

**The Politics of Abundance:  
Export Agriculture and Redistributive Conflict in South America**

by

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## Abstract

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This research explores the politics of modern commodity agriculture and the redistributive politics associated with it, focusing on Argentina and Brazil. Despite the magnitude and consequences of agricultural subsidies and taxation, their political origins are poorly understood. It is widely observed that wealthier countries tend to subsidize farmers while poorer countries tax them, and farmers in developed countries are credited as being skilled at lobbying. What is less clear is where that skill and political leverage originates.

Using both qualitative and quantitative evidence, the analysis finds that the key determinant of the level of taxation or subsidy of agriculture is the capacity of agricultural producers to form strong political organizations. While factors such as economic development can improve the prospects for rural organization by reducing collective action problems, farmers must also have incentives to invest in political action. Importantly, the structure of markets within the agricultural sector shapes these political investment incentives. When access to inputs for production, particularly land, is governed by markets, political power is less economically valuable, and actors will consequently invest less in politics. Additionally, when markets are more flexible, actors can diversify their investments and manage risk more easily. In contrast, political organization is a more worthwhile investment when allocation of productive inputs and risk management occurs outside of markets.

The cases of Argentina and Brazil, two countries that greatly benefited from the agricultural commodity boom of the 2000s, illustrate how market structures shape political incentives. In both countries, new rural market institutions emerged as the unintended consequences of mid-20th-Century regulations. These markets differed in critical ways in the degree to which they were conducive of rural political action. In Argentina, highly flexible markets for short-term land rental and agricultural services emerged. These new markets facilitated the adoption of technology and increasing the scale of production by reducing the need to sink capital into purchasing land and machinery. The flexible markets thus encouraged farmers to invest more heavily in economic options rather than political action. As a result, Argentina's rural sector steadily withdrew from politics over several decades, weakening their previously influential organizations and abstaining

from electoral contests. When commodity prices rose and a populist government came into power in the 2000s, Argentine farmers were powerless to prevent the imposition of increasingly high export taxes on agricultural goods.

In Brazil, rural policies designed to pacify peasant mobilization and increase agricultural production without agrarian reform had the effect of destroying markets for land rental and making rural labor more costly. Large-scale, well-capitalized, landowning farmers came to dominate production, to the point that the state of Mato Grosso's 5,000 soybean farmers produced 7 percent of the global trade in the crop on farms that averaged more than 8 times larger than properties in the Corn Belt of the United States. Because flexible markets did not emerge in Brazil, these concentrated producers tended to have more capital sunk into their operations and were less able to manage production risks through markets. Political investment thus became a more valuable alternative: a means to diversify their portfolios. Consequently, during the 2000s, new, highly organized and well-funded farmers' associations formed, taking over political parties at the state level, promoting the election of "rural entrepreneurs" to public office, and building a powerful national lobby. Redistribution between the countryside and the cities shifted to favor farmers, who became net recipients of subsidies.

The findings of this research illuminate several important areas of theoretical importance. First, they highlight the close connections between markets and politics. While many studies have focused on how politics creates and shapes markets and on how markets govern economic behavior and industrial organization, the ways that market structures affect political actions has received far less attention. Second, the analysis explores the evolution of redistributive politics as economies grow and new technologies are adopted. Economic development is a disruptive process, and while wealthy countries tend to share certain political commonalities, expanding wealth can lead to vastly different effects. Among many factors, how markets evolve as production develops has significant implications. Third, this research affirms that agricultural commodities can have powerful effects on political dynamics. Scholarship has long affirmed the historical relevance of agricultural exports for many developing countries, yet recent research has tended to focus on the political effects of natural resource endowments, such as oil, copper, and diamonds. This research shows how agricultural commodities can similarly shape political economy and regime dynamics.

# Contents

<b>Contents</b>	<b>i</b>
<b>List of Figures</b>	<b>iii</b>
<b>List of Tables</b>	<b>iv</b>
<b>Acknowledgments</b>	<b>v</b>
<b>I Introduction</b>	<b>1</b>
<b>1 The Politics of Abundance</b>	<b>2</b>
1.1 Urban Bias and Rural Bias . . . . .	4
1.2 Markets and Political Investment . . . . .	8
1.3 Methodology and Alternative Explanations . . . . .	14
1.4 Outline . . . . .	17
<b>II Argentina</b>	<b>20</b>
<b>2 Export-Oriented Populism</b>	<b>21</b>
2.1 The Kirchner Model . . . . .	22
2.2 Structural Foundations of the Kirchner Model . . . . .	28
2.3 Complementary Explanatory Factors . . . . .	35
2.4 Conclusion . . . . .	39
<b>3 Economic Growth and Rural Political Decay</b>	<b>40</b>
3.1 Data . . . . .	41
3.2 Rural Political Weakness . . . . .	42
3.3 The Argentine Road to Modern Agriculture . . . . .	48
3.4 Effects on Political Organizations . . . . .	54
3.5 Conclusion . . . . .	59

<b>4 Rural Political Organization Since 2008</b>	<b>61</b>
4.1 The 2008 Rural Conflict . . . . .	62
4.2 What the Conflict Revealed . . . . .	65
4.3 Legacy of the 2008 Conflict . . . . .	71
4.4 Conclusion . . . . .	77
<b>III Brazil</b>	<b>79</b>
<b>5 Subnational Foundations of Rural Power</b>	<b>80</b>
5.1 Context . . . . .	81
5.2 Modern Agriculture and Brazil's Farm Lobby . . . . .	85
5.3 Explaining the Pattern of Organization . . . . .	94
5.4 Conclusion and Comparative Perspective . . . . .	109
<b>6 Property Rights and Political Investment</b>	<b>111</b>
6.1 Context and Arguments . . . . .	112
6.2 Data and Identification . . . . .	113
6.3 Results . . . . .	124
6.4 Nonparametric Tests . . . . .	130
6.5 Conclusions . . . . .	135
<b>IV Conclusion</b>	<b>136</b>
<b>7 Conclusion</b>	<b>137</b>
7.1 Main Themes . . . . .	137
7.2 Comparative Perspective . . . . .	145
7.3 Broader Effects . . . . .	146
<b>Bibliography</b>	<b>147</b>
<b>A Acronyms</b>	<b>155</b>
<b>B Field Research and Interview Data</b>	<b>159</b>
<b>C List of Large Farmers in Argentina</b>	<b>162</b>
<b>D Brazilian Candidate Data Collection and Compilation</b>	<b>164</b>

## List of Figures

1.1	Rural-Urban Redistribution and Economic Development, 2004 . . . . .	6
1.2	Rural-Urban Redistribution in Brazil and Argentina, 1960-2005 . . . . .	7
1.3	Cultivation of Key Crops . . . . .	9
2.1	Exchange Rates in Argentina and Brazil, 2003-2011 . . . . .	23
2.2	Argentine Central Bank Interventions in Currency Markets, 2003–2011 . . . . .	25
2.3	Declining Relevance of Wage Goods Exports in Argentina . . . . .	32
4.1	Export Tax Revenue in Argentina . . . . .	73
4.2	Export Taxes as Share of Revenue in Argentina . . . . .	74
4.3	2011 Vote for Cristina Fernández de Kirchner in Buenos Aires Province . . . . .	78
5.1	Map of Brazil with Cerrado . . . . .	83
5.2	Average Rural Property Size, by Municipality . . . . .	97
5.3	Soybean Production in Mato Grosso . . . . .	99
5.4	Concentration of Soybean Production in Municipalities . . . . .	100
5.5	Agricultural Share of GDP . . . . .	106
5.6	Rural Credit Flow Per Capita, 2003, by State . . . . .	108
6.1	Map of Mayoral Candidates Owning > 100 Hectares, 2008 . . . . .	118
6.2	Map of Mayoral Candidates Owning > Median Hectares, 2008 . . . . .	119
6.3	Map of Land Invasions, 2007 . . . . .	121

## List of Tables

3.1	Argentine Rural Organizations: Membership and Resources . . . . .	45
3.2	CRA Membership and Soybean Farming . . . . .	57
5.1	Campaign Finance in Brazil's Top Grain-Producing States, 2002 and 2006 . . . . .	104
6.1	Summary Statistics for Dependent Variables . . . . .	117
6.2	Summary Statistics for Other Variables . . . . .	122
6.3	Candidate Entry for Mayor, DV = Landed (> Median) . . . . .	125
6.4	Candidate Entry for Mayor, DV = Landed (> 100 ha) . . . . .	126
6.5	Candidate Entry for Mayor, DV = Pronaf Beneficiaries . . . . .	127
6.6	Candidate Entry for City Council Elections . . . . .	128
6.7	Vote Shares Received by Landowners, Both Offices . . . . .	129
6.8	Landowners Winning Elections, Both Offices . . . . .	131
6.9	Asset Value of Candidates, Both Offices . . . . .	132
6.10	Nonparametric Tests for Treatment Effects . . . . .	133
6.11	Differences Between Municipalities With and Without Re-Election Campaigns . . . . .	135
A.1	Acronyms of Organizations and Government Agencies . . . . .	155
B.1	Interviews Conducted in Argentina and Brazil . . . . .	160

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# **Part I**

## **Introduction**

# Chapter 1

## The Politics of Abundance

During the 2000s, international market forces fueled a commodity boom. Oil prices increased more than twelvefold from 1998–2008; metal ores and other minerals experienced similar increases. Agricultural commodities also boomed, with grain and oilseed prices jumping to three to six times their levels at the start of the decade.<sup>1</sup> Part of this agricultural price spike derived from efforts to develop alternative fuels from crops, such as corn, soybeans, and sugarcane. This increasing interest in biofuels led to many dire predictions of food shortages, poverty, and conflict resulting from the tension between growing crops for food versus fuel.

For commodity exporters, however, the economic perspective was rosy. Two South American countries, Argentina and Brazil, particularly benefited from this abundance. In the case of soybeans—both countries' leading agricultural export—the already large business in the crop expanded greatly, from around US\$4 billion in annual exports in 2000 to roughly US\$17 billion eight years later.<sup>2</sup> Income from this and other crops created significant wealth and contributed greatly to the general economic growth in these countries during the decade.

The political effects of the boom, however, were sharply distinct. In Argentina, the government increasingly redistributed from agriculture to urban consumers, repeatedly raising export taxes on agricultural commodities, notably soybeans, and depressing the prices of food products consumed domestically. Argentine farmers, having abandoned historically powerful associations and abstained from party politics, were powerless to stop this redistribution. Their pent-up lack of political articulation exploded in 2008: responding to yet another increase in export taxes, decentralized highway protests engulfed the Argentine countryside for four months. Yet, despite the mass revolt, agricultural taxes remained historically high. In contrast, during the same period in Brazil, new, highly organized and well-funded farmers' associations formed, taking over political parties at the state level, promoting the election of “rural entrepreneurs” to public office, and building a powerful national lobby. Redistribution between the countryside and the cities shifted to favor farmers, who became net recipients of subsidies.

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<sup>1</sup>International Monetary Fund, Primary Commodity Price Database, <http://www.imf.org/external/np/res/commod/index.aspx>.

<sup>2</sup>More precisely, Argentina exported \$3.9 billion in 2000, increasing to \$16.6 in 2008. Brazil went from \$4.2 to \$18.0 billion. Source: Food and Agriculture Organization (FAO)

Redistribution of agricultural income is a common phenomenon, even when prices are not booming. Many countries, particularly less developed ones, tax agriculture in order to benefit urban, industrial interests. Conversely, farm subsidies are prevalent in developed countries, and they entail a costly distortion of global markets. Anderson (2009a: 63) estimates the volume of agricultural subsidies globally at around US\$223 billion per year in the early 2000s. These taxes and subsidies have had profound effects on global income inequality and poverty.

Despite the magnitude and consequences of these redistributive programs, their political origins are poorly understood. It is widely observed that wealthier countries tend to subsidize farmers while poorer countries tax them, and farmers in developed countries are credited with being skilled at lobbying. What is less clear is where that skill and political leverage originates. If general economic development or agricultural growth directly led farmers to become more politically powerful, one would not expect the dramatic contrast observed between Argentina and Brazil.

This research explores the politics of modern commodity agriculture and the redistributive politics associated with it. The key determinant of the level of taxation or subsidy of agriculture is the capacity of agricultural producers to form strong political organizations. While factors such as economic development can improve the prospects for rural organization by reducing collective action problems, farmers must also have incentives to invest in political action. Importantly, the structure of markets within the agricultural sector shapes these political investment incentives. When access to inputs for production, particularly land, is governed by markets, political power is less economically valuable, and actors will consequently invest less in it. Additionally, when markets are more flexible, production requires less capital sunk into fixed assets, and actors can diversify and manage risk more easily through the markets. Without flexible markets, producers have more capital tied up in land and machinery, and they are more exposed to economic risks, increasing the incentive to seek protection in the political arena. Political organization is thus a more worthwhile investment when allocation of productive inputs and risk management occurs outside of markets.

The cases of Argentina and Brazil illustrate how market structures shape political incentives. In both countries, new rural market institutions emerged as the unintended consequences of mid-20th-Century regulations. These markets differed in critical ways in the degree to which they were conducive to rural political action. In Argentina, a distinct form of highly flexible markets for short-term land rental and agricultural services emerged. These new markets facilitated the adoption of technology and increasing the scale of production by reducing the need to sink capital into purchasing land and machinery. The flexible markets thus encouraged farmers to invest more heavily in economic options rather than political action. In Brazil, rural policies designed to pacify peasant mobilization and increase agricultural production without agrarian reform had a crippling effect on markets for land rental and rural labor. Large-scale, well-capitalized, landowning farmers came to dominate production, to the point that the state of Mato Grosso's 5,000 soybean farmers produced 7 percent of the global trade in the crop on farms that averaged more than 8 times larger than properties in the Corn Belt of the United States. Without flexible markets, these concentrated producers tended to have more capital sunk into their operations and were less able to manage production risks through markets. Political investment thus was a more valuable alternative: a means to diversify their portfolios.

## 1.1 Urban Bias and Rural Bias

Politicians in many contexts face strong incentives to redistribute agricultural wealth. As Beze-mer and Headey (2008) observe, agriculture generates externalities: actors outside of the rural sector benefit from the cheap food, and hence labor, that it produces. In urbanized societies, policies that favor the cities at the expense of the countryside, such as those that depress food prices, should be expected: cities hold the votes, or, in the non-democratic case, they hold the population that must be kept pacified. Policies that depress the prices farmers receive for their products do, in the short run, benefit urban interests: food and labor become cheaper. Indeed, as an extensive literature on the “urban bias” in agricultural policy in developing countries notes, governments often sought to depress food prices and to capture export revenue (Lipton 1977; Bates 1981; Binswanger and Deininger 1997). At the same time, farmers in many developed countries, as in the United States, Japan, and Western Europe, benefit from a “rural bias” of ample subsidies (Olson 1985; Sanderson and Mehra 1990; Thies and Porche 2007). What explains this variation?

Two primary factors can account for these differences in the nature of rural-urban redistributive policy. First, taxing<sup>3</sup> agriculture varies in the extent to which it is effective in advancing politicians’ urban interests. Urban-biased policies generally are a means to an end, and they are not always the best or most expedient means to that end. In particular, the level of economic development affects the incentive to redistribute agricultural income. At lower levels of development, taxing agriculture has greater returns. Urban residents in poorer countries spend a greater share of their wages on food. Moreover, agriculture is responsible for a larger fraction of less-developed economies, so urban interests have few alternative sources of income to redistribute. In industrialized economies, agriculture typically comprises a small part, and because people spend a smaller share of their income on food, food prices are less politically sensitive. As a result, taxing agriculture yields little redistributive gain for urban interests. Conversely, when farmers are politically influential, developed economies can more easily afford to subsidize them because the non-agricultural sectors are much larger: farm subsidy costs are widely distributed and benefits are concentrated.

Second, the political power of the rural sector affects the extent to which urban interests can redistribute—and the extent to which they can demand subsidies. Farmers typically lack both structural and instrumental power. Structurally, it is rare for farmers to hold anything resembling a “privileged position,” by which policies that run against their interests have an automatic negative effect on the interests of policymakers (Lindblom 1977). Agricultural production—even in its contemporary, large-scale form—is fragmented, and it is individually rational for farmers to try to produce as much as possible. While farmers may loudly complain that a given tax policy will destroy the agricultural sector, it seldom does; some farmers individually may be forced to exit production, but others will take over.

In terms of instrumental power, farmers are notoriously difficult to organize because they are

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<sup>3</sup>Here I say “taxing” to mean any number of policies, not all of which are fiscal, that have the effect of extracting and reallocating surplus value. Regulatory instruments can have the same redistributive impact as direct taxes and subsidies. Export restrictions on food products, for example, can reduce domestic prices, benefitting consumers while reducing the income of producers. Elsewhere, I do refer to taxes as distinguished from non-tax regulations. Usage should be clear from the context.

often geographically dispersed and far from the political center. In more developed, urbanized economies, this weakness is reduced as farmers are fewer in number and tend to have more similar, specific interests, which facilitates their collective action (Olson 1985). If well organized, rural elites can wield significant influence over both the degree to which policies redistribute away from (or toward) the rural sector and the types of economic policies the government pursues more generally. As with all interest groups, organized agribusiness can not only defeat explicitly redistributive policies but also prevent them from entering the political agenda.

In sum, it is widely observed that agriculture tends to be taxed in less developed countries and subsidized in more developed ones. The level of development is associated with both the returns to urban interest to taxing agriculture (conversely, the cost of subsidizing it) and the capacity of farmers to resist taxes and demand subsidies.

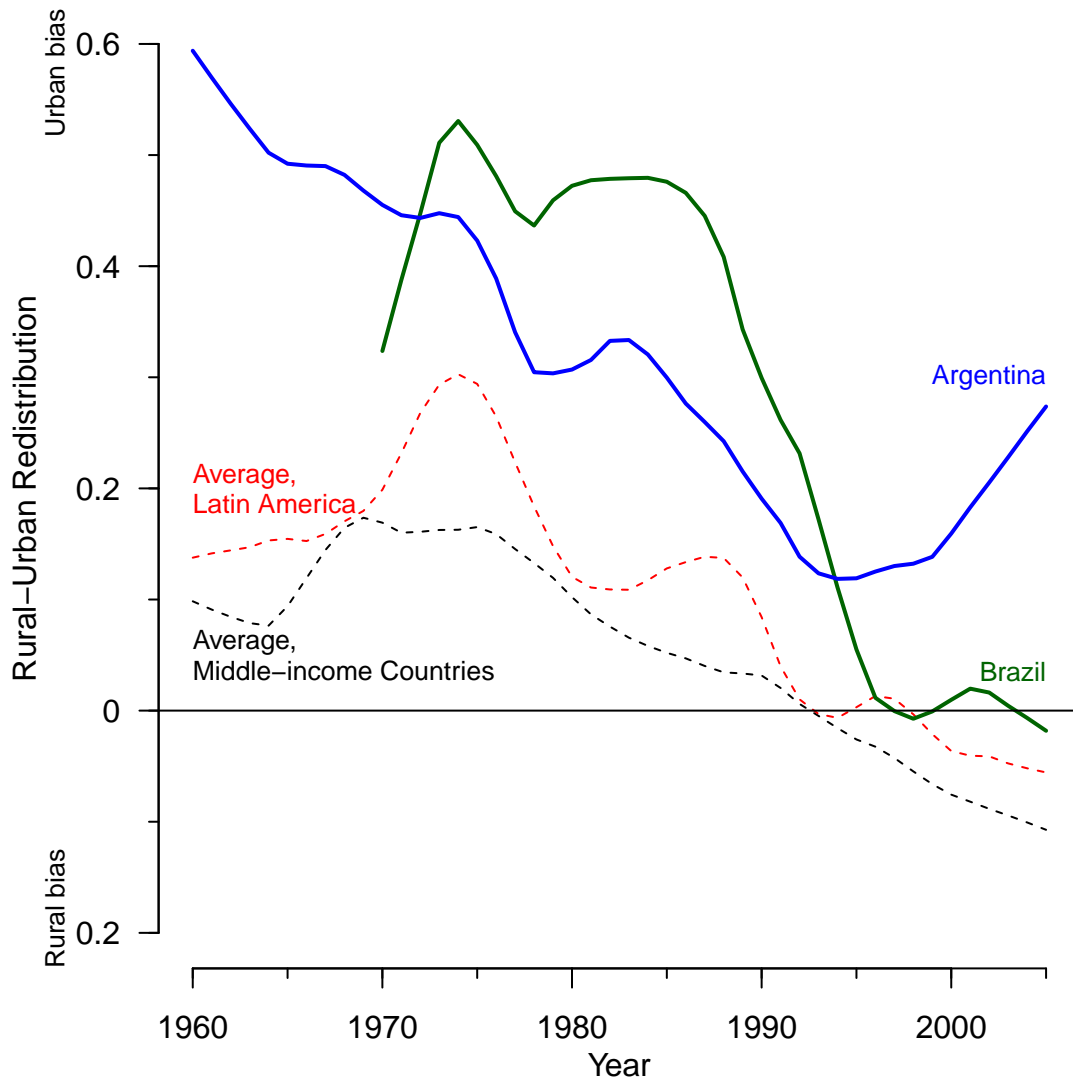
Available evidence does show that a country's level of economic development does correlate with the extent to which it taxes farmers. Figure 1.1 plots a measure of rural-urban redistribution based on data collected by the World Bank (Anderson 2009*b*). Consistent with the collective-action hypothesis, wealthier and more urbanized countries do tend to tax farmers less and subsidize them more. However, while level of economic development seems to correlate with many factors that lead to the reduction of urban bias and even the emergence of rural-biased policies, it cannot account for the observed variation in our cases. While Brazil fits within the general trend linking development and rural-urban redistributive policy, Argentina is a notable outlier. Argentina is more urbanized and has a higher GDP per capita than Brazil, yet its economic policies were much more heavily biased against agriculture in the 2000s. Of the 75 countries in the World Bank study, which together comprise 92 percent of global agricultural production, Argentine urban bias in 2004 was the highest outside of Africa, and it was highest among countries with more than half of their population living in cities. Moreover, with agricultural tax rates and export restrictions increasing repeatedly in the years following 2004, Argentina only became an even greater outlier.

Examining the degree of urban bias in economic policy in Argentina and Brazil over time, an even more complex reality emerges. As Figure 1.2 shows, the world has moved towards economic policies that are less redistributive away from rural producers to urban consumers in the past several decades. Brazil generally followed that trend, rapidly converging to the regional norm during the 1980s and 1990s. Argentina similarly reduced the degree of redistribution away from the countryside until the early 1990s, but then it diverged. During the 1990s, the reduction in urban bias reversed course slightly as the exchange rate, pegged to the dollar, penalized commodity exporters. Urban bias sharply increased following the 2001–02 currency crisis, during which agricultural export taxes were introduced to help stabilize the national government's fiscal situation. As the economy recovered and then boomed, agricultural export taxes were increased. Consequently, by 2005, the urban bias in economic policy in Argentina was among the world's highest.

What accounts for Argentina's shift toward more aggressive policies that redistribute agricultural wealth, in contrast with Brazil? Economically, while differences in their non-agricultural sectors remain, both countries experienced similar booms in the production and export of agricultural commodities in recent decades. As part of broader global trends, a high-tech, export-oriented form of agriculture has emerged in the two countries, and new crops have been adopted. For instance, while neither country cultivated soybeans prior to the 1960s, together they produced half



Figure 1.2: Rural-Urban Redistribution in Brazil and Argentina, 1960-2005



Note: Rural-Urban Redistribution is the inverse of the Relative Rate of Assistance to Agriculture (RRA), from Anderson (2009b). Values plotted here correspond to a locally-weighted regression (lowess). The Latin American average excludes Argentina and Brazil; the middle-income countries average includes all countries in the middle 50-percent of the GDP per capita distribution for each year, similarly excluding Argentina and Brazil.

of the over \$60 billion global trade of the crop by the end of the 2000s. The expansion has been dramatic, as Figure 1.3 shows. Soybeans alone accounted for roughly 10 percent of Brazilian total exports and 25 percent of Argentine exports in the late 2000s. Given this common economic trajectory, the diverging political outcome in the rural sector is even more surprising.

This research finds that primary factor causing the difference in rural-urban redistributive policy has not been level of economic development, nor the level of development in the agricultural sector, but rather the level of investment in political action by farmers. Argentina's rural sector steadily withdrew from politics over several decades, weakening their previously influential organizations and abstaining from electoral contests. By the 2000s, membership in the Sociedad Rural Argentina (SRA), the traditional organization of the rural aristocracy, had fallen to half of its peak level from 1975. The Federación Agraria Argentina (FAA), the association traditionally organizing small grain farmers, saw its direct membership fall 75 percent through the 1990s and 2000s alone. Financially, resources similarly dwindled as farmers abandoned the traditional political associations.

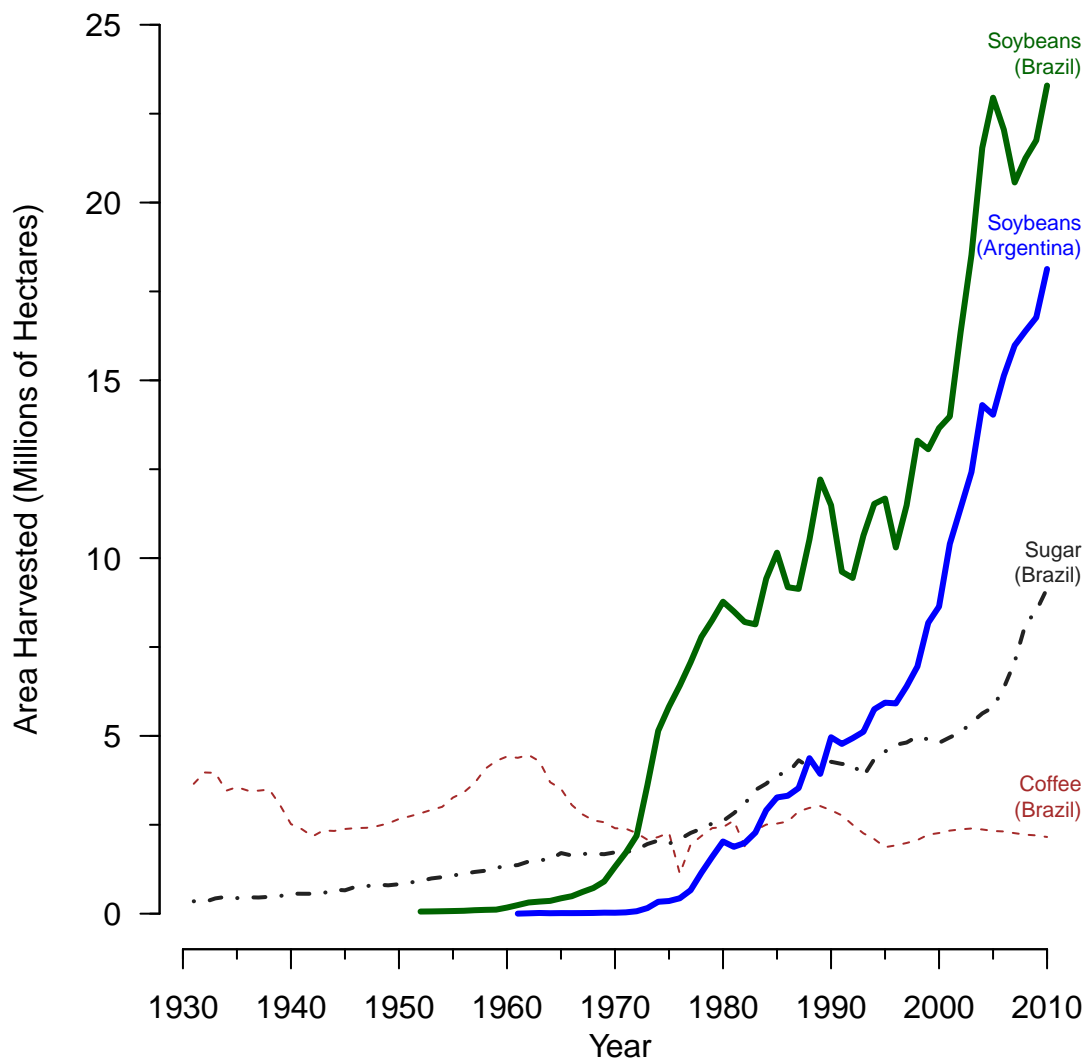
Brazil, in contrast, saw a revitalization of its rural associations. This effort was most pronounced in the state of Mato Grosso, Brazil's leading soybean-producing state. New state-level farmers' associations formed in the 2000s with the explicit aim of shaping national agricultural policy. Mato Grosso's roughly 5,000 soybean farmers contributed around R\$20 million annually to their new organizations, more than all of Argentina's national rural associations combined collected. They also invested substantial resources in taking over state and local elected office. In 2002, Blairo Maggi—Brazil's largest soybean farmer and so-called “King of Soy”—was elected governor, and he won a landslide re-election in 2006; commercial farmers also captured one-third of Mato Grosso's mayoral elections in 2004. Blairo's gubernatorial campaigns each raised around R\$10 million, an unprecedented sum for a sparsely populated frontier state: indeed, the 2002 campaign outraised its closest rival by a factor of 25. These actions at the subnational level supported a pressure campaign at the national level aimed at increasing subsidized farm credit, price supports, and removing environmental restrictions on land use.

## 1.2 Markets and Political Investment

Markets shape the incentives actors face in how to allocate their resources across the range of potential investments. Engaging in political action is an investment decision: it has costs, potential economic returns, and some probability of success. Logically, then, the structure of markets affects the extent to which actors will invest in politics. The more that the resources actors need to maximize profits and manage risk can be obtained through markets, the greater the opportunity cost to investing in politics, and hence the less that will be spent building political influence. Conversely, when markets do not allocate all necessary resources, political investment becomes an essential component of an actor's business portfolio.

Much existing research has analyzed political action, particularly in organizations, as a form of investment. Participating in organizations is explicitly viewed as an economic activity in the literature on collective action. From an Olsonian perspective, actors engage in collective action

Figure 1.3: Cultivation of Key Crops



Sources: IBGE/PAM (Municipal Agricultural Study, Brazilian Institute of Geography and Statistics); FAO

only when their individual costs and benefits justify it (Olson 1965). Moreover, much of the literature on business lobbying and campaign finance views corporate political spending as a form of investment with an expectation of economic gain (Grossman and Helpman 2002; Ansolabehere, de Figueiredo and Snyder 2003; Gordon, Hafer and Landa 2007; Claessens, Feijen and Laeven 2008; Boas, Hidalgo and Richardson 2011).

Previous research has also employed portfolio theory to explain how businesses trade off different types of political investments. In a study of peak business associations in Latin America, Schneider (2004) argues that business investment in political organizations should be viewed as only one component of a portfolio of political investments, which also would include personal connections and political parties. Actors weigh the expected costs and benefits of various political activities and allocate their investments to maximize their returns given a certain level of risk acceptance. When, for example, personal connections with politicians can provide business elites with the policymaking access they desire, they will be less inclined to invest money and time in building robust interest groups.

However, businesses tend not to seek political influence for its own sake but rather to advance their business interests. And, political investments are not the only means by which businesses can increase profits, cut losses, and manage risks—even when facing challenges of political origin. For example, when facing a new policy that reduces their profits, businesses can—and often do—try to influence policymakers to reverse the policy, yet they also adjust economically to the policy, perhaps by making efforts to reduce costs and increase productivity. Hence, businesses' political investments and economic investments should be understood as part of the same portfolio. Consequently, factors that affect the relative attractiveness of economic investments necessarily affect the opportunity cost of investing in political action.

We are interested in the conditions under which farmers decide to invest in collective political action. Every investment has expected costs, benefits, and probability of success (risk). All else equal, lower costs, lower risk, and higher benefits on a given investment lead to greater expected returns, and thus lead to that investment being relatively more preferred. Consequently, to understand the conditions under which farmers invest in rural political organization, we need to identify factors that either (1) increase the expected return or lower the costs or risk of investing in organization, or (2) increase the expected costs or risks or reduce the returns to alternative investments.

Markets shape these political incentives in two main ways.

