Medici faction of the military in Brazil, the economic collapse of Latin America's "big power" has dangerous potential for the entire continent. Like Germany in 1937, Brazil is being primed as a war machine, to march against its continental neighbors and the socialist nations of Africa — driven by the need to take outright sources of wealth in order to meet its debt obligations. Already, the Carter Administration's "human rights" sanctions have provoked a call within Brazil to rev up the nation's small but rapidly growing military production industry, which could emerge as a significant prop to an industrial base otherwise headed for real trouble.

#### *Return to "One Crop" Economy*

The aim of the plan forwarded by Brazil's Finance Minister Mario Henrique Simonsen is to "slow down" or freeze the growth of those sectors of the economy which do not directly contribute to increasing the inflow of foreign exchange through production for either export or import substitution.