## **Market extension**

First, the extent to which markets—rather than force, personal connections, or other means—allocate the resources necessary for production affects the returns to investing in politics. As production becomes more fully governed by markets, political power becomes less essential to economic success.

In particular, markets for land have a highly salient effect on political investment in agriculture. While it could be viewed as just another capital input, land is typically assigned a peculiar status as a factor of production. Land is a quintessentially fixed asset, one that is not produced but exploited,

and with the exception of frontier expansion, limited in supply.<sup>4</sup> Many scholars have noted the special position that access to land plays in the economic, political, and social arenas. In his model of the origins of prices, Adam Smith ([1776] 1904: Book I, Chapter VI) assigns a special role to land, in which post-feudal landlords, who “love to reap where they never sowed,” collect rent from farmers, ranchers, and lumberjacks. For Polanyi ([1944] 2001: 71–80), land is a “fictitious commodity” because it was not produced for sale. Rather, land is a fundamental component of social structure, and pressures to extend markets to encompass land were historically met with societal resistance: a “double movement.”

Access to land, thus, is an inherently political and social question, and control over land has a deep historical association with political power. The drive to gain access to land has caused the formation of armies and sparked countless wars and conflicts. However, land markets, particularly short-term rental markets, fundamentally alter the connection between political power and economic gain because they reduce the relevance of land ownership: that is, of who owns the land.

When land loses its privileged economic status as a factor of production and its central role in rural social structure—when it becomes just another input that can be hired as needed—investing resources to secure control over territory is economically unnecessary. Indeed, “investing” is the correct word, for the political sphere in general is reduced to merely another market in which to invest, and one that is far less essential for production.

Some scholars have similarly noted how the importance of control over land affects political conflict. Paige (1975) contends that the relation of actors in the rural sector to the factors of production—land, labor, capital—affects the type of intrasectoral political conflict that emerges. When land is the critical resource needed for agricultural production, political conflict is more severe because control over land is a zero-sum game. Demands for expropriation and redistribution can only be addressed politically, and landowners are more willing to use force to maintain that control. The more that capital is involved in agriculture, and thus land ownership is less essential to farmers’ income, political conflict moderates and centers more on the distribution of commodity profits—a positive-sum game. Political conflict is further reduced because farmers, focused on competing with each other in the market, become unable to form strong organizations (Paige 1975: 46–8).

## **Market flexibility**

Second, when the markets for the inputs of production are more flexible—that is, when inputs can be obtained as needed without requiring a fixed capital investment—actors can better manage risk through their economic investments. Risk management is particularly important for agricultural commodity production. For one, as with other types of commodities, grain farmers are price-takers: there is little they can do to differentiate their product in the marketplace. Consequently, they are vulnerable to fluctuations in international prices, prices they will receive many months after their productive investments were made. For another, climate variability can affect

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<sup>4</sup>But, see Rezende (2002) for a model in which good quality land is “produced” from poor quality land.

crop yields in dramatic ways. Too little rain, or too much at the wrong time, can reverse a farmer's fortunes.

Flexible rural markets for land rental and services, such as planting, harvesting, and applying fertilizers and pesticides, allow producers to manage these risks in several ways. Factor markets with short-term contracts allow farmers to increase scale and adopt new technology—they can rent additional land and hire tractor operators with the latest machinery—with little fixed investment. Similarly, they can scale back their operations easily, without having to sell assets. This flexibility allows producers to adapt to their changing fortunes with relative ease. Actors can also more easily diversify their production when the inputs can be obtained through flexible markets. In addition to diversifying by crop, they can diversify regionally, allowing them to manage climactic risk. Hence, with well-functioning markets, economic adjustment is relatively low cost and confers clear benefits. All else equal, this increases the relative desirability of economic investments to political investments, thereby reducing commercial farmers' investment in political action.

Without flexible markets, actors are more exposed to risks in production. Because increasing scale and productivity require substantial outlays of capital into fixed investments of land and machinery, rural market failures restrict modern agriculture to the well-capitalized landed elite. This concentration of production also concentrates risk, such that droughts and falling prices produce more acute problems for farmers. Less able to manage these risks in the market, farmers need alternative forms of diversification and insurance. Influencing policymakers to extend subsidized credit, renegotiate the terms of debt with both private and public creditors, and provide price supports can act a substitute for market-based solutions. Hence, rural market failures encourage greater political investment.

Flexible markets have a secondary effect on political investment. By lowering the costs to increasing production, markets allow a more diverse group of actors to remain involved in agricultural production. This heterogeneity in actors further complicates collective action. In contrast, market failures limit commercial farming to a smaller, more homogeneous group. Smaller-scale producers are forced to exit production. Collective action is thereby facilitated, increasing the expected returns of individual political investments.

### **Path dependence and the origins of market structure**

The relationship between market structure and political investment clearly goes in both directions: market structure affects how actors invest in politics, but politics also shapes the formation and development of markets. Indeed, markets are institutions—they must be created, and they often are created and shaped by political forces. This research focuses on the former causal relationship because unique features of the development of modern agriculture in Argentina and Brazil allow us to identify the effect of market structures on political action. In fact, the development of rural market structures in the two countries was path dependent.

Several features define path dependence. Crucially, path-dependent processes involve increasing returns, feeding back into themselves and reinforcing over time (Pierson 2000). However, increasing returns alone are insufficient. There must also be a “critical juncture” at which history is less deterministic—a point at which more than one path was possible, but that the choice of one

path closes off the others. This choice—not necessarily an intentional choice—can have persistent long-run effects even after the initial cause has ceased to exist. Put differently, a critical juncture operates as a historical cause rather than a constant cause (Stinchcombe 1968: 101–29; Collier and Collier 1991: 28–39).

In both countries, the unintended consequences of rural regulations shaped the evolution of market structures during a critical period of the 20th Century. In Argentina, legal restrictions on rural tenancy contracts, introduced in the 1940s to preserve the pre-Depression status quo of small-scale, resident tenant farming, had the opposite effect, fueling the emergence of highly flexible, short-term land rental markets. These markets profoundly shaped agricultural modernization in subsequent decades as large producers shifted from extensive ranching to capital-intensive soybean farming. While mechanization facilitated the concentration of production, landownership did not concentrate as much because land rental markets allowed farmers to expand without requiring a fixed investment. Modern agriculture was able to expand onto land previously used for cattle-ranching without requiring major changes in landownership: historically determined, concentrated landownership was no longer an obstacle to increasing production (Obschatko 1988*b*: 129). As for smallholders, rather than divesting from the countryside, many rented their land to neighboring farmers and moved to the cities, living off of the rent. Similarly, markets for agricultural services, such as planting and harvesting with the newest machinery, emerged, and these contractors specialized in the increasingly technical equipment. These markets provided for greater specialization within the sector and a distinction in many cases between the owners of land and the owners of capital. Consequently, Argentine farmers remained a highly heterogeneous group.

The new system of flexible factor markets altered the rural elite's incentives to invest in political associations because expanding production became more attractive. As a result, Argentine agriculture became incredibly dynamic: adoption rates of many new techniques and technologies, such as genetically-modified seeds and no-till farming, exceeded those of the United States. Yet, despite becoming some of the most technologically advanced producers in the world, Argentina's elite farmers actively avoided the political arena, leaving them vulnerable to aggressive taxation.

In Brazil, rural land, labor, and credit policies in the 1960s, designed to pacify peasant mobilization and increase agricultural production without agrarian reform, had the not-so-intended consequence of destroying markets for land rental and sharecropping and making rural labor more costly (Rezende 2006*b*). Importantly, the laws incorporated the idea of adverse possession: tenants occupying land for five years may benefit from land reform. This threat of expropriation destroyed the rental market: rather than run the risk, landlords abandoned tenancy contracts (cf. Conning and Robinson 2006). Furthermore, given the 1964 Land Statute's statement that land must fulfill its "social function," large landowners engaged in production themselves rather than leave their land idle and risk expropriation (Rezende 2006*a*: 17–21). Unlike in Argentina, subsidized credit for mechanization was made available only to large landowners, further encouraging concentration of landownership. As agriculture modernized and spread to the *cerrado* region under this legal regime, large-scale landowning farmers dominated production. Geographic factors further contributed to the concentration of production in Mato Grosso, such that the state's 5,000 soybean farmers produced 7 percent of the global trade in the crop on farms that average more than 8 times larger than properties in the Corn Belt of the United States. These factors facilitated the farmers'

mobilization of resources to capture state politics and influence national policy. Adoption rates of the newest agricultural technologies may lag behind Argentina, but what Brazilian farmers lacked in agronomical sophistication they made up for in political sophistication.

In neither country were the rural regulations adopted necessary: other policies could have achieved the stated goals and had different effects on the development of rural markets. Once in place, the regulations shaped the adoption of new agricultural technology and the development of factor markets. These historical regulations have little direct effect on contemporary agricultural production, and even less of an effect on politics—Argentina’s laws were abolished decades ago, and what remains of Brazil’s have scant bearing on production decisions—but they have had far-reaching effects through the markets they shaped.

The incentives to invest or not in political action, generated by the structure of markets, are self-reinforcing in several ways. Economically, markets have a natural-selection effect, favoring the survival of actors that best adapt to the incentives they generate. Over time, the markets’ incentives become an essential part of the identity and business models of the actors that operate within them, having a persistent effect even should the market institutions change.<sup>5</sup> Where markets have less penetration, actors will incorporate political investment as an essential component of their business model, to the point of needing positive returns on those political investments in order to sustain themselves.

Politically, organizations require sustained investment in order to maintain their political power: they must be reproduced. Underinvestment in political organization reduces its efficacy, which in turn further reduces the incentive to invest in it. The current level of investment affects the probability that the investment will succeed, and it also affects the future probability of success. It is as much a long-term investment in the infrastructure to get results from the political system as it is a short-term investment. Hence, investment in political organization has increasing returns—and reducing investment similarly reduces future expected returns, which in turn leads to less future investment. The fact that others’ investment decisions also affect one’s expected returns compounds these tendencies.

### 1.3 Methodology and Alternative Explanations

Comparisons of Argentina and Brazil are not uncommon in political science literature; indeed, the two countries are central to many canonical works (e.g. O’Donnell 1973). However, despite being the two largest countries in the continent in terms of land area and GDP, vast political, economic, and social differences exist between them. These differences can easily confound a simple cross-country comparison.

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<sup>5</sup>A similar effect of institutions shaping the actors themselves can be seen in Fisman and Miguel (2007), which examines parking tickets received by United Nations diplomats. Because UN officials had diplomatic immunity, even from parking tickets, only their individual norms determined whether they followed traffic rules. They found that diplomats from more corrupt countries tended to accumulate more tickets, suggesting that the institutions of the countries of origin had a greater effect on behavior than the prevailing institutions at a given place and time.

To address these challenges, the research design involves multiple levels of analysis. It deviates from a simple two-country comparison in three key ways. First, the principal comparisons are historical within each country, tracing how the development of rural markets affected the rural sector's political expression. Second, within the Brazilian case, I compare Brazil's top soy-producing states to control for common national-level political institutions.<sup>6</sup> Third, I conduct a quantitative analysis of municipal-level data in Brazil to confirm the importance of market structures in shaping the political investments of commercial farmers. Consequently, while the Argentina-Brazil comparison is a useful framing for the research questions, it is not the primary tool for achieving analytic leverage.

This research design allows us to address several potential rival explanations for the observed difference in outcomes across Argentina and Brazil. For one, Brazil has an important legacy of corporatism, in which the state created official unions for labor and capital in different sectors. Corporatism in Argentina, in contrast, was much less organized and coordinated by the state. Moreover, many scholars have noted a widespread failure of businesses to build strong interest associations in Argentina due to unstable politics, fragmentation of interests (Schneider 2004), and the lack of a conservative party with which to ally (Gibson 1996). One could suppose that these differing organizational legacies may account for the strong organization of farmers in Brazil but not in Argentina.

However, there are a number of reasons to question the relevance of these organizational legacies for the present analysis. First, while valid at the national level, the contrast between Argentina and Brazil is less stark when examining their rural sectors. Corporatism was decades later in arriving to Brazil's agricultural sector than to industry, with rural workers and landowners respective unions established by law only in 1963. Following the military coup the following year, the government intervened in the unions, installing loyal leadership (Helfand 1999: 14). Hence, any effect of this corporatist legacy in promoting contemporary organization is likely to be weaker in agriculture than in the industrial sectors most often envisioned when speaking of Brazilian corporatism.

In Argentina, while business associations were historically weak or ephemeral, the rural sector has been widely noted as an exception, playing a strong role in Argentine politics historically (Schneider 2004). In O'Donnell's (1978) account of postwar Argentine politics, the rural sector, in particular large landowners, was a key actor in the series of shifting political coalitions and recurring crises that resulted. Indeed, members of the SRA, the traditional association of the landed aristocracy, historically held numerous high-level government positions. SRA members occupied a majority of the cabinet posts in national governments prior to Perón (Smith 1969). Between the fall of Perón in 1955 and re-democratization in 1983, the SRA continued to hold many ministerial positions, regardless of who was president or de facto leader (Palomino 1988: 23, 71-5). Consequently, the contrast in historical organizational legacies in agriculture is less significant than the national-level country comparison might suggest.

Second, corporatist legacies cannot account for several essential features of both country cases. As has been noted about Argentina, previously strong rural associations declined precipitously

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<sup>6</sup>Due to institutional constraints on subnational governments in Argentina, variation at the provincial level is not sufficient to merit a similar subnational comparison there.

since redemocratization, particularly in the 2000s. Large farmers in the state of Mato Grosso organized outside of the established *sindicato* system of interest organization. The official landowners' federation in the state was dominated by ranchers, an economically and politically conservative group with less interest in investing in political action. Soybean farmers built a parallel interest group structure, first in Mato Grosso and subsequently at the national level, and building on their political success—and ample resources—were able to take over the state-level federation and gain influence over the national peak association, the Confederação Nacional de Agricultura (National Confederation of Agriculture – CNA). Hence, soybean farmers in Brazil came to wield power *through* the traditional corporatist structures, but they do not wield power *because* of them.

Another rival explanation might be that, even if market structures shape political action, these structures are historically determined. Put differently, perhaps the initial assignment of property rights over land, which varied significantly across the two countries, determined the types of institutions that emerged, thereby shaping the political and economic development of the two countries. Indeed, an entire body of research has sought to identify a relationship between market institutions and development outcomes by finding determinants of institutions in historical patterns of settlement, colonization, and conquest (Engerman and Sokoloff 1997; Acemoglu, Johnson and Robinson 2001; Easterly and Levine 2012).

The findings of this research do echo those found in that literature: market institutions developed in diverging trajectories as a result of larger historical processes, processes that themselves may no longer persist but that left their mark on contemporary political and economic outcomes through the institutions they shaped. Nevertheless, historical differences in patterns of landownership across Brazil and Argentina do not explain the contemporary differences in rural market structure because the relevant market institutions were created and evolved in a largely contingent manner mere decades ago. The subnational development of Brazil's rural elite further illustrates the historical break. Mato Grosso, a peripheral state which has rapidly transformed in two decades from a frontier outpost to Brazil's chief soybean producer, has protagonized the revitalization of Brazil's rural lobby. More traditional agricultural states, such as Rio Grande do Sul, have lagged in terms of the new rural mobilization. In order for Brazil's rural elite to maintain political power, much has had to change.

In another related theory, Kurtz (2004), examining rural politics in Chile and Mexico, makes a subtly different claim about the relationship between market structures and political action. His research highlights the role of market reforms in weakening interest groups. Market liberalization and privatization remove the state from the business of regulating, supporting, and otherwise intervening in economic activities, thus eliminating a key reason to organize politically (Kurtz 2004: 33). This effect is particularly devastating to organization in the rural sector due to the inherent challenges to collective action in the countryside.

In contrast, this analysis explores different types of changes in market structure, an evolution that is much more organic and much less tied to a particular ideological or intentional effort to change the market structures. It shares with Kurtz's theory an attention to the relevance of non-market resources in production, but it goes beyond to focus on how flexible factor markets shape economic and political investment decisions, independent of the state's regulatory role.

The market-liberalization theory could be construed as an alternative hypothesis to explain the

observed outcomes of rural political organization and redistributive policy in Argentina and Brazil. The state withdrew from agriculture in both Argentina and Brazil, though the retrenchment was far more complete in Argentina. During the early 1990s, nearly all regulatory capacities that the national government had in agriculture were disbanded. The Brazilian state did scale back its major price support and credit programs, but it still retained a presence in the marketplace. It could be argued that the variation in the political strength of agriculture in the two countries derives from this contrast: because there was nothing immediate for farmers to gain from lobbying in Argentina, they became less politicized. Essentially, the theory holds that the level of political investment is governed by the supply of subsidies to be obtained.

While the supply side of the equation clearly is relevant, within-country variation in Argentina and Brazil shows the importance of the demand side as well. In Argentina, even as the government became much more involved in agricultural markets in the 2000s, both through export taxes and through numerous forms of regulations, the primary response from farmers was an intensification of the trend to withdraw from political organizations, contrary to the supply-side prediction. Agricultural market structures created incentives for them to adjust to politically-generated costs by investing in economic options rather than in political action that might eliminate those costs. In Brazil, subnational variation shows that not all farmers have equal interest in seeking subsidies. Organization occurred where demand for subsidies intersected with the means to organize collectively, factors shaped by market structures at a more local level.

Finally, the research design does control for key sources of economic variation by analyzing the same sector—grain production—in two countries, produced using essentially the same technology. This allows us to rule out general characteristics of sectors as explanations for differing levels of political organization in these country cases. A line of research has found that highly concentrated industries with large, fixed investments, located in geographically concentrated areas, should be most easily organized, and hence more politically influential (Frieden 1991; Shafer 1994). Instead, this research focuses on market structures that affect the expected costs and benefits of these economic investments, institutions that vary within the same sector across countries and regions. These market structures also affect factors—such as capital intensity, asset specificity, and concentration—identified by sectoral analyses as important determinants of political action.

The analysis is based on a range of data sources, including interviews with over 140 people conducted over fourteen months of field research in Argentina and Brazil between 2007–2009. Interviewees included large farmers, agribusiness executives, interest-group leaders, politicians, bureaucrats, and informed observers.<sup>7</sup> In addition, I draw from various news sources and official documents. Quantitatively, I employ both official statistics on economic production and government finance and new datasets I compiled for this research.

## 1.4 Outline

Chapter 2 examines the emergence of the new form of rural bias in Argentina in the 2000s, in which broad-based subsidy programs were financed in large part by taxes on soybean exports.

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<sup>7</sup>More information on interviews and interviewees can be found in the Appendix.

It examines the political logic of this economic model and highlights a way in which agricultural modernization shaped it. Historically, when beef and wheat were both the country's main export commodities and important goods consumed by the working class—that is, wage goods—trade policy and wage policy were linked. The rise of soybean cultivation severed this linkage, for soybeans were produced purely for export in Argentina. Thus, the agricultural revolution created the conditions for a new form of populism under the governments of Néstor Kirchner and Cristina Fernández de Kirchner based on agricultural export taxes.

A key reason why the Kirchner governments were able to impose and repeatedly increase taxes on agricultural exports was the political weakness of the Argentine rural sector. Chapter 3 analyzes this weakness and explores why the traditional political associations of the rural sector deteriorated over several decades. Deep changes in the rural economy are at the root of this political weakness. Farmers divested from politics in part because of the particular way in which market structures developed as agriculture modernized in Argentina. As Argentine farmers began to favor economic alternatives to political investment, their political associations began to atrophy, decreasing their effectiveness and thereby reinforcing the tendency to eschew politics. In addition, the traditional rural associations' failed to respond adequately to the changing rural market structures, contributing to their decline in relevance. Associations that did arise to serve the needs of the modern farmer stuck to their technical, apolitical agendas. This abnegation of a political presence extended to electoral politics as parties did not offer, and associations rarely presented, rural candidates for any elected office, and the rural sector was not a large, reliable electoral base for any party. Ultimately, Argentina's elite farmers became some of the most technologically advanced in the world, yet they actively avoided the political arena.

Because rural producers in Argentina underinvested in political organization, they could only react after the government steadily increased taxes on their crops rather than influencing the political agenda to prevent such a scenario from arising. The intensification of the Kirchner model of redistributive taxation, coupled with the inefficacy of rural political organizations, erupted into mass revolt in 2008 as farmers barricaded rural highways. Chapter 4 examines the 2008 rural conflict and its aftermath, assessing the implications for rural political organization and our understanding of it. More than anything, the conflict highlighted the political weakness of Argentine farmers and the structural and institutional foundations for that weakness, which remained unchanged by the protest. Despite electing a handful of representatives to the national legislature in 2009—no small feat, given that the previous congress had none—rural organizations remained underfunded and disorganized, lacking an institutionalized political presence. There were some efforts made towards building a modern farm lobby; nevertheless, four years after the outbreak of the rural conflict, the Kirchner model of redistributive taxation remained in full force.

A central component to building an effective political organization is financial resources, and soybean farmers in the Brazilian state of Mato Grosso secured ample funding for their national political operations. Chapter 5 explores how within the span of twenty years, Mato Grosso went from frontier backwater to agricultural powerhouse and major political player. Soybean farmers there, among the world's largest, bankrolled the gubernatorial campaign of one of their own in 2002; once elected, the governor created a mechanism by which the state government would collect dues for and subsidize the nascent soybean farmers' association. This organization in turn spent its

resources in revitalizing national lobby organizations and in directly advancing its national political agenda. The chapter identifies the factors that contributed to the mobilization of large farmers in Mato Grosso, while soybean farmers in the rest of the country struggled to organize similarly. It also explores the interesting role that Brazil's federal institutions played in fostering and shaping this political organization.

To provide further evidence of how market structures affect political investment decisions, Chapter 6 explores variation within Brazil in the perception of the security of rural private property, examining detailed individual-level data on the economic status of over 350,000 Brazilian politicians. Using both parametric and non-parametric methods, the data reveal greater political investment in localities where market institutions are weaker and property rights less secure, as indicated by land occupations by groups such as the Landless Workers Movement (MST). Land invasions are associated with a greater number of landowning candidates running for mayor, a higher vote share received, and more landowners elected mayor. This analysis supports the argument that market failures, particularly for land, encourage landowners to invest more heavily in using political means for economic gain.

Chapter 7 synthesizes the within-country arguments from Argentina and Brazil, drawing lessons from the cross-country comparison. It then extends the analysis to other countries, both within Latin America and elsewhere.

**Part II**  
**Argentina**

## Chapter 2

# Export-Oriented Populism

Despite international trends to the contrary, urban bias rose sharply in Argentina during the 2000s. Economic policy became significantly more redistributive away from rural producers in favor of urban consumers under the governments of Néstor Kirchner (2003–2007) and Cristina Fernández de Kirchner (2007–). Export taxes on agricultural goods, particularly soybeans, were repeatedly increased to fund broad-based subsidy programs that primarily benefited urban workers.

This new form of populism under the Kirchners—“export-oriented populism” (Richardson 2009)—presented a break not only from international trends but also from historical forms of populism in Argentina. Previously, agricultural commodity production and export had a different relationship with populist politics in Argentina. O’Donnell (1978) noted that because Argentina’s main exports—beef and wheat—were also the primary goods consumed by the working class, economic conflict between rural exporters and the urban masses was direct. Populist redistribution to urban workers involved restricting exports, thereby increasing the domestic supply of these “wage goods” yet reducing rural income and exacerbating the trade imbalance. Conversely, resolving trade imbalances involved promoting exports, which redistributed away from urban workers by reducing domestic supply of wage goods. In the context of a large, mobilized labor movement, these economic linkages between trade and wage policy led to recurring economic crises and shifting political coalitions.

However, changes in agricultural production have reshaped the economic foundations for populism in Argentina. Since the 1970s, agricultural productivity has dramatically increased, and soybean cultivation has rapidly expanded, replacing beef and wheat as the country’s leading export commodity. During Néstor Kirchner’s presidency, soybeans and their derivatives generated four times greater export revenue than have beef and wheat products combined. Unlike beef and wheat, however, soybeans were not consumed domestically; hence, their export had no direct effect on the effective purchasing power of urban workers. The Kirchner model exploited this changed export profile, stimulating exports through an undervalued exchange rate and capturing the agricultural export surplus to fund populist programs. As a result, it differed greatly from previous incarnations of Argentine populism.

This chapter examines the nature and origins of the Kirchner model, highlighting how changes in export production have altered the form of redistributive politics in Argentina. It first outlines

how the Kirchner governments used export promotion, coupled with taxes and export restrictions, to capture the agricultural surplus and use it to maintain an urban-based support coalition. The chapter then examines the historical wage-goods linkage between trade policy and wage policy in Argentina and shows how Argentina's agricultural revolution severed that link, creating the conditions for this new form of populism. In analyzing the Kirchner model, this chapter focuses primarily on developments during the government of Néstor Kirchner. The general principles of the model continued, and even intensified, under Cristina Fernández de Kirchner. Developments during the Cristina governments will receive greater attention in Chapter 4.

## 2.1 The Kirchner Model

The Kirchner economic model was based on currency undervaluation combined with market interventions to control prices and inflation.<sup>1</sup> The undervaluation of the Argentine peso, combined with increasing commodity prices through 2008, meant more dollars entering the country from exports, especially from the agricultural sector. To effect the peso's devaluation, and to prevent the influx of dollars from causing the peso to re-value, the Argentine Central Bank intervened in currency markets, buying dollars to depress the peso's value.

### Currency undervaluation

Figure 2.1 plots the exchange rate in Argentina since 2003, in pesos per US dollar, along with the exchange rate for the Brazilian real. For about a year and a half after Néstor Kirchner took office in May 2003, the peso and the real were roughly equivalent. After that point, the two currencies diverged, with the *real*—along with the main global currencies—gaining in value relative to the dollar, while the peso slowly but steadily lost value against the dollar.<sup>2</sup>

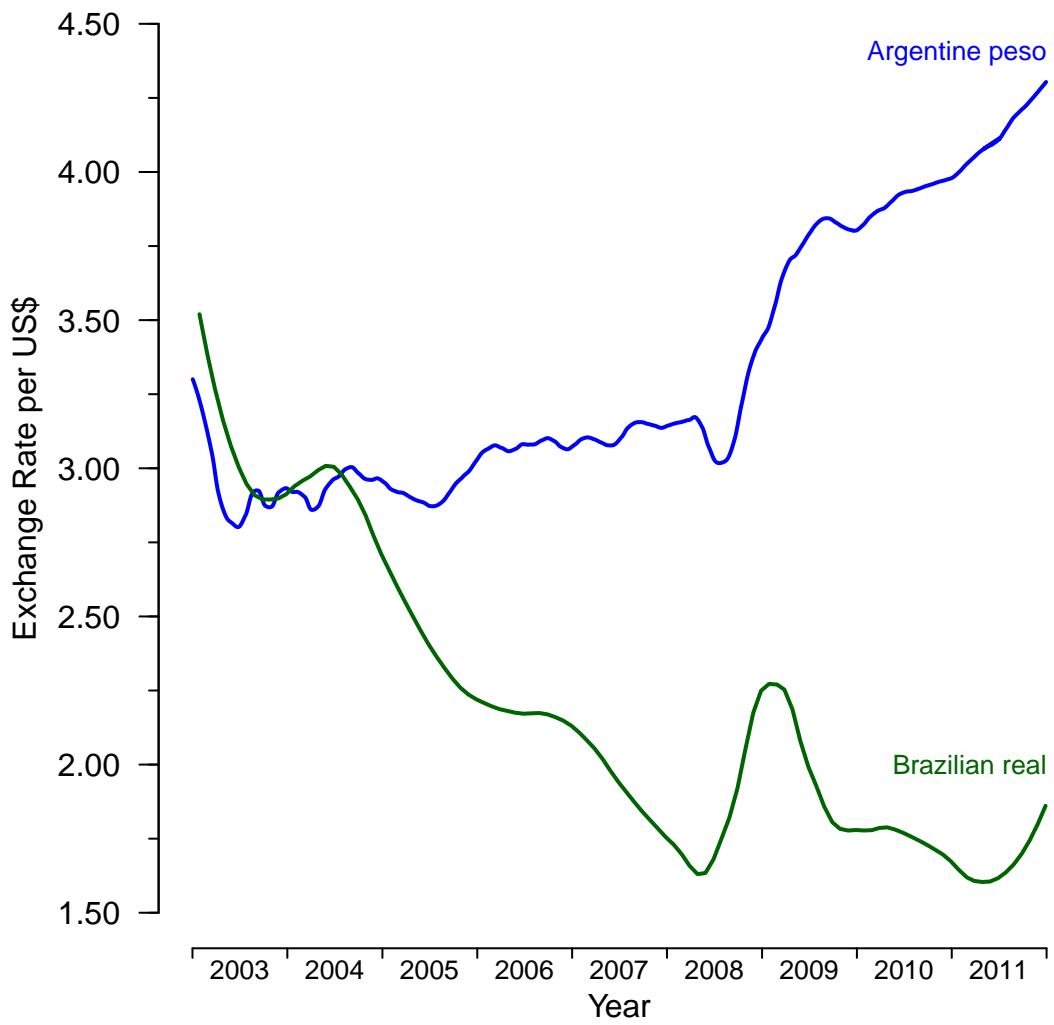
The Brazilian real appreciated for several reasons, including the influx of dollars from booming commodity exports—particularly soybeans—as well as from record levels of foreign investment and the general decline of the dollar around the globe. One would expect that the similar economic conditions in Argentina—soaring agricultural exports and a falling dollar—would also result in a stronger peso. This did not occur, however, due in large part to the Argentine central bank's

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<sup>1</sup>I distinguish here between “prices” and “inflation” for analytical purposes. Inflation is a statistic, an index computed by some means from prices of actual goods, and as recent experience in Argentina shows, changes in prices do not necessarily map onto changes in measured inflation. Moreover, prices on the street and inflation statistics have different functions: the former affect consumers, and the latter directly affect only that which is indexed to government inflation statistics, such as bonds (and hence bondholders). Hence, they have slightly different political implications as well. The Kirchner governments used a variety of tools with different intended effects, some with more of an eye towards actual prices (such as public transportation price controls), and some more oriented toward official inflation numbers (such as intervening in INDEC, the national census bureau). I focus primarily on the price policies here. For an interesting account of the INDEC saga, see Cabot and Olivera (2008).

<sup>2</sup>The effect was not specific to the dollar: the Argentine central bank's multilateral exchange rate index, calculated as an average of world currencies weighted by their importance as trading partners, also gradually increased throughout this period. See Banco Central de la República Argentina (BCRA), “Índice de Tipo de Cambio Real Multilateral,” <http://www.bcra.gov.ar/>.

Figure 2.1: Exchange Rates in Argentina and Brazil, 2003-2011



Note: locally-weighted (loess) regression of daily exchange-rate data for Argentina and monthly figures for Brazil.  
 Data sources: BCRA, BCB

activity in the foreign exchange market. Figure 2.2 shows the intervention of the central bank in the currency market during this period. During Néstor Kirchner's term in office, the central bank purchased nearly US\$45 billion from foreign exchange receipts, a trend that, although interrupted by the global financial crisis of 2008, continued through Cristina Fernández de Kirchner's first term.<sup>3</sup> By selling pesos (or peso-denominated bonds) to buy dollars, the central bank depressed the value of the peso below what it otherwise would have been.

Undervaluation served several functions in Kirchner's export-oriented populism. First, maintaining a positive trade surplus and increasing central bank reserves shored up Argentina's monetary position following the 2001–02 crisis. Following a decade of mounting sovereign debt and dwindling central bank reserves due to the peso-dollar peg (Convertibility), this policy eliminated the need to borrow in order to sustain an exchange rate, ultimately increasing Kirchner's independence from international lenders. Second, by eschewing the currency peg and the creeping appreciation and overvaluation of the peso it caused—a source of widespread frustration by the end of the 1990s—Kirchner's active pursuit of depreciation was a generally popular policy. Third, undervaluation effectively subsidized domestic industry by increasing the price of rival imports and, in a post-ISI open economic model, by making their exports more internationally competitive. This helped to maintain part of Kirchner's support coalition.<sup>4</sup> Fourth, since undervaluation in fact promotes all exports, it fueled a boom in agricultural commodity exports, which have long been one of Argentina's natural comparative advantages. This resulted in a massive influx of wealth, which the government sought to appropriate.

## Export taxes and price controls

In order to counteract the inflationary pressures that steady, gradual devaluation would cause, the Kirchner government applied a series of measures to control prices. The first line of defense was export taxes (*derechos de exportación*, or *retenciones*) on agricultural goods, many of which are also “wage goods,” important for domestic consumption. Upon assuming the presidency in 2003, Kirchner inherited a regime of export taxes with rates of 20 percent on grains and their derivatives, 10 percent on other primary products, and 5 percent on processed goods, both industrial and agricultural, including beef.<sup>5</sup> These were legacies from the Duhalde government's response to the 2001–2002 financial crisis, put in place to check the inflationary effects of the sharp 2002 devaluation, re-equilibrate the state's fiscal situation, and provide immediate resources for unemployment insurance.

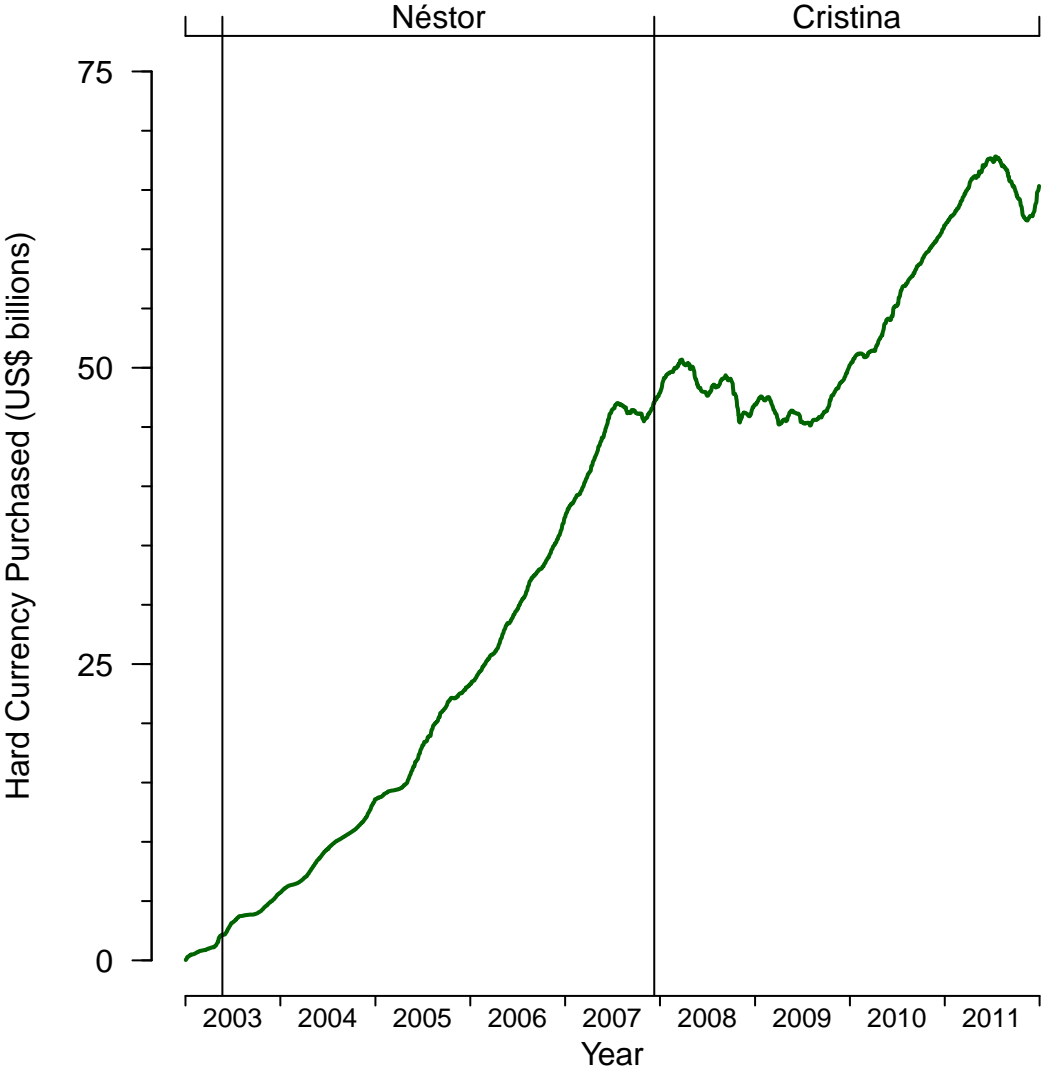
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<sup>3</sup>Author's calculation from statistics collected by the Argentine central bank, <http://www.bcra.gov.ar/pdfs/polmon/serieese.xls>, accessed 18 Feb. 2012.

<sup>4</sup>Indeed, the leadership of business associations such as the Unión Industrial Argentina (UIA) on many occasions expressed “unrestricted support” for Kirchner's economic policies. See, e.g., Alejandro Rebossio, “Pagani elogió a Kirchner, pero pidió medidas,” *La Nación*, 23 May 2004, and “Para la UIA, ya se pagan salarios muy dignos,” *La Nación*, 24 Apr. 2005.

<sup>5</sup>Unprocessed oilseeds, notably soybeans and sunflower, were taxed an additional 3.5 percent, totaling 23.5 percent, in order to subsidize the grain processing industry. This differential tax and a similar tax on raw leather were the only export taxes to survive the Menem government, and they were retained through the Kirchner era.

Figure 2.2: Argentine Central Bank Interventions in Currency Markets, 2003–2011



Data source: BCRA

When rising international commodity prices, exacerbated by the progressive devaluation of the peso, continued to put upward pressure on prices, the Kirchner government employed a series of other tools. The efforts centered on price agreements with various sectors; other measures provided carrots and sticks to enforce the officially sanctioned prices. Price agreements became increasingly prominent starting in 2005. The Kirchner government, through Secretary of Internal Commerce Guillermo Moreno, encouraged large firms that produce or sell goods with an important weight in the consumer price index to agree not to increase their prices above the level that the government allowed. This arrangement was pursued in a number of areas, including supermarket chains, meatpackers, and dairies. Price agreements were only conceivable in the more concentrated sectors of the economy, and even so, compliance was imperfect.<sup>6</sup>

Partly to pressure producers and agroindustrial firms to adhere to price agreements, and partly for their own economic effect on domestic prices, the Kirchner government began restricting the export of wage goods, particularly beef and wheat. Interventions in the beef market began in 2005, building to the March 2006 announcement of a 180-day ban on beef exports. By cutting off exports, the goal was to increase the supply of beef to the domestic market, thereby lowering prices. Indeed, beef prices at the Liniers Market in Buenos Aires fell between 15 and 31 percent over the months following the export embargo, erasing the previous year's price gains.<sup>7</sup> While that export ban was gradually relaxed over the ensuing months (Azcuay Ameghino 2007: 278-88), a variety of measures inhibiting exports remained in place, and others were later introduced.

With export controls also insufficient to detain the rise in domestic prices, the Kirchner government began offering "compensations," or subsidies, particularly to support price control agreements. This approach had already been utilized in the energy and transportation sectors, compensating private-sector firms for low, officially mandated prices, which for some had been frozen since 2002. In 2007, this strategy expanded to include the food sector as the Oficina Nacional de Control Comercial Agropecuario (ONCCA), a regulatory agency within the Secretariat of Agriculture, began administering US\$400 million in subsidies. In general, the subsidies were intended to compensate producers for the difference between the international price and the lower official price. The goal was to divert into the domestic market, at prices below those in the international market, goods that would otherwise be exported. Other compensations supported the operation of cattle feedlots, which can rapidly fatten animals to slaughtering weight. Ostensibly, feedlot subsidies differed from the other compensations by intending to increase total production, not just the share consumed domestically.

The increase in compensations placed growing demand on the state's budget, which led the Kirchner government to seek new resources. Much of the new revenue came from raising taxes on agricultural exports, and specifically on soybeans, Argentina's leading export. Unlike with other crops, export taxes on soybeans had no direct anti-inflationary effect because nearly all of Argentina's soy products were exported; hence, their taxation had a more purely fiscal objective. The

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<sup>6</sup>Moreno's methods for "encouraging" firms to restrict price increases were legendary, and all businessmen I interviewed had their favorite Moreno stories, whether first-hand or not. Threats of harm to family members and of tax auditing were the most common. Cabot and Olivera (2008) tell the Moreno story in greater detail.

<sup>7</sup>Price changes varied based on the category of animal sold. Author's calculations based on Mercado de Liniers data, compiled by the Instituto de Promoción de la Carne Vacuna Argentina, <http://www.ipcva.com.ar/estadistica.php>.

three export tax increases between 2003 and 2008 suggested this fiscal motivation. Kirchner's first major increase was the January 2007 decree raising export taxes on only soybeans by 4 percentage points in order to raise the funds for the ONCCA food compensation program. Second, following the October 2007 elections, Kirchner again raised export taxes, this time on all agricultural goods but still placing the highest rates on soybeans and their derivatives. The tax rate on soybeans increased from 27.5 to 35 percent on unprocessed soybeans and from 24 to 32 percent on soybean oil and meal; rates on other grains also increased between 5 and 10 percent. Third, the March 2008 export tax increase under the Cristina Kirchner government similarly levied higher rates on soybeans.

### Political logic

The Kirchner model—currency undervaluation combined with price-control policies—provided political returns to the Kirchner governments in two ways. Economically, it shaped the allocation of resources and distribution of income, favoring certain sectors that can be taken together as Kirchner's support coalition: urban workers and key fractions of domestic industry. Kirchner cultivated the support of the Confederación General del Trabajo (CGT) labor confederation, as well many of the larger organizations of unemployed or informal-sector workers—the *piqueteros*. In addition, the competitive exchange rate policy maintained the backing of leading domestic business associations, such as the Unión Industrial Argentina (UIA). This multi-class alliance between business and labor, then, was similar to Argentina's 20th-Century populist coalition; however, contrary to classic Argentine populism, it depended on export promotion via an undervalued exchange rate. Moreover, the exchange rate policy, combined with steadily increasing international prices, helped to maintain the general acquiescence of the rural sector despite their growing tax burden. Though, as we will see in the next chapter, the rural sector's political acquiescence had much deeper roots.

Politically, the model strengthened the Kirchner government by increasing and centralizing fiscal resources. Undervaluation increased the income received from exports, and the taxes appropriated that surplus income for the central government. This export-tax revenue helped to sustain a broad increase in government spending under Néstor Kirchner, much of which was allocated by presidential decree.<sup>8</sup> Electoral motives only accelerated the increase: central government spending increasing by 54.3 percent in the first nine months of 2007 alone, leading up to the October elections.<sup>9</sup> Export taxes on agricultural commodities were central to this increase in spending, rising to comprise over 25 percent of the national government's total tax receipts in 2008.<sup>10</sup> Around two-thirds of this export-tax revenue—nearly US\$2 billion in 2006—came from soybeans.<sup>11</sup>

On the one hand, some of this increased spending came in the form of compensations in order to attempt to control prices. Between 2003 and 2006, government spending on energy and fuels increased sevenfold, while transportation expenditures more than tripled (Etchemendy and Garay

<sup>8</sup>Laura Serra, "Kirchner subió el gasto un 12 por ciento por decreto," *La Nación*, 25 Aug. 2007

<sup>9</sup>Rafael Mathus Ruiz, "El aumento del gasto llega al 54,3%," *La Nación*, 12 Nov. 2007

<sup>10</sup>Author's calculation from official government statistics (Ministerio de Economía y Producción, Secretaría de Hacienda, Subsecretaría de Ingresos Públicos; <http://www.mecon.gov.ar/sip/basehome/pormes.htm>).

<sup>11</sup>Fernando Bertello, "Suben las retenciones a la soja para frenar los precios," *La Nación*, 12 Jan. 2007.

2011). Energy and transport spending reached Arg\$12.5 billion (US\$4.1 billion) in 2006, roughly 12 percent of the total budget.<sup>12</sup> Indeed, as international commodity prices increased, the fiscal voracity of the model also increased as both supply of export taxes (rising soybean prices) and demand for redistributive spending (rising food and energy prices) and continued to soar. This contributed to the intensification of the model, with increasing export taxes and eventually soybean-specific taxes.

On the other hand, the Kirchner government derived important political support from the other ways in which it spent the expanding resources. Spending on public works, for example, increased significantly under Néstor Kirchner (Levitsky and Murillo 2008). Additionally, the president's discretion over budgetary allocation allowed him to use these funds to reward key supporters with targeted benefits—and to maintain their loyalty with threats of withholding funds. Recipients included loyal governors, as well as leaders of unemployed workers' organizations. In fact, some piqueteros were given posts in the ministries and secretariats responsible for spending public works money (Etchemendy and Garay 2011).<sup>13</sup> Revenue from taxes on soybeans was critical to the government's ability to pacify protesters and purchase loyalty.<sup>14</sup>

## 2.2 Structural Foundations of the Kirchner Model

Why did the Kirchner model take this form, and why did it become increasingly aggressive towards the rural sector, and toward soybean exports in particular? Contemporary global market conditions, such as increasing international commodity prices and the subsequent need to control inflation, are important considerations, yet other countries, notably Brazil, took vastly different approaches to general macroeconomic policy during this period. Moreover, previous governments in Argentina pursued much different policies to redistribute agricultural wealth, and they struggled to capture export windfalls the way the Kirchners did.

In terms of the form of redistributive policies that emerged, profound changes in Argentina's economic structure created the conditions for the Kirchner model. Importantly, the fact that beef and wheat were no longer important sources of export revenue—and that soybeans replaced them in Argentina's export profile—changes the political implications for certain macroeconomic policies. This section examines the historical linkages between trade policy and wage policy and then explores how the adoption of soybeans drastically altered those linkages, allowing export promotion to coexist with broad-based urban subsidies.

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<sup>12</sup>Author's calculations based on data from the Asociación Argentina de Presupuesto y Administración Financiera (ASAP).

<sup>13</sup>One such leader, Luis D'Elía, purportedly conditioned his acceptance of a housing secretariat position in government on the size of the budget he would manage. See Mara Cecilia Tosi, "D'Elía pone condiciones para sumarse al gobierno de Kirchner," *La Nación*, 13 Jan. 2006.

<sup>14</sup>As Alberto Fernández, Chief of Cabinet under Néstor and the beginning of Cristina's government, put it, "We had to extinguish the fire, and the only way we could do it was by providing social assistance, and the only money we had to do it came from the taxes on [the exports of] soybeans" (quoted in Mazzuca 2012: 5).

## The Wage-Goods Cycle

Agriculture has always played a central role in the Argentine economy. Due to their relevance as export commodities, agricultural goods are linked with all of Argentina's major periods of economic expansion. The boom during the half century leading up to the Great Depression, a golden age in which Argentina could boast that had the world's sixth largest economy, was driven by exports of beef and wheat, much as soybean exports fueled the post-2001 economic recovery. Even periods of industrial expansion depended on agricultural exports as a leading source of foreign exchange for importing machinery.

Moreover, the Argentine domestic market has long been incredibly sensitive, in far-reaching ways, to changes in international commodity prices. Social scientists studying the Argentine economy have long noted the significant effect of commodity prices, particularly of beef, on macroeconomic conditions (e.g., Díaz Alejandro 1970; De Pablo 1975). In the post-World-War-II era, beef and wheat were the primary goods consumed by the urban working class, which during the 1960s spent around 15 percent of its income on beef alone (De Pablo 1975: 76). Hence, beef and wheat were "wage goods." At the same time, these two commodities were also Argentina's main exports, together comprising 25 to 50 percent of Argentina's export revenue (Díaz Alejandro 1970: 480; see also FAO). As a result, favorable international commodity prices encouraged export booms, but because of "*inflación vacuna*," or "beef inflation" (De Pablo 1975: 75), domestic prices rose as well, threatening the urban economy. Attempts to mitigate that impact through export restrictions led to balance-of-payments crises due to the trade deficits they provoked. Yet solving trade deficits meant encouraging exports. These counteracting pressures resulted in a "stop-go" pattern of economic growth, with periods of rapid expansion punctuated by foreign exchange crises and severe recessions.

O'Donnell (1978) analyzes the political side of stop-go economics, offering an explanation for the cyclical, unstable nature of Argentine politics in the postwar period.<sup>15</sup> Inflation caused by rising beef and wheat prices had the direct effect of reducing the real wages of urban workers: by making the goods they consume more expensive, they were effectively made poorer.<sup>16</sup> Changes in international prices could trigger this "wage-goods effect," but so too could policies that increase or decrease the share of rural production that was exported. Increasing exports reduced domestic supply, thereby increasing domestic prices and reducing real wages. Likewise, restricting exports increased real wages by increasing the supply of beef and wheat to the domestic market, thus lowering prices for urban consumers.

The wage-goods effect, in the context of a strong, mobilized working class, engendered a cyclical pattern of political coalition formation and economic crisis. O'Donnell focuses on shifting political alliances among four actors: the popular sector, made up of the working class and organized middle-class workers, and three fractions of the capitalist class—the rural "pampean" bourgeoisie, responsible for agricultural commodity production; the "large" internationalized urban bourgeoisie, comprised of the largest, most capital-intensive industrial firms, including multi-

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<sup>15</sup>This work originally appeared in Spanish as O'Donnell (1977).

<sup>16</sup>Real wages are the wages received by workers (their nominal wages) adjusted for inflation. As such, real wages fall if nominal wages do not increase as fast as the inflation rate.

national subsidiaries; and the “local” or “weak” national urban bourgeoisie, encompassing the smaller, less efficient domestic firms. The large bourgeoisie, due to their links with international capital, could survive more easily adverse economic conditions, while the national bourgeoisie needed economic protection to be competitive. Throughout this period, the CGT was the leading national organization of the popular sector, and the CGE (Confederación General Económica) corresponded to the national bourgeoisie. The rural bourgeoisie was largely represented by the Sociedad Rural Argentina (SRA), while the UIA was the leading organization of the internationalized fraction of capital.<sup>17</sup>

Political power oscillated between two coalitions: a populist one, based on a primarily urban-rural cleavage, and a capitalist one between the dominant groups in the rural and urban sectors, along on a largely class-based cleavage. The populist alliance restricted exports to transfer resources to its support bases. Lowering food prices increased real wages while leaving nominal wages unchanged, benefiting not only the working class, but also national bourgeoisie, which enjoyed both less pressure for wage increases and increased domestic demand for their goods. In addition, having purchased the support of the working class, domestic capitalists could also push for industrial subsidies as part of an import-substitution industrialization program. The large urban bourgeoisie went along with these policies, for, as O’Donnell (1978: 13) notes, they were well positioned to benefit from any industrial promotion program by virtue of their size and competitiveness. The rural sector bore the cost of these economic policies, receiving lower prices for their goods.

Ultimately, the restriction of exports led to a balance-of-payments crisis. Faced with this possibility, the large urban fraction of urban capital, fearing the loss of access to international finance markets, withdrew support for the populist government. The most obvious solution to this threat of a balance-of-payment crisis was an increase of exports—which was always in the interests of the rural producers. Consequently, the dominant urban capitalists formed an alliance with the rural sector.

Because of the wage-goods effect, resolving the balance-of-payments crisis through export promotion also had severe consequences. The reduced supply of beef and wheat to the domestic market made real incomes fall and prices rise, resulting in “stagflation.” Discontent brewed particularly among the popular sector, which experienced the falling real wages most acutely, given the relatively higher fraction of their income spent on beef and wheat products. They revitalized the populist alliance, assuming a defensive posture against the economic losses incurred by export orientation, and demanded policies to revive the domestic economy. Sensing the ability to profit from the situation, the large urban bourgeoisie “looked to their short-term economic interests, supported the economic reactivation policies, and thus rode the crest of the wave of economic recovery”

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<sup>17</sup>It is worth noting that despite obvious similarities to standard class analysis, O’Donnell’s conceptualization of political actors is based on a much more nuanced, contextualized understanding of the relevant groups and interests in Argentine politics. These group actors do not have interests imputed to them by their relations to the means of production; on the contrary, they are grouped more by common political and economic interests, which sometimes cross traditional class lines. See Collier and Norden (1992: 239) for further discussion of this point. For further clarification of O’Donnell’s use of terms, see footnote 4 in both the 1978 article and in the original, Spanish-language version (O’Donnell 1977).

(O'Donnell 1978: 13). They switched their support in favor of the position of the populist alliance, and the cycle restarted.<sup>18</sup>

In addition to the wage-goods effect, two other forces were particularly salient in reinforcing the cycle. First was the strength of organized labor in Argentina to demand wage increases. Their size and mobilizational ability, particularly strong in comparison with labor movements in the rest of Latin America (Collier and Collier 1991: 94-9), made them a useful coalition partner for the national bourgeoisie. Once in power, their size and strength allowed them to push for broad, real wage increases, transferring significant resources from other sectors to the working class, yet exacerbating balance-of-payments problems.

Second, stagnant agricultural productivity entailed that the allocation of rural production was essentially zero-sum: increasing exports to resolve a balance-of-payments crisis meant decreasing the supply to the domestic market. Productivity increases would have provided a positive-sum solution, increasing exports without affecting domestic supply; however, as we will see in the next chapter, agricultural production grew at a very slow rate during this period. While there were a number of reasons for this stagnation, Argentina's unstable political environment increased the uncertainty of future returns, inhibiting the capital investments needed to increase productivity (O'Donnell 1978: 9). The wage-goods effect ensured that a period of favorable prices for the rural sector would be short-lived, for it encouraged the reformation of the populist alliance against the pro-rural regime. This encouraged rural producers to pursue short-run interests over long-run strategies.

In sum, the fact that Argentina's main export commodities were also the primary components of the urban working-class diet directly linked trade policy and wage policy and emphasized conflict between the rural and urban sectors. These structural factors contributed to the cyclical, volatile politics Argentina experienced throughout the mid-20th Century.

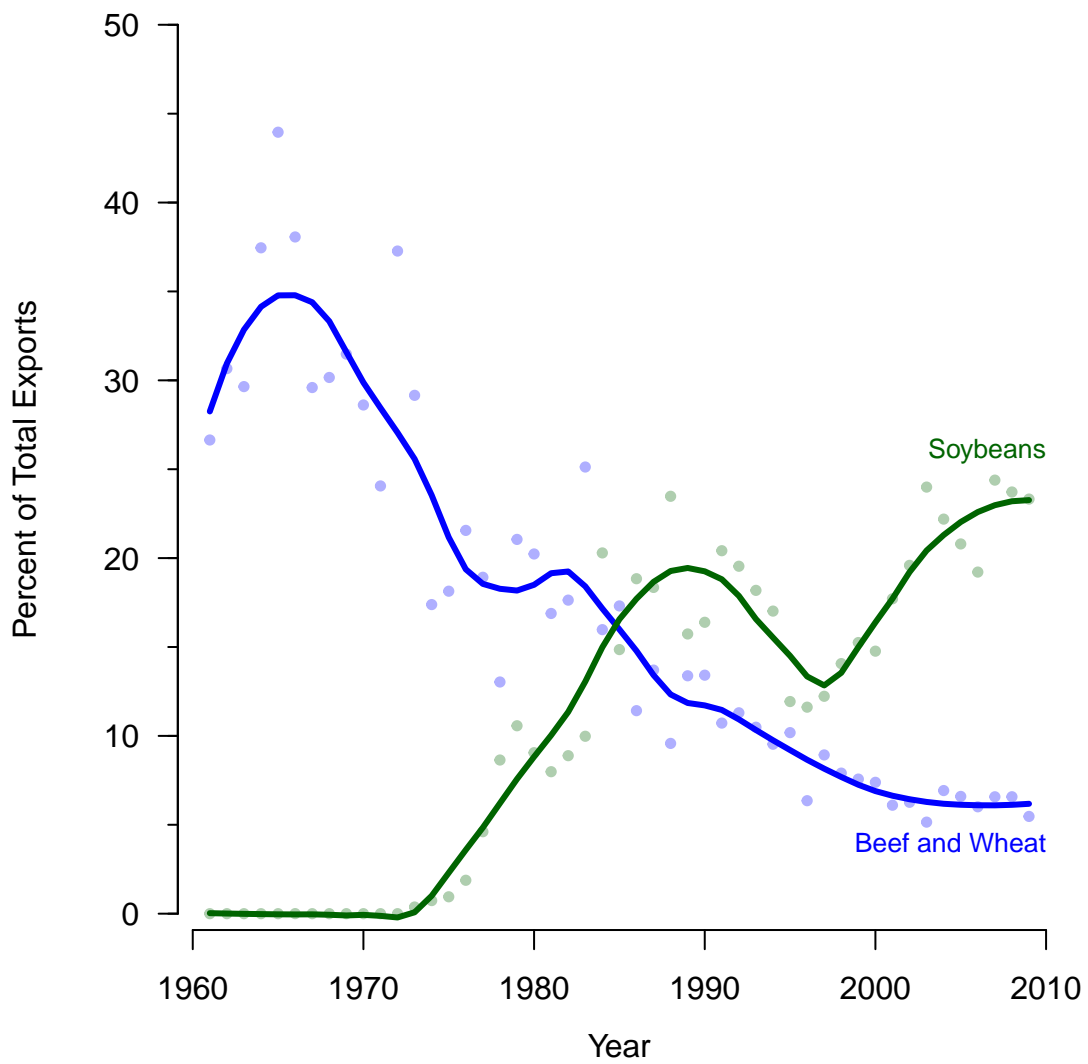
## **Agricultural commodities in contemporary Argentina**

In the years that followed, the key structural foundation for the wage-goods cycle—the reliance on beef and wheat as export commodities—changed dramatically. Since the 1970s, traditional wage goods dramatically declined in importance as export commodities for Argentina. As Figure 2.3 shows, the share of Argentina's total exports comprised of beef and wheat products has fallen steadily. Soybeans, which were not widely cultivated in Argentina prior to the late 1970s, rapidly spread across the Argentine countryside and replaced these wage goods in the country's export profile. Under the Kirchners, the export of unprocessed soybeans and of soybean oil and meal, the two products of the initial seed-crushing process, generated over 20 percent of Argentina's export revenue, quadrupling the joint share of beef and wheat.

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<sup>18</sup>In many cases, economic policy shifted without the populist alliance officially gaining power. Between Perón's governments (1955–1973) the populist alliance never formally entered government: it was a defensive alliance that formed and pushed for its preferred policies, but it did so without holding office. This was one of the rules of the "impossible game": Peronism was banned as a political party (O'Donnell 1973). The populist alliance was, however, repeatedly successful in influencing macroeconomic policy by other means, particularly when economic recession and falling real wages encouraged organized labor and domestic business groups to unite in common interest.

Figure 2.3: Declining Relevance of Wage Goods Exports in Argentina



Note: locally-weighted (loess) regression. Data source: FAO

Unlike the previously hegemonic export commodities, soybeans had virtually no domestic market. From 1989 to 2006, 94 percent of the soybean oil and 99 percent of the soy meal produced in Argentina were exported.<sup>19</sup> By contrast, less than 15 percent of Argentine beef was exported between 1990 and 2005,<sup>20</sup> down from 25 percent between 1965 and 1976.<sup>21</sup> Hence, unlike beef and wheat, increases in soy exports had no direct effect on the real wages of the working class.

In principle, the rise of soybean cultivation could have indirect, medium- to long-run effects on real wages. As producers shifted their land use to soybeans over the years, beef and wheat production might be expected to fall as a result. However, two factors mitigated this potential indirect wage-goods effect. First, for agronomical reasons, wheat and soy are complementary; indeed, both can be grown in the same year, with wheat in the winter and soy in the summer. In fact, as discussed in the next chapter, the enhanced profitability of having two harvests a year with the wheat-soy combination was one of the main economic reasons for the initial adoption of soy cultivation in Argentina (Obschatko 1988b: 124-5). Hence, the rise of soy did not threaten to reduce Argentine wheat production.

Second, technological improvements permitted impressive increases in the production of all agricultural goods. In this “second revolution of the Pampas” (Coscia 1983), agriculture became fully mechanized with increasingly complex farm machinery, and advances in farming techniques, seed technology, fertilizers, and pesticides have increased crop yields—even increasing the carrying capacity of pastures for cattle ranching.<sup>22</sup> Many of these advances—particularly, no-till (*siembra directa*) farming with genetically modified seeds and ample application of herbicide—also allowed the expansion of the agricultural frontier since the mid-1990s into previously marginal lands. Finally, changes in cattle ranching practices further increased the productivity of land for beef production; these changes included the use of corn and other feed during the winter—instead of sending the cattle to lush winter pastures, freeing that land for agricultural use—and even the emergence of “feedlots” similar to those used for cattle raising in the United States. More animals can thus be raised on less land.

As a result, the production of both soybeans and wage goods does not entail a zero-sum trade-off. Beef and wheat production did not fall as a result of the emergence of soybean cultivation. In fact, beef production reached historic levels, rising nearly 30 percent between 2001 and 2007.<sup>23</sup> The Argentine cattle stock also grew slightly during this period, despite the fact that since 1996 over 5 million hectares of pasture were switched to agricultural use (Bisang 2007: 190). Wheat

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<sup>19</sup>Author’s calculations based on official government data assembled by the Cámara de la Industria Aceitera de la República Argentina (CIARA), <http://www.ciaracec.com.ar/estadistica/>.

<sup>20</sup>*Indicadores Vacunos Anuales*, Secretaría de Agricultura, Ganadería, Pesca y Alimentos (SAGPyA), <http://www.sagpya.mecon.gov.ar/new/0-0/programas/dma/ganaderia/ganaderia.php>, accessed 16 Oct. 2007.

<sup>21</sup>Author’s calculations based on official data from INDEC, SAGPyA, and ONCCA, compiled by the Instituto de Promoción de la Carne Vacuna Argentina (IPCVA), <http://www.ipcva.com.ar/estadisticas/>. In addition, data from the Asociación Argentina Pro Trigo suggest that roughly 60 percent of wheat was exported in recent years, though comparable historical figures are not available.

<sup>22</sup>For one example of this latter usage, see Angel Palermo, “Moderna y eficiente, resurge La Esmeralda,” *La Nación*, 23 Jan. 1999.

<sup>23</sup>Author’s calculation based on IPCVA data.

production also maintained historically high levels in the late 1990s and 2000s, roughly 50 percent greater than in the prior decade (Bisang 2007: 247). This suggests that the rise of soy did not have meaningful indirect effects on the quantity of beef and wheat supplied to the domestic market.

Consequently, the main hypothesized structural cause of the cyclical, unstable nature of Argentine politics in the postwar period no longer exists. On the one hand, because soybeans lacked a domestic market, stimulating their export with an undervalued exchange rate has no direct effect on real wages via consumer prices. The political challenge for the government then became a matter of finding a way to harness the export surplus. On the other hand, because beef and wheat were no longer important sources of export revenue, their export could be selectively restricted without risking balance-of-payments problems. The resulting political task was to find a way to guarantee domestic supply of these wage goods, which in the short run is not a problem, but in the medium term may require other interventions to prevent production from falling. Spending some of the soy surplus on wage-goods subsidies became one attempted solution.

Kirchner used an undervalued exchange rate coupled with export taxes to support his populist coalition. Undervaluation subsidized domestic industry—one of his support bases—and increased the surplus generated by export agriculture, the taxation of which provided the resources for his other political objectives. Some of the export tax revenue went directly to public sector workers in the form of nominal wage increases; other resources went toward subsidizing consumption goods. The latter also bolstered private sector real wages by controlling inflation, which allowed businesses to provide greater real wage increases with more modest nominal wage increases. This allowed both urban capital and labor to benefit, reinforcing the cohesion of the multi-class populist coalition.

The key to this system was commodity exporting. The shift on the pampas from beef and wheat production to soybean cultivation allowed the establishment of export-oriented populism. Historically, conditions that had favored commodity exporting, including an undervalued exchange rate and high international prices, were associated with political unrest. Organized labor, which saw its real wages fall due to the rising prices of beef and wheat, mobilized to demand wage increases. Domestic industry also suffered from the resulting stagflation. These groups united to push for economic policies, including general export restrictions, which would benefit their common urban interests.

Following the switch to soybeans, however, agricultural exports could be allowed, even encouraged, without directly endangering the economic standing of the popular sector. Indeed, promoting exports and then taxing them may provide even greater resources with which to sustain populism without generating economic crisis. Similarly, the government could selectively manipulate the market for beef and wheat, even banning their export, without incurring a trade deficit and the risk of a balance-of-payments crisis because it no longer depended on the the same commodity to provide both foreign exchange revenue and food for urban workers. Consequently, the wage-goods cycle of recurring crises, driven by the price of beef, was broken.

## 2.3 Complementary Explanatory Factors

Clearly, many factors were involved in leading to the rise of export-oriented populism in Argentina. I discuss here three other factors relevant for understanding Argentine political economy in the 2000s: Argentina's federal institutions, changes in organized labor, and favorable international market conditions. The next chapter discusses a fourth factor: the political weakness of the rural sector. Including these issues is essential for a complete explanation of the emergence of export-oriented populism and the form it took; however, none would be sufficient to explain the observed outcome without the shift in agricultural commodity production.

### Institutional incentives

While the underlying structure of the Argentine economy created incentives for a political-economic model based on the promotion and subsequent taxation of soybean exports, institutional incentives were particularly relevant in leading the government to utilize export taxes as the tool with which the agricultural surplus would be captured. Three institutional factors are worth highlighting.

First, Argentina's federal revenue-sharing agreements (*coparticipación*) did not cover customs duties, so they benefited the central government exclusively. Because this export tax revenue did not have to be shared, Kirchner had greater discretion over how to spend it. Hence, despite the fact that revenue from other taxes also rose during this period, increasing export taxes played a critical role in the expansion of federal-level spending programs, including wage-goods subsidies, under Néstor Kirchner.

Second, unlike other taxes, the Executive could set export tax rates without congressional approval. Article 775 of the 1981 Customs Code (*Código Aduanero*) delegated from the legislature to the executive the authority to set export duties. This clause of the customs law, established under military rule, intended primarily to increase the government's agility in responding to macroeconomic crisis. Nevertheless, it was increasingly exploited in non-crisis times under the Kirchners to raise revenue without potentially costly congressional debate. Increasing export taxes by decree constrained the ability of the affected sectors to defend their interests and saved the Kirchner governments the expense of buying legislative support for a tax increase, at least until 2008.

Third, export taxes are easier to assess and harder to evade than other forms of taxation. This was particularly relevant given the reportedly high levels of tax evasion and black-market activity in the rural sector.<sup>24</sup> Related to this point was the generally weak presence of the state in the rural sector, aside from some research and agricultural-extension programs from the Instituto Nacional de Tecnología Agropecuaria (INTA). Many state regulatory functions were dismantled in the early 1990s, contributing to the problem. Nevertheless, while tax evasion and state capacity were legitimate concerns, they were clearly not the decisive factors: even with zero evasion, export taxes still retained their political advantages for the Kirchner model.<sup>25</sup> That is, because export

<sup>24</sup>However, large, more business-like farmers are more likely to pay their taxes; hence, it is unclear how serious of a concern evasion would be for an increase in the income tax, for example, particularly if the purpose was redistributive.

<sup>25</sup>An additional political advantage, though not institutionally determined, is that export taxes targeted toward

taxes strengthened Kirchner by concentrating fiscal resources under his control, they gave direct political benefits, even if a different taxation system would more effectively redistribute income to support the economic side of the model.

## Labor

Another relevant factor was the evolution of the working class. Etchemendy and Collier (2007) argue that, while organized labor was weaker under Néstor Kirchner than it was a half-century ago, it was still large enough to be an important coalition actor. They describe how Kirchner's government cultivated the support of organized labor by endorsing collective bargaining and nominal wage increases. However, due to the rise of a large informal sector, unionized workers comprised less than half of the working class; they describe the situation as "segmented corporatism" to highlight the growing divide between formal and informal labor. The smaller size of the formal sector, by limiting the wage demands made of the government, reduced the inflationary potential of granting nominal wage increases because fewer people received them. Hence, the government could maintain the support of organized labor with less risk of economic crisis.<sup>26</sup>

Attention to wage goods and changes in Argentina's export profile complement this story. For one, changes in organized labor alone do not account for the Kirchner government's economic orientation, particularly its pursuit of an undervalued exchange rate. Historically in Argentina, devaluation had the double inflationary effect of raising the price of exports while also increasing the price of domestically produced wage goods that were reoriented to export markets. These inflationary pressures would erode any gains in real terms from the nominal wage increases. Because of the rise of soybean exports, leaders could promote exports while still sustaining a populist coalition.

Furthermore, it was the system of price controls and wage-goods subsidies that allowed the Kirchner government to provide greater real wage increases with limited nominal wage increases. In addition to the clear wage gains to organized labor in the formal sector during the Kirchner government, as Etchemendy and Collier (2007) illustrate, this system also extended moderate wage benefits to the informal sector, which should, at the very least, prevent the social chaos of 2001–02. These wage-goods subsidies would not have been possible but for the taxes on soybean exports. Hence, the changes in agricultural commodity production allowed Kirchner to fund segmented corporatism.

## International markets

Finally, international market conditions also supported the emergence of export-oriented populism under the Kirchners. International commodity prices, and soybean prices in particular, specific goods were symbolically more powerful: they demonstrate the government's will to reign in a specific sector more clearly than, for example, higher income tax rates.

<sup>26</sup>Recall that, within the O'Donnell (1978) framework, the size and strength of organized labor was one of the key forces preventing an exit from the wage-goods cycle.

soared during Néstor Kirchner's government and remained relatively high through Cristina Kirchner's government as well. As China's economy boomed and its citizens became more affluent, consumption of meat increased, and hence demand for soybeans as animal feed increased. At the same time, the United States accelerated its promotion of a corn-based ethanol industry as an alternative fuel source; farmers there switched in large numbers from soy to corn, thus reducing global supply. Soybean prices nearly tripled between in the span of two years, with Chicago prices rising from US\$199.31 per metric ton in September 2006 to US\$554.15 in July 2008.<sup>27</sup> Consequently, one could suppose that the Kirchner government's strategy of taxing windfall agricultural profits to support a populist coalition was made possible by high prices for Argentina's main exports, regardless of how the export commodity is linked with the domestic market. The switch from beef and wheat to soybeans, and the subsequent end of the wage-goods cycle, would thus be irrelevant.

Comparison with a historical case, however, highlights the importance of the shift in export agriculture away from wage goods. It suggests that if Kirchner's Argentina still relied on beef or wheat exports, booming commodity prices would have triggered the wage-goods effect, thereby undermining the potential gains for populist coalitional stability. During the military regime of 1966–1973, the economic program advanced by Minister of Economy Adalberto Krieger Vasena used similar policies to those employed under Kirchner in order to stabilize the economy and appropriate rural profits for the government. In March 1967, Krieger announced a comprehensive economic program, intended both to “deepen” industrialization and to promote macroeconomic stability. Two components are particularly relevant here. First, the peso was devalued sharply, from 255 to 350 per US dollar, and export taxes were imposed on raw materials. This “imperfectly compensated devaluation,” as it was called, redirected the devaluation's windfall revenues away from rural exporters to the state, which could use the funds for its industrialization project. Second, wages and prices were controlled through sectoral agreements. Krieger reached price agreements with the largest industrial firms, and the rest were expected to follow (Mallon and Sourrouille 1975; Smith 1989).

The combination of these policies, in conjunction with several others, was intended to control inflation and keep the balance of payments balanced while avoiding recession, as well as to redirect the surplus away from both the rural sector and urban workers toward leading industrial sectors. To promote the deepening of industrialization, the program needed to accumulate dollars, both through increasing exports via devaluation and through attracting foreign investment, with which Argentine industry, with state assistance, could purchase heavy capital goods from abroad. Thus, while having different ends than those of the Kirchner government, the means adopted by Krieger Vasena, as well as the intermediate goals of stability and growth, were similar in many ways.

In terms of these intermediate goals, Krieger's program was successful, at least in the short run. GDP increased by a cumulative 21.5 percent in the 1966–70 period. Inflation was tamed, with the cost of living increasing only 7.6 percent in 1969, down from over 30 percent in 1966 (Smith 1989: 76). Control over prices in turn permitted control over wages as demand for wage increases

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<sup>27</sup>At the nadir of the global financial crisis of 2008, prices did fall back to a low of US\$318.81 in December but subsequently recovered, remaining at historically high levels. See the IMF's Primary Commodity Price database, <http://www.imf.org/external/np/res/commod/index.aspx>.

was muted.<sup>28</sup> Consequently, real wages remained relatively stable, falling by 3.8 percent during the same period (Smith 1989: 77).

Stability, however, was ephemeral. Both political and economic factors, in many ways deriving from the regime's policies, caused a crisis that led to the fall of the military regime's president, Onganía, in 1970, and ultimately to the return to civilian rule a few years later.<sup>29</sup> Certainly, the *cordobazo*—the mass uprising in the city of Córdoba in 1969, which initiated a period of intense, nationwide working-class mobilization—was critical in igniting widespread, open resistance to the regime.

However, another factor accelerated the regime's unraveling: a sharp increase in the international price of beef. Beginning in the latter part of 1969, beef prices began to rise, gaining 20 percent over the course of the year (Smith 1989: 147). Beef prices further rose 15–27 percent from December 1969 to March 1970 alone (Duejo 1973: 81-2), and they continued their rapid increase throughout 1970, maintaining high levels at least through 1972. As Smith (1989: 150) notes, rural producers, who had been excluded from the regime's state-led development program, exploited the situation and redirected the economic surplus towards themselves. Hence, the price spike unleashed the wage-goods effect, driving up the consumer price index and hence slashing the real wages of urban workers (De Pablo 1975: 75-6). This led to intensifying demands for (nominal) wage increases and more strikes, which the government, its position relative to labor weakened by the *cordobazo* and its aftermath, felt compelled to grant. Since the regime could no longer guarantee wage controls, firms stopped abiding by price agreements, further fueling both the inflationary spiral and political tensions (Smith 1989: 153).

The disintegration of the military regime's political and economic support—in part caused by the wage-goods effect—suggests the importance of commodity exports and the nature of their linkages with the domestic economy. One key point is that an increase in international commodity prices—which, for most commodity-exporting countries, is associated with economic growth and political stability—led to intensified distributive conflict and political chaos. Krieger's economic program, which in large part depended on an influx of foreign capital to fund industrialization, could not survive the advent of the favorable international prices that would generate such a surplus.

This situation contrasts sharply with that of the Kirchner administrations. Since soybeans surpassed beef as Argentina's leading generator of export revenue, the wage-goods effect has been tamed. Rather than encourage instability, increasing international commodity prices under Kirchner reinforced the government's position. Soaring soybean prices increased the size of the surplus available for the government to tax through export taxes, yet, since there was no domestic market for soy, they had no direct effect on domestic consumer prices. In fact, high soybean prices supported the government's program of controlling domestic prices with subsidies to producers of consumer goods. This ability to compensate potential losers from price controls reinforced the Kirchners' capacity to reach those price agreements, in sharp contrast with the position of the military regime in the early 1970s, which had lost credibility with business. In sum, while the Kirchners benefited from high international commodity prices, the fact that Argentina exported

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<sup>28</sup>Of course, one should not overlook the key role played by repression in further muting workers' demands.

<sup>29</sup>For a more comprehensive discussion of the military regime's crisis, see, for example, Smith (1989).

soybeans instead of beef significantly enhanced their ability to convert an export boom into political stability.

## 2.4 Conclusion

A central, distinctive component of the political-economic policy of the governments of Néstor and Cristina Fernández de Kirchner was the extraction of agricultural export surplus in order to subsidize urban interests and to build political support. This was achieved through currency devaluation plus export taxes, combined with a host of market interventions to control prices. While it is not remarkable that an Argentine national government would attempt to redistribute from agricultural exporters to urban consumers, the success with which the Kirchners have had with this model, winning re-election twice, is indeed anomalous.

This chapter has explored how large-scale changes in the structure of the Argentine economy, particularly in the rural sector, altered the political implications of economic policies, and thus coalitional dynamics. The rise of soybean cultivation severed the direct link between trade policy and wage policy that previously shaped Argentine political economy. This new mode of agricultural production purely for export provided an excellent opportunity for the Kirchner governments to capture agricultural export revenue and redistribute it for political gain. Previous governments, hamstrung by the wage-goods linkage between export revenue and food prices, were unable to sustain such a redistributive policy. While increasing commodity prices did fuel the Kirchner governments' fiscal voracity, the persistence of the Kirchner economic model even as international markets became less favorable in late 2008 further indicates the importance of the rise of soybean cultivation in explaining this outcome.

It is interesting to note the absence of rural-sector actors in the story of Kirchner's political-economic model. Indeed, the rural elite was a key coalition partner in O'Donnell's wage-goods cycle, yet they were largely absent from the discussion of contemporary export-oriented populism. In fact, they were essentially absent from the Kirchner government's decisionmaking process as well, for taxing the rural sector bore hardly any political cost. Export farmers lacked a political presence; consequently, there was little bottom-up pressure for the government to consider a change in redistributive policy.

A politically weak rural elite is another area in which contemporary Argentina contrasts with other countries at similar levels of economic development. In the next chapter, we explore how this economically important sector lost its once powerful political presence.

## Chapter 3

# Economic Growth and Rural Political Decay

When the government of Cristina Fernández de Kirchner yet again increased agricultural export taxes in March 2008, a senior government official—not realizing that the microphones were on—mused that farmers would probably squawk loudly for a few days about the increase, but then everything would return to normal. As we will see in Chapter 4, this prediction proved wildly inaccurate. Yet, the statement was not based on hubris alone: previous agricultural export tax increases, as well as the government’s other interventions in export markets, had elicited little backlash. Protests by farmers’ and ranchers’ associations had been relatively small-scale and brief, and rural association leaders lacked the ability to convoke a mass revolt. More importantly, farmers lacked political allies elsewhere, such as in Congress, to whom they could appeal to obstruct the government’s agenda by other means.

This political disengagement ran counter to the rural sector’s historical activity: rural elites once dominated the national political arena, controlling the presidency and a majority of cabinet posts. This disengagement also went against theories of interest group mobilization, which posit that economic development facilitates rural political organization—an explanation for the “rural bias” in industrialized countries. As development reduces the rural sector’s share of the national economy and as farm production becomes more concentrated, their political power grows. Smaller groups are easier to organize; and as a smaller group, it is less costly for the government to give in to their demands for subsidies (Olson 1985).

However, although Argentina had become more industrialized, and tens of thousands of farmers had left production, thereby concentrating production in increasingly larger enterprises, Argentine agriculture did not become better organized politically. Indeed, traditional rural associations atrophied, with membership declining faster than the number of farmers. And, to the extent that new organizations formed among the modern agricultural sector, these groups remained explicitly apolitical, taking great lengths to avoid engaging with the political process. Why did Argentina’s farmers retreat from politics, leaving themselves vulnerable to aggressive taxation?

Farmers divested from politics largely because of how rural market structures evolved in Argentina. Legal restrictions on rural tenancy contracts, introduced in the 1940s to preserve the pre-Depression status quo of small-scale, dependent tenant farming, had the opposite effect, fueling the emergence of highly flexible, short-term rental markets. These markets reduced the fixed

capital investment required for farmers to increase their scale of production or adopt new technology and machinery. They made it less costly for farmers to expand in good years and retrench after a loss, even if the loss was caused by unfavorable policies. Economic investments thus increased in attractiveness, making political investments relatively less valuable.

As Argentine farmers began to favor economic alternatives to political action, their political associations atrophied, decreasing their effectiveness and thereby reinforcing the tendency to eschew politics. New associations catering to capital-intensive farmers did emerge, yet they remained apolitical, focusing instead on technical farming improvements with certain economic benefits. Ultimately, Argentina's elite farmers became some of the most technologically advanced in the world, yet they actively avoided the political arena. To the extent that the rural sector was well organized, it was not organized in a politically useful way. The resulting system of weak political organizations and no access to power via institutional channels meant that the rural sector was unable to bring sustained pressure in order to prevent a system of aggressive agricultural taxation from emerging.

Scholars of Argentine politics have noted a widespread failure of business groups to build strong interest associations due to unstable politics, fragmentation of interests (Schneider 2004), and the lack of a conservative party with which to ally (Gibson 1996). However, despite these challenges, the rural sector has been widely noted as an exception, playing a strong role in Argentine politics historically (Schneider 2004). This chapter seeks to illustrate the extent to which Argentina's farm associations have evolved and to link that with the broader processes of economic transformation that occurred in the sector in the past half century.

This chapter first illustrates the state of decay in which the traditional political associations found themselves in by the 2000s. Next, it traces the emergence of dynamic rural markets from their origins as the unintended consequences of land regulations. Using evidence from interviews as well as survey data, the chapter then shows how these changes in agricultural production undermined the traditional political associations and altered farmers' tendency to invest in political action. Finally, it explores the extent to which changes in the state's role in agricultural policy also contributed to farmers' political withdrawal.

### 3.1 Data

In addition to official statistics, news reports, and interviews with 35 current and former rural organization leaders, this chapter also draws on newly recovered rural survey data, which has not previously been used in academic research. Since 1988, ICASA (Investigación y Consultoría Agropecuaria S.A., formerly part of the research firm Mora y Araujo, Noguera y Asociados) has conducted an annual panel survey of rural producers in Argentina's central agricultural region. While primarily for market-research purposes, the survey also asked questions about organizational behavior, such as group membership and views on the quality and efficacy of particular organizations. While most of ICASA's data from prior to the mid-2000s has been lost, I was able

to obtain and restore most of the data from 1995–2001.<sup>1</sup> These data provide a unique opportunity to examine the attitudes and behavior of a representative sample of rural producers.

Each year, ICASA surveyed 800 rural producers in the provinces of Buenos Aires, Santa Fe, Córdoba, and La Pampa, which comprise the central Pampean region. The unit of analysis was the productive unit (the *explotación*), an area managed as a business, in which not necessarily all of the land is owned by the same person, nor is it necessarily contiguous. The survey is a panel study with attrition; in each wave, 85–90 percent of respondents were surveyed in the previous year, and the remainder are new respondents. The resulting dataset contains 5,600 observations, corresponding to 1,853 unique respondents. The median number of survey waves that each respondent remained in the panel during this window was three. The sample is stratified across 31 municipalities (*departamentos* or *partidos*), with 20, 40, or 60 respondents in each.

In the discussion of the rural organizations that follows, many of the figures presented are estimates, compiled and computed from interviews, news accounts, and other secondary sources. Reliable, official numbers were difficult to obtain for several reasons. First, the organizations tend not to publish figures; even the SRA, which for most of its existence released an annual report of its activities, budget, and membership, appears to have stopped publishing. Second, organizations were hesitant to divulge such information, particularly given the tense, often hostile relationship with the national government during the time that field research was being conducted (2008–2009).<sup>2</sup> Third, “official” numbers cited by organization representatives and repeated in the media exaggerated the truth, as multiple interviewees affirmed (though usually about other organizations’ figures, not their own). With no means of verifying and every reason to inflate the numbers, it should be expected. Finally, it was alleged in multiple interviews that Confederaciones Rurales Argentinas (CRA) in particular did not itself know how many members it had: former members, or those who just stopped paying dues, had not been cleared from membership lists; hundreds of local affiliates (*sociedades rurales*) actually handled membership issues, not the national confederation; and the organization lacked the personnel and resources to conduct an internal census. Hence, organizational weakness is one reason for the difficulty in quantifying precisely how weak the organizations had become.

## 3.2 Rural Political Weakness

The political weakness of the rural sector—indeed, the general unwillingness of farmers to engage the political process on any level—manifested itself both in the associational arena and in the electoral arena.

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<sup>1</sup>Thanks to Diego White for granting permission to use the data and access to any old floppy disks that could be found; Manuel Mora y Araujo, Felipe Noguera, and Sebastián Etchemendy for additional help in locating the data; and Rocío González for research assistance.

<sup>2</sup>Indeed, one of the government’s forms of intimidation was for Secretary of Internal Commerce Guillermo Moreno to call large business owners and directors and ask them about their cost structure and profit levels, suggesting that they were evaluating interventions in businesses or sectors deemed to be profiting “too much.” See Cabot and Olivera (2008); stories also cited by multiple interviewees.

## Decline of traditional political organizations

Organizations of farmers in Argentina can be classified in two main groups. First, there are the four traditional rural associations<sup>3</sup> of political representation: Sociedad Rural Argentina (SRA), Confederaciones Rurales Argentinas (CRA), Federación Agraria Argentina (FAA), and Confederación Intercooperativa Agropecuaria (CONINAGRO).<sup>4</sup> These groups arose from distinct social groups and maintained their class-based identities throughout the 20th Century. The SRA, formed in 1866, has traditionally been the organization of the ranching elite, aristocrats with the best land for fattening cattle. CRA was established in 1943, building on the provincial-level federation in Buenos Aires and La Pampa (Confederación de Asociaciones Rurales de Buenos Aires y La Pampa – CARBAP), founded in 1932 and remaining the most powerful group within CRA. Its membership base comprised smaller ranchers, those with a certain amount of land but typically of lower quality and whose primary activity was breeding cattle, a less profitable activity than fattening.<sup>5</sup> FAA was founded in 1912 by wheat farmers, tenant and smallholder, in Santa Fe province.

Second, newer associations of an explicitly technical, rather than political, nature have emerged. This group includes Asociación Argentina de Consorcios Regionales de Experimentación Agrícola (AACREA), originally founded in the late 1950s as a network of regional agronomical research groups, and Asociación Argentina de Productores en Siembra Directa (AAPRESID), founded in the early 1990s by a smaller group of farmers to promote advanced no-till farming techniques. In contrast with the four traditional associations, these technical groups gained respect within the sector for the skills and services they provided for farmers adopting the newest agricultural technology. Because of their highly technical nature, their members included the relatively larger, more capitalized farmers, which paid relatively high membership dues in order to fund the necessary research. The result was, particularly in the case of AACREA, a well-funded, professionalized organization staffed with skilled technicians. However, these associations avoided overt political activity.

While the technical associations grew through the 1990s and 2000s, Argentina's rural political associations weakened due to farmers' lack of investment in them. Measuring the strength of interest groups is not a straightforward task. One's first instinct may be to identify "strength" with success in policy outcomes, but this brings countless conceptual and measurement problems. Ultimately, we want to classify organizations based on internal characteristics (cf. Schneider 2004: 7); this allows us analyze the effects of strong interest groups on political processes, which cannot be done if political outcomes are part of the definition of organizational strength.

<sup>3</sup>These organizations are popularly referred to as *las cuatro entidades* or *las entidades gremiales* in Argentina.

<sup>4</sup>As an organization of cooperatives—the largest of which are essentially large corporations—CONINAGRO has a distinct profile from the other three organizations. In the 2008 conflict, it seemed that CONINAGRO was included in the public front of the rural organizations only because everyone was accustomed to speak of the "four organizations". Because it is not an organization of farmers, and because it seemed to be even less active in rural politics, I largely exclude CONINAGRO from the present discussion, focusing instead on SRA, CRA, and FAA. Even so, it is worth noting that agricultural modernization likely played a similar role in CONINAGRO's evolution into the business association it is today.

<sup>5</sup>See Smith (1969: 42-3) for discussion of the historical cleavage between fatteners (*invernadores*) and breeders (*criadores*) in Argentine ranching.

Several characteristics of organizations are relevant. Membership numbers and budgets are critically important, both from an Olsonian perspective of voluntary organizations and from an instrumental perspective: more people and more money mean a greater political weight. Similarly, staff numbers can indicate organizational strength. However, if we are interested in political strength, we should be especially interested in resources that can be marshaled to influence political processes. Budget size is important, but more important is how much of that budget can be directed toward lobbying or popular mobilization. If an organization has a large budget but most of it is earmarked for providing some non-political service for its members, it may not be as politically strong as an organization with a larger discretionary budget.

On every measure, Argentina's political farm associations were weak in the 2000s, the result of roughly two decades of decline. Table 3.1 presents estimates of the resources and membership levels of the primary farmers' associations for the 2008–2009 period. Of the three traditional associations of farmers and ranchers, the SRA found itself in the best financial position. While contemporary figures are unavailable, in 1995 the organization had a budget of Arg\$19.5 million, and interviewees reported that it was still relatively well off. SRA's primary source of income was renting out the exposition center it owns in the Palermo neighborhood of Buenos Aires; its secondary source of income was from maintaining a genealogical registry of cattle, allowing ranchers to certify the lineage of their stock. Income from dues came third.<sup>6</sup> Despite their financial health, the SRA's membership has declined gradually in recent decades. Membership peaked in 1975 at just under 12,000 (Palomino 1988: 173–4), yet by 2008 it had fallen as much as 50 percent from that mark, depending on the estimate.<sup>7</sup>

The other two associations, CRA and FAA, faced bleaker scenarios. The FAA had lost around three-quarters of its direct members through the 1990s and 2000s, down to around 5,000 in 2008. Indirectly, it counted another 60,000–70,000 farmers who were members of cooperatives that were in turn affiliated with FAA. These indirect members, however, did not generally take an active role in the organization. Membership dues for direct members were Arg\$200 in 2008, relatively low but in keeping with the FAA's historical position as the organization for small, tenant farmers. Affiliated cooperatives contributed on a sliding scale relative to their membership size.

More important than dues to the organization was the revenue it received from issuing bills of lading (*cartas de porte*), official documents permitting the transporting of grains. When the National Grain Board (*Junta Nacional de Granos*), a regulatory body, was eliminated in 1992, the issuing of these documents was privatized, and several organizations, including a cooperative affiliated with FAA, assumed the role.<sup>8</sup> Revenue from the *cartas de porte* were FAA's primary source of income—around 70 percent of the organization's budget came from the sale of these documents.<sup>9</sup> Based on the roughly Arg\$12 million in annual sales of the documents (2009 figures) and FAA's share of the business, we can estimate the organization's budget at somewhere in the

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<sup>6</sup>Interview 95454

<sup>7</sup>I am inclined to believe the lower estimate of the SRA's membership (6,000) because by 1995, the last year in which *Memorias de la Sociedad Rural Argentina* (Sociedad Rural Argentina 1984–1995) is available, membership had already fallen to 8,751.

<sup>8</sup>FAA later assumed direct responsibility for issuing the documents from FACA, the cooperative.

<sup>9</sup>Interview 66308

Table 3.1: Argentine Rural Organizations: Membership and Resources

	Traditional Organizations			Technical Organizations		
	SRA	CRA	FAA	AACREA	AAPRESID	
<b>Membership<sup>a</sup></b>	6,000–9,000	60,000 <sup>b</sup>	5,000 direct; 60,000–70,000 indirect <sup>c</sup>	1864 <sup>d</sup>	1500	
<b>Budget<sup>e</sup></b>	\$19.5 million <sup>f</sup>	-	\$2 million <sup>g</sup>	\$15 million <sup>h</sup>	\$2–4 million <sup>i</sup>	
<b>Annual Dues</b>	\$700 <sup>j</sup>	\$100-200, depending on regional confederation	\$200 for individuals; cooperatives pay on sliding scale	\$3600 average; dues depend on producer's size	\$1444 for individuals, \$2480 for businesses <sup>k</sup>	

<sup>a</sup>All figures in this table correspond to 2008 unless otherwise noted.

<sup>b</sup>Estimate. Officially, CRA claimed over 100,000 members, yet even CRA insiders acknowledged that this figure overstated their active membership base.

<sup>c</sup>Indirect members are members of affiliated cooperatives.

<sup>d</sup>May 2009

<sup>e</sup>All currency amounts in Argentine Pesos.

<sup>f</sup>1995 figure (last available report). The current figure clearly is not that, but this at least roughly illustrates where the SRA sits relative to the other organizations.

<sup>g</sup>Estimate based on FAA's share of *carta de porte* business.

<sup>h</sup>Estimate from interviewee. Official budget was \$5.3 million in 2009, but AACREA brings in other resources through consulting and other paid services.

<sup>i</sup>Estimate based only on dues.

<sup>j</sup>Approximate

<sup>k</sup>2010

range of Arg\$2 million.<sup>10</sup>

For its part, CRA claimed over 100,000 members, who were farmers and ranchers affiliated with a local rural society that was part of CRA's federal structure. Nevertheless, as was mentioned above, others estimated their true membership to be much lower, around 60,000. Like the FAA, CRA membership was similarly in free-fall during the 1990s and 2000s. According to ICASA survey data, membership rates in CRA-affiliated rural societies among respondents fell from 32 percent in 1996 to 24 percent in 2001. ICASA elsewhere reported that in 2005, this rate had fallen to 15 percent. Hence, in the span of a decade, membership rates among active farmers had fallen by half. If one also takes into account the significant reduction in the number of farmers in this period—a 30 percent decrease in these four provinces between the 1988 and 2002 agricultural censuses—the collapse of CRA's membership base is readily apparent.<sup>11</sup> Additionally, the percentage of respondents not claiming affiliation with any organization rose sharply during the survey period, from 34 percent in 1995 to 45 percent in 2001.

CRA members paid low dues, Arg\$100–200, varying by federation, the intermediate level in CRA's federal structure. These dues went to the local rural societies, and only a share of that was passed up to the federations and to CRA. While their true financial position was a tightly guarded secret, an interviewee with access to the organization's books reported that CRA was effectively bankrupt.<sup>12</sup>

In addition to declining membership and thin budgets, FAA and CRA lacked the personnel to act effectively in the political arena. In its purest—perhaps euphemistic—form, lobbying is the act of providing information to decisionmakers. At a more general level, effective pressure groups are able to shape the hegemonic discourse around an issue: both linguistically, in the sense of framing the debate, and factually, defining the public perception of reality with tools such as economic reports and statistics. Having this kind of influence requires significant resources, most effectively invested in a sustained manner over time. Yet, both FAA and CRA maintained small offices in Buenos Aires with only a handful of staff, and neither had a technical department able to produce research or briefs to support the organization's policy positions. CRA had only one economist on staff; FAA was slightly better equipped in this regard, but an interviewee at FAA reported that the data used in policy briefs came from outside sources.

In contrast, the new, technical associations in the rural sector—AACREA and AAPRESID, specifically—were much better funded and staffed. Despite smaller membership bases, under 2000 each, they collected far more revenue than FAA or CRA due to higher membership fees and, particularly in the case of AACREA, offering paid services. AACREA operated on roughly

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<sup>10</sup>*Clarín* (Matías Longoni, “Cartas de Porte: la Federación Agraria demanda al Estado”, 17 Nov. 2009) reported that FAA captured 10 percent of the *cartas* trade, while an insider pegged their market share in the 12–15 percent range. This means the organization sold Arg\$1.2–1.8 million in documents. A similar analysis using 2007 figures found that the FAA's take from selling the documents, net costs and ONCCA taxes, was also in that range. See Matías Longoni, “Ofensiva oficial para dejar sin plata a la Federación Agraria”, *Clarín*, 9 Jun. 2008. These figures also suggest that a share of the membership dues are consumed by subnational tiers of the organization—local and regional groups.

<sup>11</sup>Survey data are not available for FAA membership, and while membership in AACREA and SRA were usually asked in the survey, the incidence rates in the population are too low to make much of any fluctuations in the rates over time.

<sup>12</sup>Interview 95454

Arg\$15 million in 2008, around two-thirds of which came from consulting services. These resources allowed them to maintain relatively larger, technically skilled staffs: research economists, in addition to agronomists. AAPRESID, the smaller of the two organizations, had five researchers on staff, more than FAA and CRA together; AACREA easily had four to five times more.

These greater resources would have made these technical organizations better equipped to act as political lobbies, yet the organizations remained apolitical. AACREA's membership base, particularly of the older generation, was particularly firm in the belief that the organization should remain purely technical. In 2001, over 80 percent of the membership voted to define the organization as explicitly apolitical, prohibiting any official action in support of any politician or policy.<sup>13</sup> Amplifying this conservative force within the organization is the fact that all ex-presidents are on the board of directors (*Comisión Directiva*), where decisions are made by consensus, so they have effective veto power.<sup>14</sup> In early 2002, during the financial crisis, AACREA and AAPRESID made a public call for dialog between debtors and creditors in the countryside. For inappropriately engaging the public discourse, the old guard within the board of directors attempted to impeach the organization's president, Marcos Rodríguez.<sup>15</sup> In 2007, AACREA president (and one of Argentina's largest soybean farmers) Oscar Alvaredo was invited to meet with President Kirchner, and the board vetoed it; moreover, two local CREA groups threatened to leave the organization if the meeting took place.<sup>16</sup>

## Electoral politics

In addition to the lack of political representation in associations, the rural sector also lacked an electoral presence. In the 2007 presidential elections, Cristina Fernández de Kirchner actually won a greater percentage of votes in the main agricultural regions than she did in the urban centers. While export farmers disliked the government's market interventions, the steadily devaluing peso and rising commodity prices benefited them, and many feared that a different president would disrupt the exchange rate policy. The president did fare poorly in the countryside in the 2009 midterm elections, in the wake of the previous year's conflict, but by the time of her re-election in 2011, she had recovered significant rural support. For example, she won a plurality in all but one of the rural municipalities of the province of Buenos Aires, scoring over 45 percent of the vote in most.<sup>17</sup> The lack of a rural candidate, or even an opposition candidate with a credible pro-rural stance, gave farmers little alternative.<sup>18</sup>

Indeed, with the exception of the 2009 election, discussed in the next chapter, there were hardly any rural politicians for whom farmers could vote. Unlike countries like the United States and Brazil, which have notoriously strong rural representation in the legislatures, Argentine farm-

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<sup>13</sup>Interview 95454

<sup>14</sup>Interview 95454

<sup>15</sup>Interview 51700

<sup>16</sup>Interview 37709

<sup>17</sup>Electoral data from Dirección Nacional Electoral, Ministerio del Interior. Accessed 11 Feb. 2012 at [http://www.elecciones.gov.ar/estadistica/resultados\\_nacionales\\_2011.htm](http://www.elecciones.gov.ar/estadistica/resultados_nacionales_2011.htm).

<sup>18</sup>Nicolás Misculin, "Parte agro argentino votaría a Fernández, pese a peleas," *Reuters*, 6 Jul. 2011.

ers lacked a true congressional advocate. In fact, they lacked local-level representation as well: throughout the countryside, there was only one mayor who was a large farmer—Marcos Rodri gu e, the former AACREA president. Few rural candidates ran for office, and those that did received scant support from the traditional associations. Exacerbated by their historical and ideological differences, the four organizations rarely sustained cooperation of any sort, let alone in electoral politics. Occasionally one organization would informally support the campaign of one of their own members, but without support from the other associations, and never in a coordinated nationwide campaign.

While farmers may seem to have an aversion to running for and holding elected office, historically this was not the case. SRA members, for example, occupied a majority of the cabinet posts in national governments prior to Per n (Smith 1969). Between the fall of Per n in 1955 and re-democratization in 1983, the SRA members continued to hold many ministerial positions, regardless of who was president or de facto leader (Palomino 1988: 23, 71-5). While many factors are involved in the contemporary decline in rural influence, an inherent aversion to political action is not one.

In sum, the rural sector invested very little in political organization. The sector’s traditional political associations had few resources to lobby government officials, finance electoral campaigns, or engage in media campaigns to shape public opinion: the kinds of activities that organizations in a democratic polity can do to press their agendas. Comparatively, the budgets of the traditional associations were paltry relative to what state-level organizations in Mato Grosso, Brazil brought in each year, as we will see in Chapter 5. Technical associations had superior resources, which could have been valuable politically, but the organizations actively avoided the political arena. Electorally, farmers and their organizations did not routinely contest elections, nor did they vote against those who aggressively taxed their products.

Why would farmers, in the face of increasing costs originating in national political decisions, choose to become less involved in politics rather than more involved? The key to understanding how Argentina’s rural organizations have evolved lies in the major changes in agricultural production, particularly in the rise of land-rental and service markets. These markets emerged as the unintended consequences of a series of rural laws in the mid-20th Century, and their formation and evolution merit discussion.

### **3.3 The Argentine Road to Modern Agriculture**

Historically, the central Pampean region was sparsely populated, a fact that shaped the rural social structure and relations of production that developed. Rural production was essentially extractive, and landownership was highly concentrated. Large landholders were ranchers, who viewed farming to be an activity that was not befitting someone of their social stature. These landowners hired laborers to conduct the ranching, then rented out part of their land to tenant farmers, adjusting the amount of land rented out according to the relative prices of beef and wheat. Renters dominated grain production: an estimated 50-70 percent of farmers in 1940 were tenants (Coscia 1983: 22). Tenant farmers were commonly European immigrants who worked the land

with family labor and their own tools. This system required little investment or commitment on the part of the landowners, to the general detriment of the tenants' quality of life (Scobie 1964; Smith 1969; Mallon and Sourrouille 1975; Randall 1978; Coscia 1983).

As the global economy collapsed in the 1930s, national politicians faced the threat of mass rural exodus. Demand for agricultural goods fell sharply, yet production did not, so grain prices fell. The crisis was particularly hard on tenants, and even more so for those with fixed rents, because falling prices increased the relative burden of the rent. Moreover, falling grain prices shifted relative prices in favor of cattle ranching, leading landowners to pressure tenant farmers off the land.

In this context, in 1942 the government introduced Law 12,771, which froze rents and prevented evictions except under the most extreme circumstances. The aims of the law were to prevent major rural-urban migration and to preserve the rural productive structure so that, when the global markets reopened after the war, the countryside would be ready to produce and export again (Coscia 1983: 22). While initially intended to be temporary, the rural tenancy freeze was periodically renewed, with slight modifications, until 1967 (Law 17,253) (Randall 1978; Coscia 1983; Obschatko 1988a: 126)—remarkable continuity given the turmoil in Argentine politics during this period.

In many countries, the central government has intervened to restructure rural society in response to some "agrarian question." However, the motivations in Argentina, and subsequently the policy response, differed significantly from most countries. Urban interests in Argentina did not fear the political strength of the peasantry, whether as a radical or reactionary force, because the rural population was so low. Nor was there a move to transform or modernize the countryside. Indeed, in the view of the original law, tenant farmers did not need to be liquidated or pacified—they needed to continue to farm. Yet, by the time of its abolition, this legal regime had led to the demise of the traditional tenancy system that it ostensibly aimed to preserve.

### **The rural regulatory regime**

The regulations on rural tenancy can be classified in two categories. First is the tenancy freeze itself. Over the 25-year span of the regulations, the tenancy restrictions were modified several times. Rents were initially frozen in 1942, then reduced by 20 percent the following year; a modest 15 percent increase was allowed in 1952 (Randall 1978: 96). The right to evict tenants was also tightly constrained, a restriction that was also renewed throughout the course of the regime,<sup>19</sup> even as rents were allowed to rise significantly starting in 1957 (Mallon and Sourrouille 1975: 42-4). Indeed, the system provided for the opposite of eviction: a 1955 law, renewed in 1963, mandated "that unless land purchase and sale were agreed on, tenancy contracts were automatically extended" (Randall 1978: 97-8).

Second, several laws encouraged tenants to buy their land and landowners to sell to them. This included a combination of carrots and sticks. In 1948, subsidized credit of up to the full land sale price was offered to tenants (Randall 1978: 96). The policy of encouraging tenants to become landowners—effectively a form of market-based agrarian reform—was particularly pursued after

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<sup>19</sup>Law 13,246 of 1948, for example.

Perón was deposed in 1955. From 1957-66, there were four Agrarian Transformation Plans (*Planes de Transformación Agraria*), which gave cheap credit and tax breaks to both buyer and seller to facilitate renters buying their land (Obschatko 1988a: 126).<sup>20</sup> To encourage these transactions further, under a 1958 law tenants faced eviction if they chose not to buy land from their landlord, if offered (Randall 1978: 97). Combined with the automatic renewal of the tenancy contracts unless landlord and tenant agreed to a sale, these laws provided ample incentives for landlords to sell and tenants to purchase the land they cultivated.

This regime of rural tenancy restrictions had profound, largely unintended consequences for Argentina's rural structure. Most immediately, despite intending to protect tenants, the system ultimately resulted in the dramatic reduction in land available for rental and the virtual elimination of the traditional tenant-farming system. The laws greatly reduced the profitability of tenant farming for landowners, an effect that compounded as the years passed. Given an annual inflation rate averaging around 20 percent per year over that decade, the rent freeze amounted to a major reduction in real terms in rent paid—and rental income for landowners.<sup>21</sup> This effect was most pronounced for those tenants with monetary rents rather than rents specified as a quantity of harvested grain. As a result, by 1955 landowners' rental income was only one-tenth what it had been prior to the imposition of tenancy restrictions (Mallon and Sourrouille 1975: 42).

Consequently, landowners faced strong incentives to change their business model. They responded in several ways. First, unable to evict, landowners sought to reduce their number of tenants through attrition. Instead of taking on new tenants, they increased the area devoted to cattle-ranching and, to a lesser extent, other less labor-intensive crops (Mallon and Sourrouille 1975: 43; Randall 1978: 97). Second, landlords also began offering short-term contracts, valid for a single growing season only, which fell outside the scope of the tenancy law (Mallon and Sourrouille 1975: 44). Short-term land rental was inconsistent with the traditional system of tenancy, in which tenants built residences on the land. In this system, land became an input in production like any other, largely stripped of its social and residential functions. Growing out of a loophole in the rural laws, a new market was formed.

As a result of these processes, the number of tenant farmers in Argentina fell dramatically, from 160,000 in 1947 to 40,000 in 1966 (Coscia 1983: 110; cf. Mallon and Sourrouille 1975: 43 and Randall 1978: 96). Within the province of Buenos Aires, land under rental contracts fell in percentage terms from 44 to 27 percent between 1947 and 1960 (Llovet 1988: 256). Some of this reduction can be attributed to tenants purchasing their land as was periodically encouraged under the frozen-tenancy regime. Much of the decline, however, is associated with outmigration to the cities—precisely what the tenancy laws intended to prevent.<sup>22</sup> As Coscia (1983: 100-1) notes, the rural population in the Pampean region fell by more than one half in the “great rural exodus”

<sup>20</sup>See also Mallon and Sourrouille (1975: 44) and Coscia (1983: 110) for discussion of Ley Ibarbia, decrees 2187 and 2188 of 1957.

<sup>21</sup>Instituto Nacional de Estadística y Censos (INDEC), “Serie histórica del Índice de Precios al Consumidor (IPC) en el Gran Buenos Aires,” accessed 30 Oct. 2011 at <http://www.indec.gov.ar/>.

<sup>22</sup>As Mallon and Sourrouille (1975: 43) put it, “Thus, contrary to the probable intent of the framers of the rural wage and land rental reforms of the 1940s, two of their chief longer run effects were to accelerate the migration of labor out of agriculture and to reduce the amount of land available for rental.”

between 1947 and 1960; rural-urban migration continued in decades that followed, but at a much slower rate.

These changes in Argentine agriculture initially had adverse effects on production. As noted in the previous chapter, Argentine agricultural production stagnated during this period. Production grew at a meager 2 percent per year during the 1950s and 1960s, a rate that was insufficient to recover from the losses of the 1930s and 1940s. Agricultural production had barely recovered to its pre-World War II level by the end of the 1960s (Mallon and Sourrouille 1975: 40). This growth rate was insufficient to keep up with both increasing demand from urban consumers and the need for foreign-exchange income, particularly important for the import-substitution industrialization policies being pursued.

While many factors caused this stagnation, the rural tenancy regime holds a significant share of the blame. The depopulation of Argentina's already sparsely settled countryside provoked labor shortages at the time of harvest; indeed, in May 1952, the Perón government dispatched the army to help with the corn harvest due to a lack of farm labor (Coscia 1983: 104). Moreover, landowners' shift to ranching during this period also contributed to the stagnant productivity.<sup>23</sup>

While the initial thrust of the rural tenancy laws was purely conservative—not modernizing—these challenges led Argentine governments to place greater priority on mechanizing the countryside.<sup>24</sup> Subsidized credit, with a negative real interest rate, and other incentives for farmers to purchase tractors sought both to increase agricultural productivity and to support the domestic tractor manufacturing industry (Coscia 1983: 61, 74; Obschatko 1988a: 127). Initially, import restrictions, related to the balance-of-payments problems discussed in the previous chapter, made this challenging, but policies to promote mechanization ultimately did contribute to increasing productive investments in the countryside. Argentina's tractor fleet quadrupled between 1947 and 1960, up to around 120,000; however, as Mallon and Sourrouille (1975: 47) note, this mechanization had little initial impact on productivity as it was largely just filling the gap left by the shrunken rural labor force.<sup>25</sup> In the long run, however, these investments proved to have a major effect on the trajectory of agricultural development in Argentina.

Importantly, and in stark contrast to similar subsidy programs to commercial agriculture in other developing countries, the benefits of these programs were not limited to large landowners. Subsidized credit in Argentina lacked the collateral requirements that prevented small landowners from accessing it in other countries, such as Brazil. Moreover, part of the mechanization program directly benefited tenant farmers. As Coscia (1983: 74) notes, farmers could deduct tractor purchases from their income taxes. During a bad harvest, this was inconsequential: little spare income to invest in machinery, but also little income tax burden. However, with a good harvest, farmers

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<sup>23</sup>The instability discussed in Chapter 2 is cited as another cause for Argentina's rural stagnation during this period, along with the bias against exports in favor of domestic consumption, which in certain phases of the wage-goods cycle was more pronounced.

<sup>24</sup>Randall (1978: 97) notes that landowners' initial reaction to rural labor shortages was to pressure the Perón government to increase immigration. However, most new immigrants opted to stay in the urban centers, thus exacerbating the problem.

<sup>25</sup>On the other hand, Coscia (1983: 77) observes the adoption of tractors increased arable land available for farming by 5-10 percent by freeing up land previously used as pasture for work animals.

had both the income to invest and the tax bill to write down. This allowed tenant farmers to buy tractors despite lacking land as collateral. Hence, cultivators, regardless of whether they owned their land, were the beneficiaries of the mechanization programs.

Thus, by the 1960s, Argentine agriculture was evolving in several ways, processes shaped by the regime of tenancy restrictions. Importantly, they encouraged the formation of vibrant land rental and agricultural service markets and of a rural business model that took advantage of them. In terms of land rental, while the regulations and reforms up to 1967 destroyed the old tenancy model, they formed the basis for a new market. The mechanization of agriculture during this period increased the scale at which farms could successfully operate, yet at the same time, landholdings were fragmenting as tenants gained access to their land. Additionally, inheritance law contributed to the subdivision of rural property, requiring property to be divided among heirs. Hence, to take advantage of economies of scale, farmers needed to take on more land, and small landowners opted to rent rather than sell, taking advantage of the new system of short-term contracts. These smallholders, many of whom were ex-tenants who had recently acquired the land, migrated to the cities and became absentee landlords, drawing on the rent as a source of income (Coscia 1983: 113).

Mechanization and the subdivision of landholdings also supported the formation of a market for agricultural services. Starting in the 1960s and greatly expanding in the 1970s, a new actor emerged: the *contratista* (contractor). Essentially a modern sharecropper, this contractor supplied both the labor and the fixed capital—machinery—working the land in exchange for a share of the harvest. They often entered into contracts with many landowners, and, like the new land rental deals, these contracts were of a very short duration. The system was advantageous to landowners because it allowed them to maintain their traditional flexibility and risk-diversification strategy of shifting between farming and cattle-ranching despite the increasing technological developments in farming: since the contractors and not the landowners undertook the capital investments, it was less costly for landowners to switch between activities. For the contractor, the system made them less dependent on the landowners than traditional sharecropping (Llovet 1988: 279-82). Moreover, as tractors became more powerful, farmers could take full advantage of the capacity of their machinery: they were not constrained by the size of their landholdings (Obschatko 1988b).

### **Agricultural modernization after the regime**

When the tenancy restrictions were abolished in 1967, landowners regained more full control over their private property. Consequently, virtually all remaining tenants, who had benefited from frozen rents for decades, were evicted (Coscia 1983: 111; Obschatko 1988a: 127). This mass eviction accelerated the changes in the rural productive structure in several ways, as Coscia (1983: 112) and others note. On the one hand, a large number of producers, possessing the skills and the machinery needed to farm, suddenly lacked land on which to farm. Many became service contractors more fully, some took on land through the short-term rental market, and others migrated to the cities. On the other hand, landowners regained control of their land, but many lacked the know-how or the capital equipment to produce profitably. Their former tenants, or other contractors, could be brought in to handle the cultivation, either as seasonal land-renters or as providers

of planting and harvesting services.<sup>26</sup>

Even after the regulations were removed, these processes continued to feed back on themselves and each other, reinforcing the evolution of the rural market structures. Because many smaller farmers benefited from mechanization programs, many of them had excess tractor capacity, and they were able to contract out their services to neighbors. Moreover, the 1967 eviction of the last traditional tenant farmers fed into these markets. Additionally, the agricultural service market was self-reinforcing: as technology increased in complexity, greater skill was required of farm labor, and contractors were best positioned to specialize in the new technologies. Finally, the expansion of both land rental and agricultural service markets were mutually reinforcing, joint responses to the fragmentation of landholdings and the process of mechanization in the context of the restricted regime of rural land tenancy.

The post-1967 period also saw an acceleration of the changes in agriculture in Argentina in other ways. Notably, the Pampean region experienced a shift in land use back in favor of farming over cattle-ranching, a phenomenon associated with the adoption of soybeans. In addition to the liberalization of rural markets in 1967, these changes were the product of two main trends, which had been steadily building for years. Internationally, agricultural research in the “green revolution” had made significant advances in adapting field crops to thrive in new environments and to generate higher yields. Domestically, agricultural research and extension was also advancing, with INTA (*Instituto Nacional de Tecnología Agropecuaria* – National Institute of Agricultural Technology) in the public sector and the first local CREA groups, part of what is now AACREA, forming in the late 1950s.

The emergence of soybeans contributed greatly to the “agriculturalization” of the Pampas because soybeans can be double-cropped with wheat: that is, both can be grown within the same year, planted in succession. The development of “short cycle” soybeans, which have a shorter growing season, was critical for this development. Most of the initial adoption of soybeans in Argentina came in this form: although soybeans began displacing corn in certain parts of the Pampean region in the 1970s, by the early 1980s, roughly three-fourths of soybeans planted in the provinces of Buenos Aires, Santa Fe, and Córdoba were double-cropped with wheat (Obschatko 1988a: 90). The wheat-soy combination was estimated to cover over one million hectares in 1983 (Coscia 1983: 77). Hence, since most soybeans were planted as a second crop, a large surplus was generated without displacing anything. An estimated \$492 million in export receipts were generated from second crops between 1979-82 (Obschatko 1988a: 91). More importantly for farmers, however, soybeans allowed greater income from farming because they generated two harvests in a year. Wheat-soy cropping quickly became the most profitable use of land in the central agricultural region of the Pampas: the southern half of Santa Fe, northern Buenos Aires province, and eastern Córdoba (Coscia 1983: 78). The adoption of the wheat-soy combination thus increased the relative returns to agriculture versus ranching, stimulating a shift in land use in the Pampas.

Mechanization was critical for the planting of the wheat-soy double-cropping, and contractors

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<sup>26</sup>The difference between the two cases lies in whether the contractor was responsible for production decisions, and thus bearing a greater share of the productive risks (the former), or whether the landowner was the producer, hiring the contractor for a wage or share of the harvest (the latter).

were at the center of it. As Coscia (1983: 77) notes, double cropping requires quickly harvesting the wheat and immediately planting soybeans afterwards. Contractors with powerful machinery were well suited to the task. Indeed, as agricultural technology became more complex, skilled labor and capital (machinery) were in high demand, and hiring contractors was an easy way for landowners to take advantage of these new technologies. Hence, mechanized farmers, and contractors in particular, drove the rapid adoption of soybeans.

In sum, Argentine agriculture modernized in a distinct way. Highly flexible markets for land rental and agricultural services emerged as a by-product of the legal regime of rural tenancy in place at the time of agricultural modernization. These markets provided for greater specialization within the sector and a distinction in many cases between the owners of land and the owners of capital. The existence of these markets also reduced the capital investment needed to expand or adopt new technology, and the short-term nature of the contracts increased the flexibility of the sector. This flexibility facilitated the rural transformation, allowing modern agriculture to expand onto land previously used for cattle-ranching without requiring major changes in landownership; hence, historically determined, concentrated landownership was no longer an obstacle to increasing production (Obschatko 1988*b*: 129). The dynamism of Argentine agriculture continued to the 2000s, where adoption rates of new techniques and technologies, such as genetically-modified seeds and no-till farming, exceeded those of the United States in many areas.

Of course, contractors were not the only actor in the modernization of agriculture. Large landowners did not get left behind; as one might expect, most fared quite well in the new model of production (Basualdo and Arceo 2005). However, contractors were the vanguard of agricultural modernization, and their emergence not only changed how the business of agriculture is conducted, it changed the composition of the rural elite. The appendix contains a list of large farmers compiled from news reports from the 1990s and 2000s. Many of the surnames on the list are of different nationalities than the traditional ranching elite of Spanish descent: for example, Italian names, such as Peiretti and Trucco, typical of the waves of immigration around 1900 that settled in areas like Santa Fe province as tenant wheat farmers. Indeed, the so-called “King of Soy,” Gustavo Grobocopatel, is of Eastern-European Jewish descent. His firm was the leading wheat producer and number-two soybean producer, yet nearly all was cultivated through contracting arrangements, such that he commonly referred to himself as “landless” (*sin tierra*), using the dissonant connotation with peasant movements as a means of highlighting the centrality of contracting to his business model. Comparing the list of producers with a list of former presidents of the SRA shows just how much the Argentine rural elite has changed.

### **3.4 Effects on Political Organizations**

#### **Failure of organizations to adapt**

These economic transformations led to a decline in the rural sector’s political organization. Several interrelated processes are key. First, the new mode of agricultural production cut across traditional class divisions in the sector, cleavages that had defined the sector’s political organiza-

tions. As noted previously, SRA, CRA, and FAA were formed from distinct class groups. These three groups economic groups within the rural sector had economic interests in direct conflict, such as landlord-tenant and buyer-seller. In fact, the formation of CRA and FAA were much more linked with this intrasectoral class conflict than with a rural-urban sectoral conflict (Scobie 1964; Smith 1969).

Contemporary agricultural production altered these rural class divisions in a number of ways. For one, functioning land-rental and service markets distributed gains broadly and blur the traditional distinctions between landlords and tenants (who now may be small landowners themselves), and between farmers and ranchers (who may also plant crops and hire someone to harvest them). All rural producers were able to tap into the soybean economy. There were still smaller and larger producers, and intrasectoral class differences clearly remained. Yet, while scale of production was still often related to organizational membership, relatively small producers could be found in SRA and CRA and large producers in FAA.<sup>27</sup>

This heterogeneity in the membership of the organizations inhibited their ability to act politically. For example, while the FAA historically advocated for greater regulation and state involvement in agricultural production and commerce, some FAA members (and leaders) thrived in the free-market 1990s, often at the expense of other farmers, who abandoned the countryside. Moreover, to the extent that the membership of each organization had common interests, the interests diverged significantly from the organizations' historic objectives and policy positions.

Second, the traditional associations were slow to react to the changing nature of agriculture and the needs of rural producers. The free-market policies of the 1990s provided greater opportunities for importing agricultural technology and exporting products; at the same time, the economic policies meant greater exposure of farmers, particularly smaller ones, to risk and bankruptcy. Farmers were left with the choice: modernize and increase scale, or exit agriculture. Both paths led to disengagement with the organizations. Those that left the countryside generally left the organization as well, yet also for those who wanted to modernize, the organizations had little to offer. The organizations either could not, for lack of resources, or simply did not provide the types of services needed for modernizing farmers, such as technical training and consulting. For these needs, farmers were forced to turn elsewhere, including the new technical organizations. Indeed, officials in the FAA acknowledged that their slow response to the changing needs of their members likely contributed to the organization's decline in the 1990s and 2000s, as did their lack of efforts to address the social consequences of the exodus of small farmers.<sup>28</sup>

Similarly, with the shift to grain farming in the Pampas, CRA, an organization with a historical base in cattle ranching, declined as its functions and services became less relevant to the rural producer. A vice president of CRA acknowledged that the organization's leadership failed to respond adequately to the changing circumstances, attributing some of the organization's decline to this failure.<sup>29</sup> The local rural societies, affiliated with CRA's regional confederations, historically provided few services—they were more of social clubs<sup>30</sup>—and the services they did provide were

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<sup>27</sup>Observation from multiple interviewees; unable to quantify due to data limitations.

<sup>28</sup>Interview 66308

<sup>29</sup>Interview 85228

<sup>30</sup>Another CRA interviewee likewise noted the weak nature of the ties that bound members to the organization.

largely focused on cattle, such as seasonal livestock auctions.

Survey data from 2001 provide further evidence that rural producers had become increasingly disenchanted with their political organizations. Producers were asked whether they thought various organizations did important work to advance the agricultural sector. Of all respondents, 57 percent thought that AACREA did important work, and 63 percent thought so of AAPRESID. The political organizations fared much worse: CRA and SRA were deemed important by less than 40 percent. Moreover, even CRA members were remarkably pessimistic about the value of their organization: just 52 percent of CRA members thought that the organization was important, compared with 90 percent of AACREA members about their organization.

It is possible that CRA's federal structure explains some of this divergence: respondents may have felt greater ties to their local organizations, of which they are direct members, than to the national confederation. Nevertheless, AACREA also has a federal structure and was highly rated by its members, and SRA, which is not federal, fared relatively poorly as well, with only 62 percent of members believing that the organization was important. A more likely explanation is that by 2001, farmers had become largely disenchanted with their political organizations, favoring technical organizations that helped them to increase productivity in order to make up for increasing politically-derived costs, which were out of their control.

### **Politics as investment**

The failure of the rural sector's traditional political associations to adapt to the new agricultural economy can account for the low esteem in which farmers held them by the 2000s, yet several questions remain. Why did the technical associations, which did not suffer from the same stagnation, remain vehemently apolitical? Relatedly, why did the emerging soybean elite eschew all forms of politics, associational and electoral?

Rural organizations experienced declining membership and resources because the new market structures that emerged during Argentina's agricultural modernization reduced farmers' incentives to invest in political action. Flexible markets allow farmers to increase scale and adopt new technology with little fixed investment. Farmers can rent additional land, and they can hire tractor operators with the latest machinery. Similarly, when the contracts are short-term and flexible, they can scale back their operations easily, without having to sell assets. As a result, economic adjustment is relatively low cost and confers clear benefits. Hence, all else equal, functioning factor markets increase the relative desirability of economic investments to political investments. In the context of portfolio investment, farmers would thereby reduce their investment in political associations. Moreover, flexible markets also allow a more diverse group of actors to remain involved in agricultural production, further complicating collective action. These tendencies fuel a vicious cycle, in which political disinvestment renders future political investment even less likely to pay off.

In contrast, as we will see in Brazil in Chapter 5, rural market failures restrict modern agriculture to the well capitalized landed elite. Increasing scale and productivity typically require substantial outlays of capital into fixed investments of land and machinery, thereby concentrating both the risks inherent to agricultural production and the returns to collective political action. As a

Table 3.2: CRA Membership and Soybean Farming

	(1)	(2)	(3)
Grows Soybeans	-0.040 <sup>+</sup>	-0.034	-0.052*
	(0.021)	(0.022)	(0.024)
log(Crop Area (ha))			0.001
			(0.004)
log(Total Property (ha))			0.043**
			(0.013)
Has college degree			0.146***
			(0.025)
Year Fixed Effects Included	No	Yes	Yes
$R^2$	< 0.0113	< 0.0136	0.021

Note: Dependent variable in all specifications is membership in a local-level rural society. Individual-level fixed effects differenced out. Unadjusted standard errors in parentheses.  $N = 2677$ . <sup>+</sup> $p < .10$ , \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

result, rural market failures encourage greater political investment. Because commercial farming is limited to a smaller, more homogeneous group, collective action is facilitated, thereby increasing the expected returns of individual political investments. Also, since economic investments are more costly, political investments are hence relatively more attractive. Consequently, investment in political associations and parties fuels a virtuous cycle, increasing the expected returns to future political action.

Individual-level survey data provides corroborating, though not conclusive, evidence in favor of the proposition that modern farmers in Argentina reallocated their portfolios away from political investment. Table 3.2 presents OLS regression estimates with individual-level fixed effects. The sample was restricted to the five panel years for which details on farming decisions are available (1995, 1996, 1997, 1999, and 2001), to agricultural municipalities (those with at least 10 percent of the respondents' land devoted to growing crops), and to respondents for whom the panel has more than one observation. The fixed-effects specifications were estimated by first differencing out a respondent-specific mean for each variable. While estimated effects are small and not very robust, they show a negative relationship between membership in a CRA-affiliated rural society and soybean farming (a dichotomous indicator).

These results are consistent with the argument that flexible markets, by allowing farmers to more easily adopt new farming technology—specifically, soybeans—lead to a decrease in political investment. However, they are also consistent with argument that farmers withdrew from politics because organizations failed to adapt to their changing needs. While the fixed-effects regression specification, by isolating individual-level effects, controls for many confounders that may vary regionally—the central soybean-growing region being different from the strongholds of CRA, for example—the research design lacks strong identification, and it does not allow us to distinguish

between these competing hypotheses.

Data limitations inhibit a more persuasive analysis. In addition to the lack of survey questions that directly address the arguments advanced here, the data offer a relatively short time window for analyzing the big, slow-moving changes in market structures. Statistics from ICASA's mid-2000s surveys suggest larger shifts occurred during the years around the financial crisis, yet without the extended panel data, we cannot examine the individual-level dynamics during that period. Nevertheless, the Brazilian case does provide additional evidence, both quantitative and qualitative, in support of the hypothesis, evidence we will explore in chapters 5 and 6.

### **Political institutions**

Schneider (2004), in his analysis of peak business associations in Latin America, contends that state actions that encourage or discourage business organization tend to outweigh underlying economic characteristics in explaining organization. Unless the state encourages organizations, such as through providing privileged access to policymaking, they typically fail. Kurtz (2004), in his work on rural politics in Chile and Mexico, complementarily highlights the role of market reforms in weakening interest groups. Market liberalization and privatization “redrew the boundary between state and economy in a way that made the provision of... goods and services a strictly private affair” (Kurtz 2004: 33), thus eliminating the reason to organize politically. This effect is particularly devastating to organization in the rural sector due to the inherent challenges to collective action in the countryside. To what extent are changes in political institutions and the state responsible for the rural sector's political retreat in this case?

Argentina's market reforms of the 1990s did somewhat depoliticize economic policy. The Convertibility Law, which pegged the Argentine peso to the US dollar, helped to reign in hyperinflation, yet it also largely removed discussion of exchange-rate policy from the table, at least for much of the decade. Similarly, other policy areas were deregulated, state-owned enterprises privatized, and agencies abolished, thereby removing the state as a potential arbiter or point of access for societal groups. This tendency was particularly strong in agricultural policy as regulatory boards for grain and beef were abolished in 1992.

It is reasonable to believe that the depoliticization of agricultural policy contributed to the political retreat of farmers. Given that the 1990s was a decade in which both agricultural policy was sharply limited and agricultural modernization accelerated, it is also difficult to identify their effects separately. Facing the creeping overvaluation of the peso during the 1990s, yet without much chance of being able to change the exchange-rate policy or extract subsidies from the government, farmers rationally favored investments that increased productivity. The overvalued exchange rate penalized exports, but it also made imports cheaper, which facilitated the rapid adoption of new farming technology, including genetically-modified seeds, their complementary herbicides, and the powerful tractors designed to plant and harvest them efficiently. Market reforms thus may have contributed to weakening rural organizations by reinforcing farmers' already-existing tendency to favor economic investments, a tendency rooted in the flexible factor markets.

At the same time, there are reasons to think that the importance of this change in agricultural policymaking was secondary to the changes in rural economic structure. For one, the exit of

the state from agricultural policy was popular among many farmers. Argentine governments had more often than not used the regulatory agencies to siphon off agricultural export rents rather than support farmers, a common practice in developing countries (Bates 1981, 1997).

In terms of the role of privileged access to policymakers, Néstor Kirchner's government briefly tried assembling a broader set of rural organizations, including the technical associations, in policy discussions, in order to weaken the standing of the more intransigent traditional associations. While it is clear that the Kirchner government was precisely trying to alter the organizational dynamics in the rural sector, the attempt to include new groups in policymaking discussions was short-lived and perceived as insincere. Moreover, it proved unnecessary, for the traditional political organizations were already weak. By the end of his term in office, rural leaders were no longer consulted on agricultural policy.<sup>31</sup> In countries with well-organized rural lobbies, such as Brazil, it is inconceivable that a government could completely freeze out rural leaders, yet Argentina's rural sector had thoroughly divested from politics and was thus ignorable in policy discussions.

### 3.5 Conclusion

The four traditional associations steadily declined as a result of the transformations in the rural economy and their failure to adapt to those changes. As their economic and social functions atrophied, they were left only with their political role as the interlocutors of the sector with the government, and they exercised this role poorly. The overall effect was a decline in membership—and consequently financial resources—of the associations, as well as in their perceived strength and utility by both people within the rural sector and outside it. The atrophy of the four traditional associations eroded the political representation of the sector, and no organization stepped in to fill the void they left behind.

The economic success of Argentina's rural sector contributed greatly to its political challenges. Shaped by tenancy regulations in the mid-20th Century, a system of highly flexible land rental and service markets emerged. This market structure facilitated the adoption of new technologies and investments, and it reduced the importance of land ownership for agricultural production. Both the market flexibility and the reduced salience of landholding decreased the incentives for farmers to invest in political organizations because the opportunity costs, in terms of alternative economic investments, were greater. Over the course of many years, farmers divested from politics, fueling a vicious cycle that led them to lack a meaningful political presence by the late 2000s. Quantitative evidence from rural survey data supports the argument that as farmers modernized they became less interested in the political organizations of the rural sector. However, data limitations prevent more robust analyses and hence more definitive conclusions.

As discussed in the previous chapter, The Kirchners' model of redistributive taxation differed from populist economic policies previously pursued by Argentine governments. However, taxing booming agricultural exports is certainly not new. Indeed, in the first "revolution on the Pam-

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<sup>31</sup>Both government and organizations blamed each other for their inflexibility. In an interview, a government official said: we want to raise export taxes—why ask them what they think when we already know what they're going to say? Rural leaders said similar things about the government.

pas,” when wheat cultivation took off in the late 19th Century (Scobie 1964), grain farmers were exploited by rapacious provincial governments, which increasingly taxed cereal production because wheat farmers were growing in affluence but lacked a political voice. Wheat farmers were dispersed throughout the countryside and largely illiterate and foreign-born, all factors inhibiting their political mobilization. Indeed, as Scobie (1964: 156) observes, the government of Santa Fe province came to collect almost as much revenue on grain taxes as on land taxes.

This tax burden was one of the grievances that sparked the formation of the FAA in 1912. Might the second revolution on the Pampas trigger a similar political awakening? In the next chapter, we explore the 2008 farm conflict and its implications for rural political organization.

## Chapter 4

# Rural Political Organization Since 2008

*I remember the Argentina of 2003, 2002, 2001: thousands of Argentines joining protests, blocking streets and highways because they lacked work, because they had lost their jobs years ago.... Those were the protests, as I say, of the misery and tragedy of the Argentine people.*

*This past weekend we saw the other side of the coin, what I refer to as the protests of abundance: the protests of the sectors with the greatest profitability.*

President Cristina Fernández de Kirchner, 25 March 2008

On May 25, 2008, rural leaders held a demonstration of unprecedented scale, with over 200,000 people converging on the city of Rosario. The protest had begun in March as a tax revolt, a rejection of recently elected President Cristina Fernández de Kirchner's increase of export taxes on agricultural commodities. Yet—as indicated by the diverse crowd and the slogans about redefining the entire Argentine federal system—it had clearly become much more.

Three months earlier, a political movement of this magnitude would have seemed impossible in Argentina. Yet more implausible things were to come in the next two months. Few could have expected the president, after fiercely defending her executive prerogatives, to submit her economic model to a vote in Congress. Nor, given the dominance of the Kirchners' coalition in Congress, would one expect her to lose such a vote. Nor would one predict that her own vice president would cast the tie-breaking vote in the Senate, delivering the coup de grace.

The four-month long nationwide protest was further surprising given the prevailing economic and political winds in Argentina. Despite a booming economy, the protest involved nearly 4,000 *piquetes* (roadside protests typically involving the blocking of traffic), far more than occurred during the 2001–02 economic collapse.<sup>1</sup> Moreover, the dispute accomplished the seemingly impossible

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<sup>1</sup>“Con 5608 cortes de rutas y vías pblicas, el 2008 registró la mayor cantidad de cortes desde 1997,” Centro de Estudios Nueva Mayoría, 28 Jan. 2009, <http://www.nuevamayoria.com/>. Nueva Mayoría's methodology is more

feat of uniting the fragmented political opposition against the Kirchners, which had previously faced little political resistance.

This chapter explores the 2008 farm conflict and its aftermath, placing this particularly explosive episode within the context of the long-run processes analyzed in the two preceding chapters. As a defensive mobilization, the protest was quite successful in its immediate objective of rolling back the tax increase. Even so, the conflict was a further indication of the political weakness of the rural sector. A mass uprising reveals a lack of power in institutionalized channels, for the strong do not need to protest. Had farmers invested in political organization previously, they may have been able to prevent the emergence of a taxation program so aggressive that it led people to the streets. Continuing influence over the policy agenda comes from sustained political investment, not from periodic outbursts.<sup>2</sup> Farmers' withdrawal from their political organizations in previous decades left mass revolt as the only option when tax rates reached extreme levels.

Moreover, the fundamental political landscape, in which farmers failed to invest in politics and the government had a strong incentive to tax soybean exports, remained unchanged despite the magnitude of the protest. While rural leaders turned the defensive mobilization to their advantage with aplomb in the short run, leading a coordinated effort to gain seats in the national legislature in 2009, they did not create the organizational structures that would help project these efforts into the future. Farmers' incentives not to invest in politics, shaped by Argentina's flexible rural markets, continued to preclude meaningful political organization. As for the government, institutional incentives and weak state capacity locked them in to what was a losing strategy during the 2008 protest. Yet, the structural factors that allowed them to tax soybeans in the first place remained unchanged, and four years after the farm protest, the Kirchner model remained firmly in place.

## 4.1 The 2008 Rural Conflict

On March 11, Minister of Economy Martín Lousteau announced a new regime of progressive agricultural export taxes under which tax rates would increase with the price of commodities. This act—Resolution 125—effectively raised the export tax on soybeans from 35 to 44 percent; other agricultural commodities were also adjusted. Given that prices had been sharply increasing over recent years, it was expected that the tax rates would continue to increase automatically, without requiring additional decrees.

Following the announcement, the four traditional political organizations representing the rural sector—the Sociedad Rural Argentina (SRA), Confederaciones Rurales Argentinas (CRA), the Federación Agraria Argentina (FAA) and the Confederación Intercooperativa Agropecuaria (CONINAGRO)—jointly called for farmers to suspend grain sales for 48 hours. This was to be accompanied by small rallies in towns in the interior. The goal of the initial protest was to increase the urban population's awareness of farmers' perceived injustice and thereby turn public opinion against the new taxes. Rural interests had very little access to relevant economic policymakers in

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accurately understood as protest-days, since a protest in the same place recurring over time is counted repeatedly. However, the comparison with 2001–02 is valid since the organization similarly collected that data.

<sup>2</sup>In fact, the core of the model of democratization in Acemoglu and Robinson (2006) is built around this insight.

the Kirchner administration; as long as policy was determined behind closed doors, they had little hope for a favorable outcome. By taking the debate to the streets, rural leaders hoped to expand the scope of the political conflict, giving them a greater chance of success. Even so, the rural organizations' initial protest announcement was quite modest, perhaps reflecting concern about their ability to rally the troops. Previously, the rural sector had been unable to sustain large-scale mobilizations, even in 2007 when the government twice raised taxes on agricultural exports.

The response in the countryside, however, far exceeded the expectations of the leadership. In several places, farmers assembled and demonstrated on the side of the road, distributing flyers to motorists and sometimes blocking traffic. Some of these traffic stops intended to enforce the protest's ban on commerce, preventing the passage of trucks carrying agricultural goods; others stopped all traffic. Many of these demonstrators labeled themselves as *autoconvocados*, emphasizing that they were there of their own volition, not ordered out to the streets by a political organization. The overwhelming response led the rural leadership to extend the protest beyond the initial 48 hours, and within several days, *piquetes* had spread throughout Argentina's central agricultural region.

Once the protest had begun, the government's response served to fan the flames in the interior. Initially, they largely ignored the protest and refused to negotiate or reconsider the export tax regime. Meanwhile, organized-labor and informal-workers' leaders, widely accepted to be surrogates for the Kirchners, decried the "rural oligarchy" for its aspirations to overthrow the democratically elected government. These largely baseless claims increased the sense of polarization between *kirchneristas* and the rural sector and helped swell the ranks of the roadside protests.

Throughout the month of March, the situation steadily escalated. Tension increased dramatically two weeks into the protest, on March 25, when the president made her first public statement on the situation. Angered that the rural leaders had decided to extend the protest earlier in the afternoon without waiting for her to speak, she delivered a harsh address. In a condescending tone, she chastised the rural protesters for their failure to appreciate how the government's economic policies had benefited them, labeling their roadside protests "*piquetes de la abundancia*," alluding to the roadside protests of unemployed workers in the 2001 financial crisis, yet criticizing the current protesters for their comparatively comfortable economic situation.<sup>3</sup>

After the speech ended, *cacerolazos* spread through Buenos Aires, filling the otherwise quiet streets with the sound of pots and pans. The new urban protesters, reprising the cacophonous demonstrations of 2001–02, assembled at various points throughout the city's more affluent neighborhoods and gradually marched to the central Plaza de Mayo. They would not rule the plaza uncontested, however: a group from an unemployed workers' organization, led by Kirchner loyalist Luis D'Elía, arrived to reclaim the square. In the ensuing confrontation, captured by television cameras, harsh words and some fists were exchanged, and D'Elía's group reclaimed the plaza.

<sup>3</sup>The full quotation from the epigraph, as spoken by the president: "*Recuerdo esa Argentina de los años 2003, 2002, 2001, miles de argentinos en piquetes, cortando calles, rutas porque les faltaba trabajo, porque hacía años que habían perdido su trabajo o, tal vez, en el 2001, porque se habían apropiado de los depósitos de pequeños ahorristas de la clase media. Eran los piquetes, como digo yo, de la miseria y la tragedia de los argentinos.*"

"*Este último fin de semana largo nos tocó ver la contracara, lo que yo denomino los piquetes de la abundancia, los piquetes de los sectores de mayor rentabilidad.*"

The first period of the protracted rural conflict came to a climax several days later. President Fernández de Kirchner held a massive afternoon rally in the Plaza de Mayo, a show of force involving 100,000 people bused in for the event. In closing her otherwise sharp speech, she invited the rural protesters to back down from the highways and come negotiate. The rural leadership obliged, calling a month-long suspension of the mobilization following 21 days in the streets, though farmers in the interior promised to remain vigilant awaiting the outcome of the talks.

Yet, the temporary *détente* of the conflict came not because the president asked nicely. On the contrary, rural leaders had already come to the judgment that they needed to shift tactics. There were some concerns that farmers, not accustomed to organized political action, may be fatiguing of the protest. Rural leaders were also concerned with preserving the sector's image among the urban population, the key block of public opinion (and voters) that both sides had been trying to win over. Shortages of meat and dairy products—a consequence of the traffic barricades throughout the country—had reached Buenos Aires, and images of protesting farmers feasting on a roasted cow alongside their highway protest did not sit well with carnivorous urbanites who could not buy beef for themselves.

Retooling their approach, rural leaders managed to convert the initial raw expression of anger and frustration into a much more strategically astute campaign to redraw the political battle lines. This had several facets. First was a restructuring of the rural *piquete* and its role in the larger struggle once the truce expired. Officially, complete traffic stops were not called for: food was allowed to pass, and if any vehicles were to be stopped, it would only be trucks carrying grain for export—the focus of the tax conflict. However, unofficially, if some eager groups of farmers in certain towns disobeyed and decided to stop traffic completely, so be it; the appearance of a radical, out-of-control base mobilization strengthened the rural leaders' hand in negotiations with the government.

More generally, while farmers were encouraged not to disrupt the normal flow of traffic, maintaining a roadside presence and distributing flyers itself remained essential to the rural sector's show of force. In addition, the flyers became more professional, citing statistics of how much money the export taxes were confiscating from a given municipality, for example, rather than a vague, angry list of supposed wrongs. This contributed to the rural sector's ability to dominate the informational side of the conflict.

Second, and more profound of a shift, rural leaders reached out to governors, mayors, and congressmen, appealing to their common interests in the dispute. Because export taxes are outside of Argentina's complex system of revenue sharing between central and subnational governments, governors and mayors also had a reason to feel that the rate increases in March were unjust. This expansion of the scope of conflict, in its Schattschneiderian (1960) elegance, from purely agricultural issues to a debate on the entire Argentine federal system, ultimately proved successful. Rural leaders shifted their rhetoric to include discussions of federalism and fair revenue sharing. Most of the speeches at the mass rally in Rosario in May, and even the rally's slogan—"Con el campo por un país más federal" (With the countryside for a more federal nation)—dealt with federalism as much as the rural sector.

Moreover, groups of farmers targeted individual mayors and governors, previously loyal to the president, and convinced many to defect. This tactic expanded to include legislators after

the president introduced the export tax increase, previously set by administrative decree, as a bill in Congress in June. Facing questions of the constitutionality of the decree-based tax increase, and hoping to use her comfortable majorities in both houses of Congress to put the conflict to a definitive end, the president submitted her program to a vote. However, the intensive pressuring by the rural sector managed to pick off many members of the president's coalition, who were warned of dire consequences in the next election if they went against the wishes of the electorate in their provinces' interior regions.

Ruralists failed to block the bill's passage in the lower house, setting the stage for the dramatic final showdown of the conflict in the Senate. Following another day of intense mobilization in Buenos Aires—in which rural groups assembled over 200,000 people again, far exceeding the numbers achieved at the pro-government rally across town—the ruralists were able to convince enough kirchneristas to abandon the president at the last minute to force a tie in the Senate vote. At 4 A.M., Vice President Julio Cobos took the microphone on the Senate floor to break the tie. Speaking to the weight of the situation, Cobos said that the president would have to understand, but that he could not go along with the program. His “no” vote effectively ended the conflict over the March export tax increase. Within a few days, the Minister of Economy issued a new decree resetting the export tax rates to their levels on March 10, before the increase.<sup>4</sup>

## 4.2 What the Conflict Revealed

Why did the March 2008 export tax increase ignite a massive protest? In terms of proximate causes, farmers protested this export tax increase, and not before, for several reasons. In addition to standard tipping-point explanations—that this was the proverbial last straw—many farmers highlighted aspects of the new system of mobile tax rates. In particular, since the highest marginal tax rate was 95 percent, farmers had little incentive to hold harvested grain for sale at a later date because they would only receive 5 percent of any possible price increase. This had immediate adverse effects on futures markets and, importantly, agricultural credit mechanisms linked with futures, and promised to depress grain prices further at harvest due to oversupply. Moreover, if it is true that farmers acquiesced to previous increases because rising international soybean prices more than compensated for the income lost to the new taxes, the mobile tax rates of March 2008 eliminated this possibility: commodity price increases would have to be astronomically large to compensate for the taxes.

Another factor was the timing of the tax increase. Resolution 125 was introduced right at the harvest, which may have increased the farmers' perception that the government was taking money out of their pockets. This sensation came despite the fact that, as the government accurately observed, the prices for agricultural commodities that farmers would receive in March, even taking into account the new export taxes, were still higher than the prices at the time of planting the previous October. Amplifying this poor timing, the tax announcement immediately followed the week of the annual *Expoagro*, a large farm exposition at which many farmers, anticipating a very

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<sup>4</sup>Since 2008, much has been written in Argentina about the conflict. For one example, including a day-by-day synopsis of the of the conflict, see Barsky and Dávila (2008: 237–327).

profitable harvest, placed orders with tractor firms to purchase new machinery. In a sense, the windfall profit of the coming harvest had in many cases already been spent.

Nevertheless, the question here is less about the proximate causes of the conflict. The 2008 conflict revealed a number of interesting truths about the Argentine state, the changes in agricultural production, and about the rural associations, facts that enrich the view of rural organizations and redistributive politics discussed in the previous chapters.

### **The Kirchner government and the Argentine state**

Prior to the 2008 farm conflict, the Kirchners had deftly navigated the national political arena, concentrating power and playing adversaries against each other. Yet, in the face of a relatively unsophisticated political actor, the Kirchners found themselves unable to reassert control. Why was the government unable to diffuse the conflict more effectively?

First, the conflict revealed that the government had a poor understanding of contemporary agricultural production and the interests of farmers. Critically, the government spoke and acted as if the previous 40 years of agricultural modernization had not occurred, and that the targets of the export taxes were absentee landowners selling their cattle abroad to take advantage of a spike in international prices. On repeated occasions, the president compared the rural protesters to the “oligarchs” who supported the 1976 coup against Isabel Perón.

The president’s public statements also denied the great efforts invested in research and development to create the modern soybean economy. In an infamous speech on March 31, 2008, three weeks into the conflict and at a time when Buenos Aires was running out of meat and dairy products because of the highway protests, Cristina said:

The other day I was chatting with someone who told me that the soybean plant is, in scientific terms, practically a weed that grows without any type of special care. So that you can have an idea, glyphosate [sic], which is something they drop on coca plantations in Colombia or along the border with Ecuador to destroy them, does nothing to the soy plant; what’s more, it’s beneficial to the soybean because it kills all of the weeds around it. This is not bad, I’m not making a criticism of the “little plant,” which has a high protein content, similar to meat, but that, I reiterate, neither appeals to nor is part of the diet of the Argentine people.<sup>5</sup>

As we saw in the previous two chapters, there is little in this statement that is true, save for the fact that Argentines consume very little of soy products. Thanks to decades of research, by the 2000s farmers could grow genetically-modified soybeans that were resistant to glyphosate

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<sup>5</sup>“El otro día charlaba con alguien y me decía que la soja es, en términos científicos, prácticamente un yuyo que crece sin ningún tipo, digamos, de cuidados especiales. Para que ustedes tengan una idea, argentinos y argentinas, el glifosato, que es algo con lo que se bombardean las plantaciones de coca en Colombia o en la frontera con Ecuador para destruirlas, a la soja no le hace nada; es más, le hace bien porque le mata todos los yuyos que están alrededor.

“Esto no está mal, no estoy haciendo una crítica a la ‘plantita’ que tiene un altísimo valor proteico, similar a la carne, pero que, reitero, no es del gusto ni de la dieta alimentaria de los argentinos.”

(Roundup) with no-till practices that did entail little labor to care for the crops. Nevertheless, comparing soybeans to a crabgrass that just grows despite one's efforts to kill it is preposterous—and highly offensive to those who cultivate them. The application of fertilizers and pesticides is a process requiring scientific precision; new pests and crop diseases are continually a threat, and the success of the crop is, as always, sensitive to climate and other factors outside of the farmer's control. Moreover, truth aside, Cristina's discourse communicated to farmers that the government did not understand them, did not care to understand them, and thus could not be trusted to negotiate in good faith.

It is theoretically possible that the Kirchners chose to appear ignorant of the state of agriculture and farmers in order to rally the (also ignorant) urban populace behind them, in pursuit of the absolute defeat of their rural nemises. The Kirchners, particularly Néstor, had an affinity for a good political fight as a means of increasing their power. There were indeed many points during the conflict when both sides radicalized their positions when there was an opportunity for detente.

However, all indications suggest that the government did not fully understand the economics of modern agriculture or the psychology of agricultural producers. Minor adjustments in policy—indeed, even of timing—could have had major effects, preventing conflict or quelling dissent once it arose while still satisfying the government's redistributive objectives. Delaying the measure for several months, or announcing it earlier, would have mitigated the proximate cause of timing. The effect of the 95-percent marginal tax rate on futures markets was also foreseeable: while it is true that relatively few farmers directly trade in futures, there is a wide range of financing mechanisms, such as buying inputs on credit to be paid at the time of harvest in a quantity of grain, that rely on futures markets. Suppliers and grain merchants, whence the credit ultimately derives, do trade extensively in futures. The government demonstrated a lack of understanding of the mode of agricultural production, treating it as if it were a purely extractive rather than productive activity requiring inputs and continual investment. In a strategic conflict, failure to understand one's adversary is a recipe for defeat.

Second, many of the institutional incentives that shaped the Kirchner model also prevented the government from resolving the crisis once conflict emerged. Export taxes are inefficient and regressive, inflicting losses on small farmers, yet the government was unable to compensate small rural producers for these losses. Moreover, the increasing fiscal voracity of the Kirchner model effectively locked the government into its strategy, increasing the costs to the government of backing down from the export tax increases. As a result, what could have been a positive-sum distribution of windfall profits from soaring international prices, in which all incomes rose, became a seemingly zero-sum struggle between rural and urban interests, resulting in intractable, open conflict.

While politically desirable for the president in certain ways, using export taxes as a redistributive instrument has its downside. Importantly, they are regressive in practice. Export taxes uniformly reduce the price that producers receive for their grains, yet smaller-scale producers have higher unit costs; hence, an export tax level that takes a moderate level of large farmers' incomes may be onerous enough to inflict losses on small farmers. This became politically problematic in 2008, for small farmers were central to the conflict that emerged. Small- and medium-sized farmers provided the numbers at the roadside protests, and thus on television in Buenos Aires every night. Moreover, with smaller, less affluent farmers involved, the government's attempt to characterize

the protesters as greedy oligarchs was implausible.

Hence, to neutralize the rural protest, the government needed to modify the rural-urban redistributive policy in a way that would remove the small farmers from the equation. Without small farmers, the *piquetes* would dissolve; and facing a divided rural sector, the government could more easily isolate the large producers to take a share of their soaring profits. In principle, other forms of redistributive taxation would be more progressive, i.e. having less effect on small producers. Income taxes, for example, provide a natural way for discriminating those with large net incomes—rather than gross sales—from those earning less. Alternatively, a rural property tax based on the productivity of the land would impact the big, booming farmers more than the small. However, both of these taxes would accrue to the provincial or local governments, thus making them politically less desirable for the national government, which sought to centralize fiscal resources. Export taxes, while a blunt policy instrument, provided that political advantage.

However, because of its commitment to export taxes, the government was left with an awkward option: taxing the exports of all farmers, then buying off small farmers with subsidies. Since relatively early in the conflict, around late March 2008, the government tried to offer compensations to smallest 80 percent of farmers, while steadfastly refusing to alter the export tax rates. Farmers roundly rejected the proposal, even as the government increased the amount of subsidies offered several times throughout the conflict.

Why did small farmers refuse the subsidies, even when by the end of the conflict, the government was offering them more than was being taken away by the tax increase? Three factors seem particularly relevant. First, multiple interviewees reported that in the initial meeting in March 2008 when the government proposed to rural leaders that small farmers be compensated, government officials were unable to provide any details, appearing as if they had not seriously considered their own proposal. Indeed, the government could not specify a threshold, or even a unit of measure (land area, volume of production, or others) that would determine what constituted a “small” farmer. This further convinced rural leaders that the government had no intention of actually delivering subsidies and was instead only trying to break the rural sector’s unity and demobilize small farmers.

Second, on one level, the government could not credibly commit to delivering the subsidies. Even if farmers had not already felt that they were dealing with a government that did not negotiate in good faith, they would have had no assurance that their agreement to demobilize the protest would be rewarded appropriately. And given the historic nature of the rural sector’s mobilization, farmers were justified in believing that they could not risk stopping the protest for fear that they could not re-start it later. Moreover, the government was clearly banking on this return to political ineffectiveness, demanding that the roadside protest and grain-trading embargo be lifted before negotiation could begin.

Third, regardless of the government’s likelihood of renegeing on any deal, it was also unclear that the state would be able to follow through on the proposed arrangement. The Argentine state in the 2000s lacked the capacity to intervene and regulate markets effectively, and this weakness was acute in the agricultural sector. The ONCCA program to compensate rural producers for low officially controlled domestic prices particularly demonstrated the state’s inability to target resources where policymakers wanted them. With high levels of tax evasion and little prior regulatory pres-

ence in agriculture, ONCCA lacked the information needed to deliver the funds to producers in a timely manner. Despite the agency's efforts to increase its capacity—which itself aroused suspicion within the rural sector—this episode revealed to farmers the difficulties that the state would have in delivering on the president's promises. Small farmers, thus, rationally decided that rather than have the government tax (with certainty) their income and then later return it to them (with much uncertainty), they would prefer that the government not tax them in the first place. Because the government could not make a credible offer to them, farmers continued to protest until they achieved their goals.

## Market structures

While efficient rural markets reduced the tendency of farmers to invest in political action, markets facilitated everyone getting involved with soybeans. Due to functioning land-rental and agricultural-service markets, rural producers could adapt quickly: small farmers could rent more land to increase their production scale, and ranchers with no experience or vocation for agriculture could hire someone to plant, tend, and harvest soybeans on their land. Consequently, the income of all rural producers, from whatever class background, increasingly depended on the same crop. As relative prices continued to favor soybeans up to 2008, they spread across Argentina's central agricultural region, and improved technology and techniques made soy cultivation viable in previously marginal lands. Moreover, the Kirchner model, with interventions in beef, dairy, and wheat markets, promoted the process of *sojización*, despite the government's claims to the contrary. The profitability of these other activities decreased, encouraging cattlemen to begin growing some soybeans in order to compensate for their otherwise falling income.

Hence, soybeans provided a common interest among all farmers. Interventions in other commodities, such as beef, played into traditional intrasectoral class divisions, usually pitting CRA and SRA against the government, with FAA either abstaining or criticizing the protesting organizations. However, a policy that attacks the profitability of soybeans affects the vast majority of the central agricultural region. Not surprisingly, the increasing taxes on soybeans were the focal point of the 2008 conflict and the foundation for unity among the four traditional associations. In sum, while features of the rural economy help to explain the lack of sustained collective action, and hence institutionalized political access, they also contribute to an understanding of the unprecedented mass uprising in 2008.

## Rural political organization

The 2008 conflict accelerated and revealed several processes that had already been unfolding within the organizations. First, the previously apolitical technical associations—whose members personally stood to lose a lot from the export tax increase—began to engage the political process. While staying behind the scenes, they helped coordinate and promote the united political action. Despite its small membership, AACREA had a tight network that extended across the central agricultural region in a way that allowed them to help the initial protests, scattered across the countryside, communicate with each other. CRA (through the local rural societies) was unable

to foster this coordination, and while the FAA was more competent, it lacked a presence in regions where ranching had historically dominated. AACREA's network was uniquely able to foster coordination, albeit in a purely unofficial role.<sup>6</sup>

Additionally, building on their comparative advantages of financial resources and technical information, they subsidized the protest by making their economic analysis and reports available to the traditional associations for their political use. For example, the protest in the countryside involved roadside demonstrations and occasional traffic stops (*cortes de ruta*), and at these demonstrations, farmers commonly distributed flyers to the passing drivers stating their grievances. These flyers contained statistics about the effect of the export taxes, or the government's policies, on their municipality, and the vast majority of these statistics came from AACREA. By providing this information, the technical associations shaped the political discourse about the conflict, and they contributed to keeping farmers around the country on the same message, reinforcing unity.

As this analysis has argued, there were many reasons that had kept the technical associations out of politics before. As modern agribusinessmen, their members have prospered by counteracting political costs and risks through increasing economic efficiency and productivity. The historical and ideological differences among the four traditional associations did not interest them, and as diversified businessmen, policies that affected one agricultural product were more likely to cause their members to adjust their mix of production to balance the new costs and risks, rather than join a costly and likely fruitless political mobilization against the intervention. Politics, particularly intrasectoral conflict on ideological grounds, was a relatively bad investment at the individual business level.

Even so, their involvement in the 2008 protest was made more likely for two reasons. For one, the presentation of the export tax increase, and the president's subsequent speeches in defense of it, reflected a misunderstanding of the economics of agriculture in contemporary Argentina. As a technical association, they had clear grounds for becoming more involved. For another, because of the bottom-up nature of the protest, all four traditional associations united against the government. As such, the involvement of the technical associations did not require picking sides in an intrasectoral, ideological struggle. For once, their policy preferences, though not explicitly stated, aligned with those of all of the traditional associations, and by their involvement, the traditional associations sought to preserve that alignment.

While the political engagement of the technical associations may have appeared sudden, it was in fact the culmination of a gradual process. For example, in the 2000s AACREA began developing its macroeconomic analysis functions, expanding beyond a focus on farmers' agronomical and microeconomic considerations. Moreover, since 2004 it had become more involved in community projects, such as education. These efforts revealed a trend toward greater involvement outside the narrow technical needs of farmers, and they laid the groundwork for a greater role for the associations in politics and society more generally. The outbreak of protest in March 2008 merely accelerated this tendency.

Second, the SRA had already begun considering how to be a more effective political actor. Frustrated with their lack of access to policymakers, in 2006 they hired political consultant Felipe

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<sup>6</sup>Interview 51700

Noguera to help them shape the public discourse on their issues of interest. They commissioned public opinion surveys to learn how urban residents responded to various messages, and the organization received a primer on the art of media relations and press releases.<sup>7</sup> The SRA also financed research on how farm lobbies in Brazil and the United States work, even dispatching delegations to Brasília and Washington to study the lobbies in action.<sup>8</sup> These efforts to diagnose and improve their political presence paid dividends as the conflict and post-conflict electoral campaigns unfolded.

Third, and encompassing the first two points, the conflict both revealed and accelerated processes of internal renovation within the organizations. In particular, the conflict strengthened the position of younger, more politically pragmatic factions within AACREA and FAA. As noted in Chapter 3, recent presidents of AACREA, such as Marcos Rodrigué and Oscar Alvarado, had tried to steer the organization to a more public role, facing resistance from the older generation of members and leaders. As president during the conflict, Alvarado deftly steered the organization towards greater engagement with policymakers, particularly in the form of research and presentations to politicians on the economic realities (as they see them) of the rural sector. The AACREA president made great efforts to bring the rank-and-file of the organization along with this new orientation.

As for FAA, the rise to prominence of Alfredo de Angeli, a regional leader, during the 2008 protests, had an effect on power struggles within the organization, which in turn shaped FAA's public profile. While Eduardo Buzzi, the organization's president, came from more of a traditional left-wing position, De Angeli was part of a more economically pragmatic faction, representing relatively smaller farmers and contractors who had become involved in soybeans and were not ideologically opposed to dealing with the large corporations that played a central role in the soybean business. Politically, although less ideological, De Angeli was more radical and less willing to negotiate with the government, while Buzzi had previously been sympathetic to the Kirchners. In part, De Angeli's rise led Buzzi to maintain the FAA's unity with the other rural associations for fear of losing control of the organization's presidency.

### 4.3 Legacy of the 2008 Conflict

After the open conflict between the government and the rural sector ended in July 2008, both sides shifted to a type of low-intensity warfare. The government sought to punish those that it viewed as behind the farm protest, first taking action against grain exporters for alleged irregularities, then attacking the financial base of the FAA. In June 2008, the government floated the idea of revoking the FAA's concession to issue bills of lading (*cartas de porte*), the organizations key revenue source. At the beginning of 2009, the government became the sole issuer of the documents. While stating that the intent was to save farmers money—the government eventually decided to issue the documents free of charge—the policy was clearly a reprisal for the FAA's actions during

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<sup>7</sup>Interview 12942; see also Fernando Krakowiak, "Cómo hacer para mezclar la patria con el campo," *Página/12*, 18 May 2008.

<sup>8</sup>I had the good fortune to be interviewing a Brazilian senator on the day that the Argentine group was in town to interview the same person, and I was invited to join the group for a spirited discussion of comparative farm politics.

the 2008 conflict. Similar actions were taken against the mercantile exchanges, which also had the authority to issue (and charge for) documents regulating grain commerce (*obleas*).

For their part, the rural associations focused their attention on the 2009 legislative elections, seeking to convert their new political mobilization into legislative seats. Having decided to participate in the upcoming legislative election, the four traditional associations negotiated with political parties to place their own candidates in the party lists. Around twenty farmer-candidates ran for seats in the national legislature; many others ran at the provincial level. By virtue of Argentina's closed-list PR system, many of these candidates were virtually guaranteed a seat in the next congress. Several were even at the top of their lists.

Interestingly, the same closed-list system that facilitated the entrance of rural politicians into politics in 2009 had previously inhibited them. Most parties—and most voters—are urban-based, so party leaders had little to gain from trying to identify agricultural candidates, particularly given the rural sector's lack of political engagement. There had been little incentive to place ruralist candidates on their lists, let alone high enough on the lists to have a good chance of winning a seat. However, in 2009, it was relatively easy for rural candidates to secure high positions on party lists. Most opposition parties wanted to demonstrate their commitment to the rural sector in order to win votes, both in the countryside and among the urban middle class, which had grown disaffected with the Kirchners. Placing a vice president of FAA or CRA at the top of the party's list in a given province made that link concrete.

The rural organizations performed very well in the 2009 elections, electing eight federal deputies (4 from FAA, 3 from CRA, and 1 from SRA) and one senator. Another four deputies with ties to the rural sector but not specifically the organizations were also elected.<sup>9</sup> While still a small share of the 257-member lower house, the results marked a major increase relative to the absence of ruralists in the previous congress. Moreover, the ruralists were the standard-bearers of the broader anti-Kirchner backlash, which resulted in the ruling party's loss of a majority in the lower house of Congress.

However, despite this electoral success, little changed. In Congress, while the Kirchners lost their majority, they still maintained the largest bloc, and with a divided opposition, the *kirchneristas* were able to obstruct the opposition's efforts to advance policies, including reducing export taxes.<sup>10</sup> Moreover, gaining a foothold in Congress did little to improve rural leaders' access to policymakers in the Executive.<sup>11</sup>

Indeed, the 2008 conflict did little to alter the fundamental nature of the Kirchner model. Figures 4.1 and 4.2 show the evolution of export tax revenue since 2002, both in absolute terms and as a share of the national budget. Figure 4.1 shows an upward trend through 2008 in the export tax revenue collected, featuring an annual cycle.<sup>12</sup> Large increases in 2007 correspond both to increases in international commodity prices and in tax rates. Interestingly, both plots reveal that the 2008 conflict had only a short-term effect on export tax revenue. What truly had an effect was the

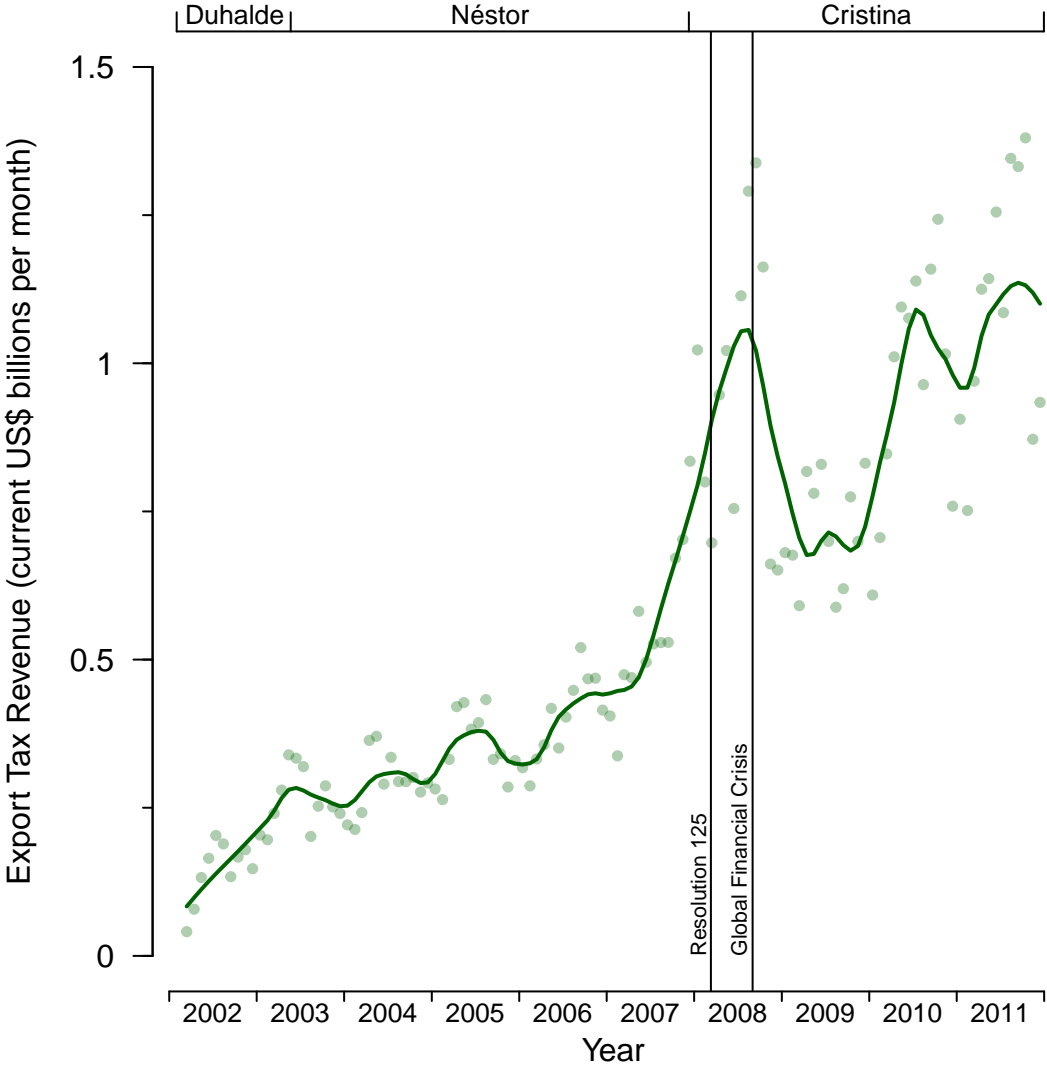
<sup>9</sup>Matías Longoni, "Para el campo, el 59% de los votos avaló su reclamo," *Clarín*, 2 Jul. 2009

<sup>10</sup>Martín Bravo, "Diputados: caerán los proyectos que más irritan al kirchnerismo," *Clarín*, 9 Nov. 2011

<sup>11</sup>Matías Longoni, "La Mesa de Enlace pide un espacio para discutir retenciones y sequía," *Clarín*, 8 Mar. 2012

<sup>12</sup>US dollars are used as the currency unit in order to factor out the effect of the peso's devaluation. In local currency units, the increase in export tax revenue is thus more sharply increasing.

Figure 4.1: Export Tax Revenue in Argentina

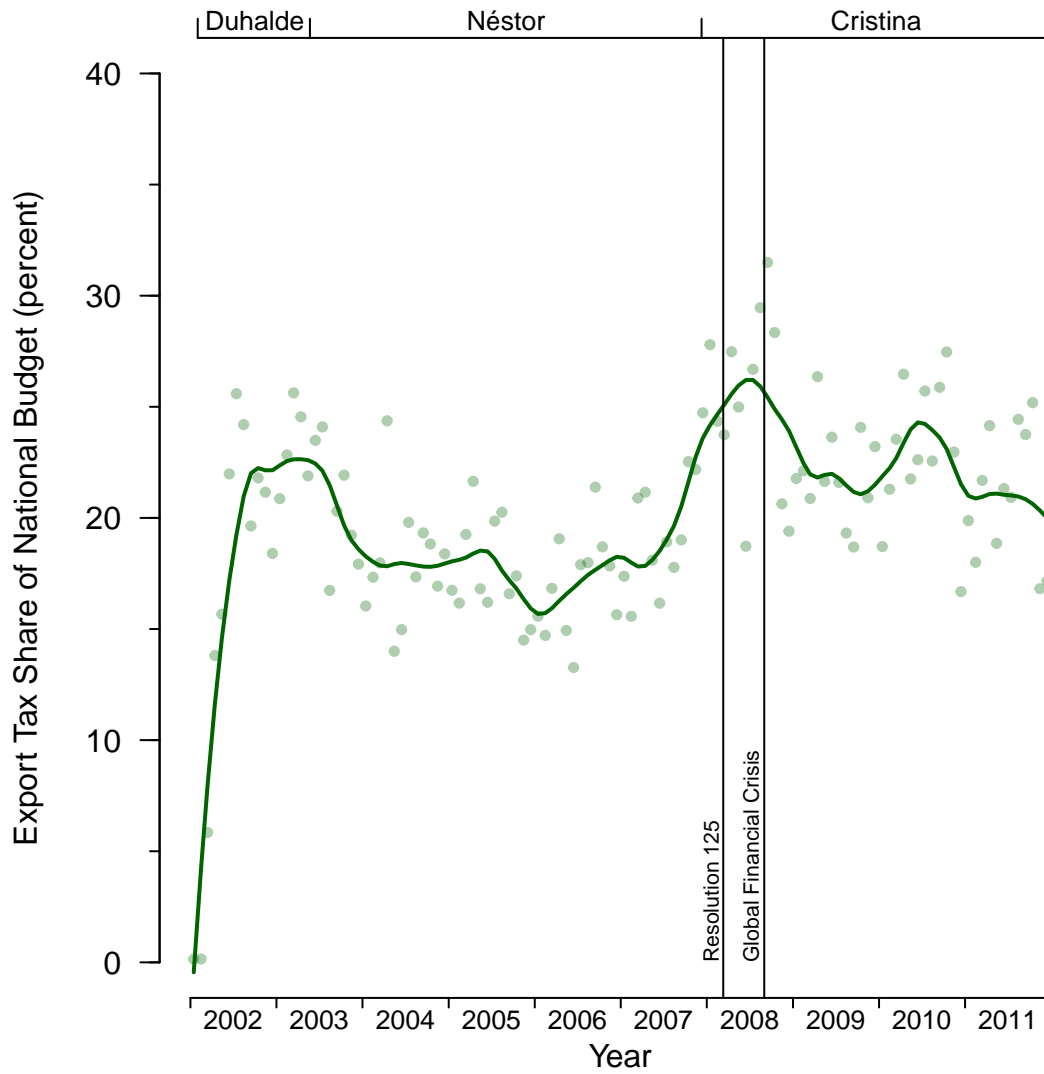


Source: MECON

global financial crisis that began shortly after the conflict ended. Moreover, as commodity prices recovered, revenue recovered to pre-crisis levels. This should not be surprising: after all, despite the rescinding of the March 2008 increase, export taxes remained at their previous levels, as high as 35 percent on soybeans. The conflict may have taken further tax increases off the table, but it did not reach beyond that.

As Figure 4.2 illustrates, export taxes remain a critical revenue source. As discussed in Chapter 2, the Kirchner model, with broad-based subsidy programs to control prices in energy, transporta-

Figure 4.2: Export Taxes as Share of Revenue in Argentina



Source: MECON

tion, and other wage goods, is fiscally demanding, particularly with increasing international prices, devaluation, and inflation. The government was thus fiscally dependent on agricultural export taxes. The 2009 election was also in the shadow of a looming sovereign debt payment, giving another reason for the government, regardless of the dominance of the Kirchners, not to consider cutting revenue sources. Hence, four years after the rural conflict, export taxes remain high and important to the national government.

Other interventions in the rural sector that were central to the Kirchner model also persisted. The restrictions on wage-goods exports, notably wheat, remained tight, and perhaps intensified further. ONCCA, the agency tasked with administering subsidies and controlling agricultural exports, was dissolved in 2011 amidst an investigation of the irregularities in the distribution of subsidies. However, all of its functions—and its subsidy budget, estimated at Arg\$2.7 billion in 2012—were passed to a new entity in the Economy Ministry, the Unidad de Coordinación y Evaluación de Subsidios al Consumo Interno (Unit for Coordination and Evaluation of Subsidies for Domestic Consumption – UCESCI), under the portfolio of Secretary of Internal Commerce Guillermo Moreno. Rather than eliminate the rural market interventions, the new body continued them without clear guiding regulations; moreover, unlike under the ONCCA regime, UCESCI subsidy payments were no longer published in the Boletín Oficial, so it was nearly impossible to tell where the money was going. This generated strong suspicions that the billions in subsidies were being distributed purely by discretion.<sup>13</sup>

Turning to rural political organization, did the experience of the conflict and subsequent electoral foray alter the disengaged, disorganized status quo in a lasting way? In some areas, it did, but the effects were generally mixed. The FAA saw a doubling of its direct membership base, from 5,000 to 10,000 by the end of 2008, owing to the organization's central role in the 2008 conflict. However, CRA, the other organization with a broad membership base, did not see an increase.<sup>14</sup>

Cooperation among the traditional associations continued, and the organizations sought to project a unified front as much as possible. Yet, there was no interest closer, more formal integration. Financing was one key area that remained institutionally fragile. During the 2008 conflict and beyond, farmers contributed large amounts of money to pay for things such as the mass rallies held in Rosario and Buenos Aires and the travel budget for farmers and protest leaders to come to Buenos Aires. The ability to fund actions like these is a central component of being a real political actor. However, while the organizations had set up a central fund, contributions to the fund were purely ad hoc. Typically, individuals donated whenever an upcoming event necessitated.<sup>15</sup> This type of funding system inhibits rural political leaders from mounting a sustained effort to shape the political process.

Organization leaders expressed little desire for greater integration. One organization-leader-turned-congressman said that trying to fit the traditional associations into one united organization would never work because of the diversity of interests: it would be like a “bag of cats” (*bolsa de*

<sup>13</sup>“El Gobierno disolvió la Oncca y dio el control de la caja a Moreno y Boudou,” *La Nación*, 25 Feb. 2011; Matías Longoni, “El Presupuesto esconde una partida millonaria para Moreno,” *Clarín*, 30 Sep. 2011

<sup>14</sup>Interview 66308

<sup>15</sup>Interview 78271

gatos).<sup>16</sup> Having separate organizations allowed them to maintain their distinct identities. These distinct identities, however, more often than not interfered with the organizations common goals. Differences among the groups, sublimated during the 2008 conflict, re-emerged as soon as the uniting force of the soybean tax increase was removed in July. The government naturally sought to exploit these divisions, both across the organizations and within them.<sup>17</sup> These divisions also played out in Congress, where the eight federal deputies from the traditional organizations could not be counted on to vote together.<sup>18</sup>

AACREA continued its think-tank role, supplying research to the political organizations as well as in testimony before Congress. In some senses, the form of political action that began to emerge reflects the new rural business model in Argentina. The technical associations provide the resources and the “know how”, and they subcontract out the political mobilization to the traditional associations. The four traditional associations generally lacked the financial resources or staff to generate the type and quality of technical information that the technical associations provided. Yet despite their decline, the traditional associations still retained the image as the official political representatives of the rural sector. Additionally, in the case of FAA and CRA, they maintained a physical presence throughout the countryside in the form of local rural societies affiliated with the national organizations; these helped provide structure to the mass mobilization of 2008, even if they provided little more than a meeting space and an official leader to speak to the media.

This division of labor between technical and political organizations has some clear advantages. Members of technical associations were generally larger and more technologically advanced than the average farmer, and they principally were members in order to take advantage of the technical services that the associations provide. This means a smaller, more elite membership base with a greater willingness to pay, resulting in relatively well funded associations. Their comparative advantage, politically speaking, was in information, communication, and organization since they lacked the membership base to convoke a mass demonstration. Moreover, their ability to shape the political discourse through information was enhanced by their formal independence from the political organizations because they could maintain an appearance of objectivity. Indeed, during the early days of the conflict, AACREA and AAPRESID nearly became fully political organizations, but they pulled back, recognizing that they could be more useful behind the scenes.<sup>19</sup>

Finally, the rural optimism of the 2009 elections, followed by the reality of unmet expectations, led to a certain degree of disillusionment in the 2011 elections. Key rural leaders did not present themselves as candidates in 2011 as they had in 2009—nor did party leaders seek them out.<sup>20</sup> Rural voters also returned to Cristina Kirchner. Figure 4.3 plots the share of votes received by the

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<sup>16</sup>Interview 85228

<sup>17</sup>Matías Longoni, “Las ‘picardías políticas’ del Gobierno jaquean la unidad de la Mesa de Enlace,” *Clarín*, 18 Jan. 2010

<sup>18</sup>Martín Bravo, “Pese a la presión oficial, sigue trabada la ley de tierras,” *Clarín*, 7 Sep. 2011; “El escándalo en Diputados también profundizó las grietas entre los ruralistas,” *Clarín* 16 Nov. 2010

<sup>19</sup>Also, in the case of AACREA, there was discussion during the early days of the Mesa de Enlace to include the technical organization, but FAA rejected the proposal, owing to longstanding ideological differences, particularly between the left-wing old guard of FAA and the right-wing legacy of AACREA (Interview 51700).

<sup>20</sup>Matías Longoni, “Los ruralistas ya dejaron de ser atractivos como candidatos,” *Clarín*, 25 Apr. 2011

president across the province of Buenos Aires. In all but one rural *partido* (municipality), Cristina received a plurality of votes, and in most she received greater than 50 percent. Hence, while the rural sector had become more engaged with politics than prior to 2008, it remain politically weak and skeptical of the political process.

## 4.4 Conclusion

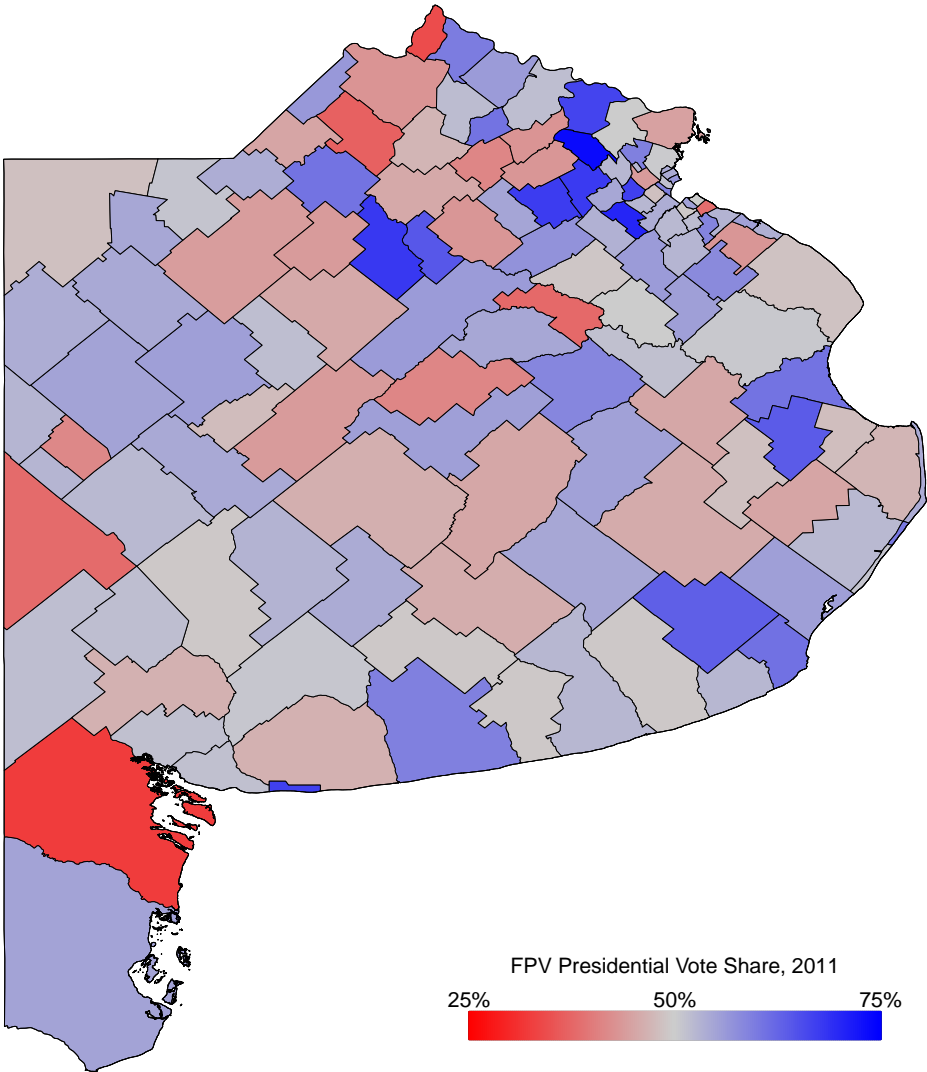
The 2008 farm protest was a fascinating episode in Argentine politics, but it was just that: an episode. The fundamental factors that allowed the Kirchner government to impose steep taxes on agricultural exports with impunity remained essentially unchanged. The conflict, while an impressive display of mobilization, in fact highlighted the rural sector's political weakness, for the strong have no reason to protest. The fact that the traditional rural associations initially were the followers, not leaders, of the protest, and that the protesters self-identified as independent from any organization, underscored the disconnect between the rural leadership and the base, as described in Chapter 3. Through the conflict, the rural sector demonstrated an ability to respond defensively to a narrow range of policies, which is certainly meaningful; however, their influence remained limited, and leaders failed to create the organizational structures that would permit more sustained political pressure.

In the wake of the protest, there were some efforts made towards building a modern farm lobby. The actions of AACREA as a participant in policymaking discussions was particularly salient. However, it is too early to know the long-term effects of the 2008 conflict on rural political power, and there are a number of reasons to be pessimistic about the prospects for sustained political action from the rural sector. As discussed in Chapter 3, Argentina's rural market structures conspired against political organization because they increased the relative attractiveness of economic investments. As investment in formal political processes proved fruitless following the 2009 elections, it was unsurprising that farmers hedged their political investments more in 2011. The rise of soybean cultivation helped to create a common interest among producers, which was useful for organizing defensively when soybean profits are threatened. However, as Schneider (2004: 37–9) observes, while many organizations rise out of defensive mobilization, most fail to survive once the initial rallying cause had passed. Defensive organization often does not lead to sustained, offensive organization.

A central component to building an effective political organization is financial resources. Lobbying is capital intensive and requires sustained investment in order to shape the political agenda. Argentine rural organizations lacked financing, and the conflict appeared not to alter that fundamental reality. Indeed, the FAA ended up in a weaker financial position as the government withdrew their concession to issue bills of lading.

In the next chapter, our analysis shifts focus to Brazil, where a new farm organization managed to secure ample funding for its political ambitions through creative means.

Figure 4.3: 2011 Vote for Cristina Fernández de Kirchner in Buenos Aires Province



## **Part III**

### **Brazil**

## Chapter 5

# Subnational Foundations of Rural Power

Brazil has emerged as a dominant player in global agricultural markets. Through the adoption of new crops and technology, the productivity of agriculture has greatly increased; these technologies have also allowed for the expansion of the agricultural frontier into new areas. Brazil's agricultural policy has profoundly shaped this expansion, through both public-sector agronomical research, market regulations, and farm subsidies. As a result, exports have soared, and the countryside has been transformed.

This new agricultural export economy created a new rural politics. The most striking feature of the new rural politics is that large farmers' organizational strength has become based not at the national level—where agricultural policy is established—but at the subnational level. Importantly, commercial farmers from the frontier state of Mato Grosso transformed Brazil's agricultural politics. Mato Grosso's large farmers, family businesses that predominantly cultivated soybeans for export, formed powerful, well-financed interest groups. In particular, the state-level soybean-farmers' association, Aprosoja, created in 2005, directed its ample resources toward influencing agricultural policy at the national level. Its annual budget tripled that of the *Confederação Nacional da Agricultura* (National Confederation of Agriculture – CNA), Brazil's traditional farm lobby organization.

This expanded presence of Mato Grosso's commercial farmers in national policy-making was the product of a comprehensive effort to organize at the state level, in the electoral arena as well as in the associational arena. In 2002, Blairo Maggi—Brazil's largest soybean farmer and so-called “King of Soy”—was elected governor, and he won a landslide re-election in 2006; commercial farmers also captured one-third of Mato Grosso's mayoral elections in 2004. As governor, Maggi created a mechanism by which the state government collected a mandatory contribution from all soybean farmers, averaging R\$2,000 (US\$1,174) per farmer, and passed it to a privately managed fund that the farmers control. This institutional support in funding the organization allowed the state's farmers to become major figures in agricultural policy-making in Brasília almost overnight.

The scale of this mobilization, as well as its location in a frontier state, is striking for several reasons. For one, there were few commercial farmers in Mato Grosso—roughly 5,000. In other states, farmers were more numerous, yet similar organizations had not remotely achieved this level of success. For another, the organization of a farm lobby at the state level itself raises questions

because state and local governments lack the authority or the resources to implement agricultural policy. Yet, farmers in Mato Grosso sought control of subnational politics.

Focusing on the new soybean elite in Mato Grosso, this chapter examines the evolution of Brazil's rural interest mobilization. It explores how the economic determinants of collective action intersected with the institutions of federalism to shape organizational outcomes. The economics of agriculture in Mato Grosso made for greater individual returns to collective political action while also reducing obstacles to organization. Much of this can be attributed to how agricultural market structures developed. Unlike in Argentina, where tenancy restrictions ultimately led to the formation of highly flexible markets, in Brazil, land, labor, and credit policies from the 1960s prevented the formation of similar land-rental and service markets. These different market structures promoted an agricultural production model centered around large landholdings and overly-mechanized landowners. Geographical factors, such as soil type and distance to port, further reinforced the large-landowner model of production. The result was the concentration of Mato Grosso's soybean production—around 7 percent of the global trade in soybeans—in the hands of 5,000 producers, which relied heavily on credit and thus stood to gain greatly from subsidized loans from the national government.

In contrast with Argentina, Brazil's institutions of federalism allowed Mato Grosso's rural elite to harness their organizational capacity at the state level. For one, the state boundary delineated a territory in which agriculture comprised a much larger share of GDP than in other soybean-producing states and in which the population was much lower. The boundary also defined the group of "soybean farmers of Mato Grosso," which had much lower barriers to collective action than similar groups in other states. Soybean farmers in Argentina were not concentrated in a province in such a way that would dramatically increase the prospects for their collective action, in no small part because Argentina's rural market structures operated against Brazilian-style concentrated production.

For another, the division of powers across levels in the Brazilian federal system meant that although farmers organized at the state level, their policies of interest were all set at the national level. Hence, supporting the farmers' political movement could be in the economic interest of the state government. Equally important was the fact that Brazilian states have sufficient fiscal authority to collect revenue and subsidize interest groups. In contrast, Argentine provinces lacked the fiscal autonomy to support a subnational organization of this nature. As a result of these factors, farmers in Mato Grosso were more able to mount a political campaign to capture state government and convert it into an ally and advocate for their national policy objectives.

## 5.1 Context

### The Development of Brazilian Agriculture

As discussed in Chapter 1, the expansion of soybeans in Brazil was dramatic, far outpacing the growth of Brazil's other leading crops. In 2005, soybeans were cultivated on nearly 4 times as much land as sugar and 9 times the area growing coffee. The initial expansion of soybeans occurred in

southern Brazil, particularly in the states of Rio Grande do Sul and Paraná. The region's temperate climate was well suited to the crop's cultivation, and the military regime's (1964-1985) policies on rural land, labor, and credit stimulated the mechanized cultivation of field crops.

The expansion north into the tropical, semiarid *cerrado* region (see Figure 5.1), which occurred decades later, involved a major state-funded agricultural research endeavor. Soybeans are a temperate-zone crop, and they had to be adapted to Brazil's tropical latitudes. Brazil's military government established EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária) in 1973 to advance research in agriculture; within EMBRAPA, the National Soybean Research Center (CNPSo) made instrumental advances (Warnken 1999).

Although commercial agriculture did not reach Mato Grosso until the 1980s, when it arrived, it flourished. In the 1977/78 growing season, following the division of Mato Grosso into two states (Mato Grosso and Mato Grosso do Sul), Mato Grosso produced only 8000 metric tons of soybeans. Seven years later, the state produced over 200 times as much, and the spread of soybeans continued to expand exponentially. Since 2000, Mato Grosso has been the leading soy-producing state in Brazil, responsible for 26 percent of Brazil's soybean production. Seven of the top ten municipalities in terms of the value of grains produced and 15 of the top 20 soy-producing municipalities were in Mato Grosso. Mato Grosso, Paraná, and Rio Grande do Sul were Brazil's top three producers of grains more generally, responsible for 56 percent of total grain production and 62 percent of Brazil's soybean production.<sup>1</sup> Large soybean farmers also introduced mechanized cotton cultivation to the state in the mid-1990s; Mato Grosso became Brazil's largest cotton producer as well, responsible for half of the country's production.

## Mato Grosso

Located in the center of the South American continent, Mato Grosso was until recently far beyond the frontier of settlement. In the literary masterpiece *Os Sertões* ([1902] 2004: 320), for example, Euclides da Cunha describes Mato Grosso as Brazil's "sweltering Siberia" (*Sibéria canicular*). Others have had a less pessimistic view of the opportunities the state provided as successive waves of explorers, prospectors, and migrants came to Mato Grosso for extractive purposes (Leal 1988: 33).

Economically, to the limited extent that Mato Grosso had been integrated in the national economy in the past, it served as a source of primary products, both agricultural and mineral. Mato Grosso had cattle-ranching and various forms of extraction, both mineral—particularly diamonds—and vegetable—especially rubber (Moreno and Higa 2005: 25–32).<sup>2</sup> Rubber was the state's main economic activity up to 1920, especially important for the local merchant class in Cuiabá, the state capital (Leal 1988: 40).

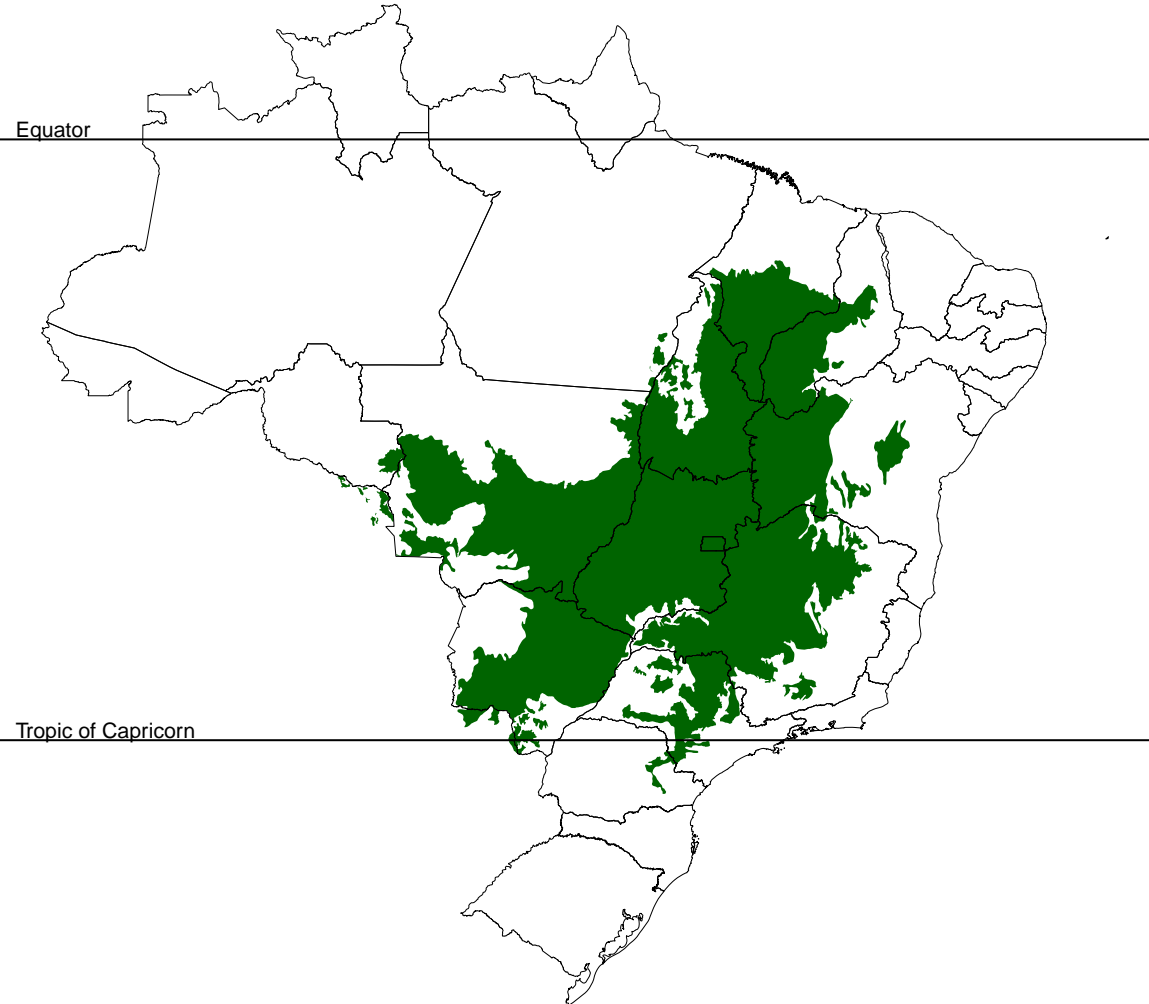
The agricultural expansion starting in the 1980s profoundly transformed Mato Grosso, both economically and socially. Importantly, the state received a large migratory influx from south-

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<sup>1</sup>IBGE, "Soja bate novo recorde de produção em 2006," [http://www.ibge.com.br/home/presidencia/noticias/noticia\\_visualiza.php?id\\_noticia=931](http://www.ibge.com.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=931)

<sup>2</sup>That is, these are the activities of the northern half of the old state of Mato Grosso, which until 1977 included the current state of Mato Grosso do Sul.

Figure 5.1: Map of Brazil with Cerrado



Source: Conservation International for cerrado spatial data; IBGE for all other spatial data.

ern Brazil, and these migrants led the agricultural boom. Southern farmers, or grown children of farmers inheriting part of a subdivided property, could sell their small plot of land and buy a large tract of land in Mato Grosso due to the difference in land prices. They brought with them their experience growing temperate-zone crops like soybeans and the entrepreneurial drive to expand the agricultural frontier. As a result, the vast majority of large commercial farmers were transplants from southern Brazil. Moreover, “soy cities” (*ciudades de soja*)—agricultural municipalities established in the 1980s and after, such as Lucas do Rio Verde, Sorriso, and Sinop—were predominantly composed of migrants from the South, and older cities in the agricultural regions, such as Rondonópolis, had a large presence of southerners (Moreno and Higa 2005: 81). Based on this common background, soy farmers in Mato Grosso had a shared cultural identity that went beyond their economic activity.

While the state’s economy and population experienced major transformations linked with the arrival of export agriculture, the political system was slower to respond. During the military regime, the authoritarian ARENA party was dominant in Mato Grosso, and in the return to democracy, traditional elites, including many associated with the authoritarian regime, persisted in power even as they changed party labels. Even in 1998, 10 out of 24 seats in the state legislature went to parties that formed out of ARENA. Throughout the 1990s, parties to the right of the political center, particularly the PFL and PSDB, loomed large in state politics. In contrast, the center-left PT had little presence, winning only 2 of 24 seats in state legislature in 1998 and 2 out of 21 on the Cuiabá city council in 2000 (Silveira 2009: 286). Cuiabá’s population remained critical for state-level electoral success as close to 30 percent of the state’s 2.8 million residents lived in the greater Cuiabá area.

## Rural Organizations in Brazil

Two features distinguish the field of rural associations in Brazil from many other countries and shape how agricultural policy-making and lobbying occur. Both are linked with Brazil’s corporatist system of interest organization under the CLT (*Consolidação das Leis do Trabalho*), established under Getúlio Vargas. First, a federal system of compulsory organizations exists. Labor and capital in every sector are organized separately into local-level unions (*sindicatos*), which are part of a state-level federation and a national-level confederation. Importantly, these organizations receive compulsory contributions, enshrined in the law, from all potential members of a class. While agriculture was initially excluded from the *sindicato* system, landowners and rural workers were incorporated under the 1963 Rural Worker’s Statute (*Estatuto do Trabalhador Rural*). For landowners, the CNA is the peak association. The CNA has federations in all 27 states, and 2,146 local-level *sindicatos* are affiliated with them.

Second, agricultural politics and policy-making is split into “commercial agriculture” (*agricultura empresarial*), comprising the large, market-oriented producers, and “family agriculture” (*agricultura familiar*), comprised of small farmers. While this type of division is not unique to Brazil—indeed, rural associations in Argentina were traditionally split along similar lines, with the Sociedad Rural (SRA) representing the large landowners and the Federación Agraria (FAA) encompassing small tenant farmers—what is striking about Brazil is how stark the division is.

For one, as part of the *sindicato* system, large landowners have a separate organizational system, with the CNA at the top, from small farmers and rural workers, which are similarly organized in a federal system with Contag (Confederação Nacional dos Trabalhadores na Agricultura) at the top. This follows the CLT framework of having separate official organizations of workers (labor) and of employers (capital) for each sector. Perhaps even more importantly, agricultural policy-making is similarly split in two. Brazil has two agricultural ministries: the Ministry of Agriculture (Ministério de Agricultura, Pecuária e Abastecimento – MAPA) and the Ministry of Agrarian Development (Ministério de Desenvolvimento Agrário – MDA). As a result of this division, I focus here on larger farmers separate from the rural landless because in practice, while overlapping in some ways, their politics are largely distinct, and their associations, which are the focus of this paper, are completely separated.

Brazil's national farm lobby has evolved significantly in recent decades, in part due to the dramatic changes in agriculture and in part due to broader developments in the political arena. Importantly, as Helfand (1999: 27-8) notes, in the return to democracy in the 1980s, farmers had to learn how to act as a minority interest group. Because (1) industrial growth had outpaced the agricultural sector's expansion, (2) the country's population had become highly urbanized, and (3) modern agriculture is a more professionalized activity, large farmers could not rely on the political strategies that had worked for them in the past. Under democracy, personal relationships between organization leaders and the executive became less valuable than building an institutionalized lobby capable of applying sustained pressure on Congress and the Ministry of Agriculture, both of which had increased in importance in agricultural policy-making (Helfand 1999: 24-5).

However, the leadership of the traditional corporatist organization had been discredited for its close, co-opted relationship with the military regime. In this context, new associations formed outside of the official *sindicato* system, and farmers and ranchers fought to renovate and revitalize their existing organizations. Within this wave, the new farmers' groups in Mato Grosso are distinct for several reasons. For one, most political associations in Brazilian agriculture bring together agribusiness firms—processors and exporters—not farmers (Nassar and Zylbersztajn 2004: 144). For another, new farmers' organizations have struggled to emerge and survive. Few, notably the União Democrática Ruralista (UDR), were initially quite successful in accomplishing their political goals—in their case, preventing agrarian reform—yet were unable to institutionalize and persist after their reason for being created was satisfied (Helfand 1999: 31-2). Others, such as earlier attempts to create a national soybean-farmers' organization, were unable to overcome collective action problems and mobilize sufficient resources in order to act effectively.

## 5.2 Modern Agriculture and Brazil's Farm Lobby

In this section, I first detail the timeline of the formation of Mato Grosso's associations, and then I situate them within the national farm lobby and highlight their importance.

## Origins of Mato Grosso's Organizations

Starting in the mid-1990s, large farmers in Mato Grosso formed associations to address narrow economic issues. They then expanded their efforts to encompass state and local politics, and they subsequently leveraged their control over subnational governments to reinforce their interest group activities.

Mato Grosso's new rural elite formed three organizations—two interest groups and one political party—as they constructed their political presence in the state. First, the largest farmers established AMPA (Associação Mato-grossense dos Produtores de Algodão – Association of Cotton Producers of Mato Grosso), in 1997. Second, AMPA's leadership worked to establish a base in electoral politics, forming the so-called “Turma da Botina” (Boot Gang), which started in the ex-Communist PPS (Partido Popular Socialista) party in the 2002 elections and jumped to the newly created PR (Partido da República) in 2007. Third, a broader association encompassing the state's soybean farmers, APROSOJA (Associação dos Produtores de Soja do Estado de Mato Grosso – Association of Soybean Producers of Mato Grosso), was founded in 2005. Since 2007, APROSOJA has been funded by compulsory dues collected by the state government, which was controlled by the Turma da Botina.<sup>3</sup>

These two farm associations and the political party were mutually supportive. Many of the initial interest group leaders became the vanguard of the new rural movement in the electoral arena, and rank-and-file association members donated heavily to the electoral campaigns of these candidates. While occasional differences did emerge between the political party and the associations, they overwhelmingly acted in concert towards their common sectoral interests.

### Ampa

In the 1990s, numerous new associations of rural producers, focused on local economic issues, were formed in Mato Grosso. Despite the prior existence of landowners' associations, part of the official sindicato system, these associations with very specific goals formed outside of the old organizations. Farmers found the sindicatos, dominated by ranchers who invested little capital or technology in their production, to be unresponsive or incapable of addressing their their specific needs.

Building on this initial experience in organization, a very small group of the largest farmers led the push to create a cotton farmers' association. While the initial impetus for the association was a narrow agronomical issue—how to resolve the problem of a soil disease—this group had broader aspirations. Importantly, they secured state support for their organization's primarily technical activities. Ampa, in effect, is the evolutionary link between localized and economically-focused organizations that had previously formed in rural communities and the well funded, highly politicized soybean farmers' association that emerged in the following decade.

While mechanized agriculture may have a short history in Mato Grosso, cotton cultivation has an even shorter one. Three farmers—including Olacyr de Moraes, Brazil's “King of Soy” at the

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<sup>3</sup>Henceforth, to avoid abusing the reader with too many all-caps words, and in keeping with Brazilian custom, I refer to most of these organizations as if they were proper nouns rather than acronyms.

time—brought cotton to Mato Grosso in the early 1990s. They hired researchers from Embrapa, the national agricultural research institute, who determined that the climate and soil were ideally suited for commercial cotton farming: rain fell at just the right times for the arid and semiarid crop varieties grown in places such as Israel. However, the soil also harbored diseases that attacked the cotton plants. After the “blue disease” (*doença azul*) decimated the 1995 harvest, cotton farmers agreed to pool resources to fund research on the cotton virus. A group of 21 farmers formed a cotton research group within the Fundação MT, a consortium in Rondonópolis which up to this point had focused on soybeans, and they made advances in controlling the disease. Building on this experience, they began to consider not only formalizing their association but also asking the state government for a program to promote cotton cultivation.

The fact that cotton was not widely produced in the state helped the farmers’ case in appealing to the state government for a tax break. They reasoned that the state had nothing to lose from exempting cotton from 75 percent of the state’s tax on interstate trade (the ICMS) because 75 percent of zero is still zero. Moreover, if the incentive program were successful and cotton production expanded, the remaining 25 percent of the tax would generate much more revenue. However, some in the government, notably within the tax administration (*Secretaria de Fazenda*), worried that granting a concession to cotton farmers would set a dangerous precedent, leading other groups to ask for their tax cuts and thereby undermine the state’s finances.

After two years of pressing their case to the governor and state legislators, the Programa de Incentivo ao Algodão de Mato Grosso (*Proalmat*) became law on June 2, 1997. In addition to the tax incentive, the law also required in Article 10 that farmers who registered for the program direct 15 percent of the 75-percent tax break to *Facual* (*Fundo de Apoio à Cultura de Algodão – Cotton Support Fund*). While the law created *Facual*, it was a private fund, not controlled by the state, although the state agricultural secretariat (*Secretaria de Estado de Desenvolvimento Rural – SEDER*) did have a seat on the board. Nor did the state collect the *Facual* contribution: farmers were to take their ICMS receipt to *Facual* and pay their contribution directly, based on the amount of ICMS owed.

The cotton farmers’ association, *Ampa*, was established on September 16, 1997, from the informal group that had organized to press for the tax incentive, and *Blairo Maggi* was selected as *Ampa*’s first president. The association was established after *Proalmat* was signed into law but before it took effect. *Ampa* formed out of necessity—an association of cotton farmers was needed to manage the cotton fund.

Although the law called for the creation of *Facual* and the cotton farmers’ contribution to it, representatives interviewed from both the association and the fund did not see the state as a direct enforcement mechanism for *Facual*. Rather, the fact that there were so few cotton farmers in the state meant that social sanctions may be effective enough to minimize free-riding. *Ampa* had 353 producers as members in 2008, and only about half of those were planning to plant cotton that year due to financial constraints.<sup>4</sup> Additionally, in collaboration with the government *Proalmat* program, *Ampa* could identify free riders by comparing the list of farmers enrolled in *Proalmat*

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<sup>4</sup>As of November 2008, *Ampa* had 353 member-groups with a total of 683 individual members. Groups are composed of people, as in within a family, that produce together and do everything as a unit except (1) receive federal rural credit and (2) sell to exporters. Families will disaggregate like this because federal credit is rationed by

with its membership list. New farmers who enrolled in Proalmat could thus be encouraged to join Ampa and pay to Facual. In sum, the state program may have provided information that facilitated rooting out free riders, but the enforcement mechanism of Facual involved purely social sanctions within the group.

### **Turma da Botina**

Commercial farmers had very little expression in electoral politics in Mato Grosso prior to 2002. A few large farmers had attained elected office, though their efforts were scattered and uncoordinated.<sup>5</sup> Farmers were, however, much more involved in financing campaigns, particularly for the national legislature. While comprehensive, reliable data on campaign contributions are not available for this period, multiple state-level party operatives confirmed in interviews the role of large farmers in financing candidates' electoral campaigns.

Farmers' motives for funding campaigns were varied. One interviewee suggested that farmers donated to campaigns in order to ensure that local politicians "don't steal too much"—that by having their campaign expenses subsidized, local politicians would have fewer campaign costs to recover through corruption. Others suggested that, particularly in the case of Maggi's financing of a national senator's campaign, personal business interests were involved. Farmers learned that getting concessions or favors from the national government, particularly in terms of access to lines of credit, having a senator's backing could be pivotal. It is no coincidence then that as rural debt problems began to mount through the early- to mid-1990s, Mato Grosso's farmers increased their investment in national politics.

Campaign finance provided Blairo Maggi with his first personal foray into politics. In 1994, he was one of the main financiers of the successful campaign of Jonas Pinheiro (PFL) to the national senate. According to official campaign finance records, Maggi's firm, Amaggi, donated the second largest sum received by the senator during the only month for which partial data are available.<sup>6</sup> Jonas rewarded him with a *suplente* (alternate) position and allowed Maggi to serve as acting senator on occasion.

In the late 1990s, the group of large soybean and cotton farmers, headed by Maggi, sought to present their own candidates, and a search for a political party to serve as a vehicle landed them in the PPS (Partido Popular Socialista), the former Brazilian Communist Party (PCB). While the historically leftist party and this group of large agribusinessmen seem like unlikely allies, the

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identification number (CPF), so as soon as a child is old enough to get a CPF, he technically becomes a cotton farmer and a member of Ampa. Most member-groups are in fact composed of individuals within a family; only about 15 of the 353 are corporations (S/A). For this reason, I focus on the groups as the relevant unit of production.

<sup>5</sup>These soybean farmers include, for example, Rogério Salles from Rondonópolis, and Otaviano Pivetta of Lucas do Rio Verde. Salles became governor of Mato Grosso in 2002, yet he was not elected to that position. He was elected vice-governor and assumed the executive positions when the governor, Dante de Oliveira, stepped down to run for the national legislature. He had similarly served previously as mayor of Rondonópolis, having been elected vice.

<sup>6</sup>Amaggi donated Cr\$37 million (US\$16,140) to Jonas' campaign in June 1994. Campaign finance data for this election are partial; federal electoral law since then has required more complete reporting of donations received. Even for more recent elections, however, the official campaign finance data only covers the above-the-table money (so-called *caixa um*), not the clandestine "account number two" (*caixa dois*).

arrangement was mutually beneficial. Maggi's group wanted a party that they could take over and name the candidate for governor, and larger, more established parties in the state had their own political leaders vying for the party's candidacy. Moreover, despite ideological differences, both the commercial farmers and the PPS were reformist, wanting to transform a political system they both viewed to be corrupt. On a more personal level, Roberto Freire, the national PPS president, and Maggi had met in the national senate when Maggi was serving as acting senator for Jonas Pinheiro. Freire liked Maggi's approach and worked to recruit him to the PPS.

For their part, the state-level party (PPS-MT) wanted to expand its influence across the state, and the commercial-farmer group provided an opportunity to do that. Maggi's group had the resources to finance a political machine and the managerial skills and discipline to run a large organization. Additionally, public opinion research in 1999 and 2000 showed that Maggi had the characteristics that the electorate was looking for in their next governor: an outsider who will fight corruption. Surveys showed that despite his title of "King of Soy," Maggi was virtually unknown, even in his hometown of Rondonópolis.<sup>7</sup> Hence, Maggi could be the tide that swept the PPS into power in Mato Grosso.

Maggi and his group of large farmers personally financed a substantial share of the campaign. One component was standard expenditures such as survey research to inform the campaigns and to help identify candidates that match what the people want. This financing began with the 2000 municipal elections, even though commercial farmers were not yet presented as candidates in the PPS. The efforts proved successful as the PPS ran 35 candidates for mayor and won 24.<sup>8</sup> Another large component of Maggi's spending prior to the official campaign was in public relations, essentially marketing himself to the public. They arranged to have reporters from nationally circulating periodicals and newspapers, such as *Veja* and *IstoÉ*, come to Mato Grosso to do stories on Maggi. These helped to advance the image of Maggi as an uncorruptable, serious businessman and entrepreneur, and to improve his name recognition. Maggi comfortably won the 2002 gubernatorial election, earning a majority in the first round of the election.

Once elected, Maggi and the PPS recruited farmers to run for municipal elections. In 2004, they won in 44 municipalities—one-third of the state—and their victories were not limited to only soy-producing regions. Maggi was re-elected comfortably in 2006, and prior to the presidential run-off, broke with his party to endorse Lula. This resulted in his expulsion from the PPS and subsequent switch to the Partido da República (PR, formerly the Partido Liberal (PL), fused with several smaller parties); "his" mayors accompanied him in the party change: 40 of the 44 PPS mayors elected in 2004 left for the PR.

Several personal and institutional motives led to this shift. On a personal level, Maggi allegedly wanted to be the national leader of his political party, and it was clear that this would not be possible within the PPS. It had other strong national figures in the party, and its base, particularly in other

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<sup>7</sup>According to the interviewee who cited this survey, only 2 percent of those surveyed in Rondonópolis knew who Blairo Maggi was. As a result, at the start of the campaign, his name was subject to a variety of mispronunciations, such as "Brailo" or "Balairo"

<sup>8</sup>However, after the 2000 election, the governor, Dante de Oliveira (PSDB), recruited most of the newly elected mayors to his party. All but two deserted the PPS, further highlighting the importance of controlling the governorship as well

parts of the country, would not have accepted one of Brazil's largest capitalists—and public image of Amazonian deforestation—as their leader. Institutionally, Maggi and his constituency had much to gain by allying with the federal government, such as funding for infrastructure projects and rural credit assistance.

While many farmers entered electoral politics as candidates during this period, many others continued the practice of financing campaigns. As one indicator, 20 out of 108 of Mato Grosso's large cotton farmers made donations directly to campaigns in 2002 and 2006, with a total value of nearly R\$1 million. Although these 20 individuals make up less than 0.5 percent of donors in the state, their average contributions were more than three times greater than the state average and nearly five times the national average.<sup>9</sup> While these data are not comprehensive, they are suggestive of the extent to which Mato Grosso's new agrarian elite has chosen to invest resources in electoral politics.

### **Aprosoja**

The Maggi government took clear steps to promote and institutionalize the agricultural sector's political power. The biggest development was the establishment of a soybean farmers' association, Aprosoja, in 2005, funded by a mandatory contribution collected by the state government from all soybean farmers. This sound financial base allowed Aprosoja to establish rapidly a presence in national politics as the voice of grain farmers around the country.

Building on their experience with Ampa, large soybean farmers began organizing to establish an association encompassing all soybean farmers in the state, estimated to number around 5000. A small group began organizing in Rondonópolis in 2004, holding a dozen meetings with farmers across the state's main agricultural regions. The consensus among farmers was that they needed a new association because Famato, the state-level federation of landowners affiliated with the CNA, was not adequately representing their interests. Farmers also agreed that they would be willing to fund it by donating R\$1 per hectare cultivated. The organizers circulated a petition at these meetings and collected around 1500 signatures, a sizeable percentage of the soybean farmers in the state.

Despite the alleged willingness of soybean farmers to contribute to the association, two obstacles persisted. First was a standard free-riding problem. Interviewees believed this to be less of a problem: despite being spread across different regions of the state, the network of large soybean farmers is small—there are few of them, and most share common personal origins and backgrounds. Hence, while there are far more soybean farmers than cotton farmers, the group may still have been small and homogeneous enough such that social sanctions would have been sufficient to minimize free-rider problems. Second was a logistical problem: the nascent association lacked the capacity to assess the membership dues and collect it across the state, and it was believed that the sindicato system was also unable to do so for them.

Facing these challenges, farmers proposed outsourcing their revenue collection and enforcement problems to the state government. The mechanism by which farmers sought to finance their

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<sup>9</sup>Figures based on a comparison of a partial list of individuals and firms registered with the Proalmat program in 2008/09 with campaign finance records.

association involved attaching a small additional percentage onto an existing surcharge on soybeans sold within the state, part of the Fethab (Fundo de Transporte e Habitação – Housing and Transportation Fund) contribution. Created in 2000, Fethab collected a fee on the sale of diesel fuel and on Mato Grosso's primary commodities—soybeans, cotton, cattle, and timber—to fund highway maintenance and housing projects. The farmers' proposal was to increase the amount collected on soybeans and have that extra amount passed on to their association. Even better would be to have the state provide matching funds as well.

This mechanism had three main advantages. First, it resolved the farmers' free-rider and logistical problems: contribution became universal and mandatory, in effect a legally binding obligation. Second, by attaching an extra surcharge onto an existing one, it was relatively easy for the state to implement because it did not require creating an extensive apparatus for collecting taxes from a new source. Third, and critically important, because Fethab is technically not a tax but rather a "contribution," like to the Social Security system or to the sindicatos, exporters are not exempt. Brazil's 1996 Kandir Law exempts goods that are exported from subnational taxes on their circulation, such as the ICMS. Because the vast majority of Mato Grosso's soy is exported, a surcharge linked with ICMS payment would not be collected from most farmers.

The law that eventually emerged in 2006, establishing FACS (Fundo de Apoio à Cultura da Soja – Soybean Support Fund), met the farmers' needs. Unlike the cotton fund Facual, which relied on contributions that are technically voluntary, FACS contributions are mandatory and are collected by the state government. Soybean farmers pay an extra amount when Fethab is collected, an amount that comes out to around R\$1 per hectare.<sup>10</sup> The government also conceded a matching amount that soybean farmers previously paid into Fethab, and the combined R\$2 per hectare passes directly to the privately managed fund.<sup>11</sup> The state tax administration only collects the money for FACS: FACS money does not enter the state budget. In effect, soy farmers outsourced the collection of membership dues to their new association.<sup>12</sup>

As a result of this system of mandatory contributions, Aprosoja received far greater resources than most other farm associations. In its first years, FACS collected around R\$10-12 million per year, depending on the year's soy harvest. As of 2008, Aprosoja directly received its entire operating budget, roughly R\$6 million per year, from FACS. While FACS did fund projects beyond Aprosoja, it was essentially another pool of money from which the soybean farmers' association could draw, given its control over the fund's board. These financial resources allowed them to conduct serious lobbying campaigns in Brasília.

Unlike Ampa, Aprosoja technically formed before it obtained state-assisted funding: it was not formed with the purpose of spending money allocated to the sector. Aprosoja was founded in an assembly in Cuiabá in 2005, with former governor Rogério Salles as the first (interim) president.

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<sup>10</sup>Note that Fethab is not actually computed based on hectares but based on the tons of soybeans transported. But assuming an average yield for the state, it comes out to around R\$1 per hectare.

<sup>11</sup>SEDER has a seat on the board of FACS, but Aprosoja and Famato together control a majority of the board.

<sup>12</sup>Circulating the petition among soybean farmers was part of the strategy of seeking government assistance in financing the organization. Since the contribution became mandatory, the government wanted some evidence that farmers consented to the surcharge. Organizers used the signatures collected to argue that farmers were willing to contribute and that they just wanted state assistance in collecting the dues.

Nevertheless, the distinction is somewhat trivial, for the establishment of Aprosoja and the quest for state financing were conjoined processes. Aprosoja would not have formed without the expectation that the state funding would come through, nor would it have survived without the funding. Aside from the leaders' personal contributions, initial funding came from loans from Famato and Ampa—naturally, since all cotton farmers were also soy farmers. As such, Ampa comprised the elite core of the modern agrarian class, which had an interest in expanding their organization to a broader membership and resource base.

Building on Aprosoja's success, Ampa's funding system changed in December 2008, coming in line with the FACS model. Under the original Facual system, farmers paid to the fund 15 percent of the ICMS tax they would have paid, given their tax exemption under Proalmat. Yet, due to the Kandir Law, exporting farmers did not pay ICMS, so they also did not pay into Facual. As cotton production expanded since 1997 and the share of cotton exported increased from 40 to 60 percent, Facual faced an increasing free-rider problem. Attaching a surcharge to the cotton fund onto the Fethab contribution, as is the case with the soybean fund, resolved this problem. This change, combined with a 2002 broadening of the Proalmat law to allow Facual to spend its resources on a more vaguely defined "interests of the sector" rather than just agricultural research, strengthened the cotton farmers' association as a political actor representing the largest (soybean) farmers in the state.

### Characterizing Brazil's Farm Lobby

When placed in the broader context of rural interest politics in Brazil, the new organizations formed by Mato Grosso's soybean farmers were particularly notable for their capacity to raise money and their desire to invest it in political action. Aprosoja alone had triple the budget of the CNA, Brazil's institutionalized rural lobby. This funding enhanced the lobby's capacity to track legislation and prepare technical reports that support its positions. The funding advantage also ensured that issues of interest to Mato Grosso's soybean farmers—notably, rural credit and debt refinancing—remained a focus of the lobby. Moreover, Aprosoja sought to establish state-level affiliates around the country, which would further reshape the landscape of rural organization.

The CNA was estimated to have an operating budget of R\$2 million a year in 2002,<sup>13</sup> though the size of the CNA's budget is not known with certainty. Unlike the organized-labor sindicatos, the *contribuição sindical* for landowners is no longer collected by the government through the tax system: it is collected by CNA. Initially, when the rural sindicato system was created, Incra,<sup>14</sup> the Brazilian land reform agency, collected the union contribution along with the rural property tax (ITR); the level of the contribution was linked to the assessed land value. Incra was stripped of this authority in 1990, passing to the federal tax administration (Receita Federal), and in 1997, it passed to CNA directly.<sup>15</sup> Because the government does not collect the union contribution, the funds are

<sup>13</sup>"Fim de imposto sindical vai atingir entidades patronais," *Folha de S. Paulo*, 17 Nov. 2002.

<sup>14</sup>Incra was initially called the Instituto Brasileiro de Reforma Agraria, or IBRA.

<sup>15</sup>Law 8022/90 (1990) transferred collection from Incra to the Receita Federal, and Law 8847/94 (1994) specified that the authority of the Receita Federal to collect the contribution expired at the end of 1996. CNA filled the void and assumed collection in 1997, but technically, the CNA only had a legal basis for collecting the contribution following

not subject to the same transparency law that governmental bodies are. In fact, the government is prohibited from requiring sindicatos to declare their budgets and from auditing them.<sup>16</sup>

Thus, estimates of the CNA's finances varied. On the extreme end, some cited a value of R\$180 million per year as the total amount that the organization administered.<sup>17</sup> This likely included both the resources of all levels of the rural sindicato system and the funds of SENAR, the agricultural extension program funded by a separate mandatory contribution, as well as projects that were joint ventures with government agencies, such as the Ministry of Agriculture. The CNA collected the union contributions and distributed them to all levels of the system: 60 percent to the local-level sindicatos, 15 percent to the state-level federations, 20 percent to the Labor Ministry (Ministério de Trabalho), and 5 percent stayed with CNA. Hence, while the CNA's direct budget may only have been R\$2 million, it likely had influence over the spending of a larger amount.

Based on these figures, I estimate the budget of FAMATO, the state-level federation in Mato Grosso, at around R\$700,000 per year, and the total resources of all sindicatos in the state of Mato Grosso at less than R\$3 million.<sup>18</sup>

Hence, with a combined revenue pool of roughly R\$20 million per year, the creation of the cotton and soybean farmers' associations in Mato Grosso had a dramatic effect on the resources available to the rural sector's political activities. FACUAL, the cotton fund, generated around R\$8–10 million per year, and FACS, the soybean fund, brought in R\$10–12 million, depending on the size of the harvest. The majority of this money went directly to their respective associations, Ampa and Aprosoja. With Aprosoja having an annual operating budget of around R\$6 million, it was two to three times better funded than CNA, and it had more money than the entire sindicato system in the state of Mato Grosso.

The remainder of the FACS and FACUAL money went to support complementary activities, many of which had political relevance. For example, both financed IMEA (Instituto Mato-Grossense de Economia Agropecuária), which formerly had been FAMATO's understaffed research office and was spun off as a separate entity giving technical research support for the various rural organizations' actions, including lobbying. FACS provided R\$400,000 per year to Aprosoja Brasil, the national-level lobby office and umbrella organization created by Aprosoja; FACS money provided the vast majority of the national organization's independent budget. Moreover, Mato

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Law 9708/98, passed 17 November 1998. This law is important because it provides the basis for the CNA to sue landowners who fail to pay the contribution—that is, even though the CNA directly collects its own revenues, it retains its status as a universal, mandatory association. See <http://www.todafruta.com.br/portal/icNoticiaAberta.asp?idNoticia=842>.

<sup>16</sup>Sofia, Julianna, "País ganha um novo sindicato a cada dia," *Folha de S. Paulo*, 4 Jan. 2004.

<sup>17</sup>cf. Patroni, Luiz, "Discussão sobre contribuição sindical obrigatória volta à tona em função das eleições da CNA," *Canal Rural*, 27 June 2008, <http://www.canalrural.com.br/canalrural/jsp/default.jsp?action=noticias&id=2006365>, accessed 16 Aug. 2010.

<sup>18</sup>Based on the allocation of the union contribution within the federal system, if the CNA keeps R\$2 million, the federations have a combined R\$6 million. Using data on agricultural land area from the 1995/96 Agricultural Census and state-level average land value data from 2008, I estimate Mato Grosso's share of the R\$6 million to be R\$660,000. Local-level sindicatos receive four times the amount that the federations get. Land value data come from a study by the consultancy AgraFNP (<http://www.agrafnp.com.br/publicacoes/2>), cited in <http://www.agroplante.com.br/noticias.php?id=315>.

Grosso's soybean farmers were among the three groups financing the rural congressional caucus, the Frente Parlamentar da Agropecuaria (FPA).<sup>19</sup>

As the flagship of Mato Grosso's farm organizations, Aprosoja was particularly relevant because of its focus on national politics.<sup>20</sup> Additionally, while it did form in opposition to what was perceived to be ineffective and unresponsive leadership and organizations, Aprosoja is best viewed as part of the broader rural lobby, rather than a totally separate organization. It has made use of the existing structures, complementing more than rivaling. It was housed in the *sindicato* office space at the national, state, and local levels. Importantly, commercial farmers used Aprosoja as a vehicle for ascending within the *sindicato* system itself, taking control of Famato and renovating the organization to be more politically active and responsive to their demands. Viewed as part of Brazil's farm lobby, the creation of Aprosoja provided a major increase in the lobbying capacity, directly and indirectly subsidizing the activities of the CNA and the FPA. Moreover, because of its financial advantage, it also shifted the priorities of the farm lobby, particularly intensifying demands for debt restructuring.

### 5.3 Explaining the Pattern of Organization

Why did Brazil's farm lobby evolved in this way? On the one hand, Brazil's historical legacy and its national political institutions may appear most important, particularly when compared cross-nationally. Relative to Argentina, it is perhaps not surprising that Brazilian farmers are better organized. Brazilian landowners have a history of organizing politically, whether for federal subsidy programs or against land invasions, and through the official corporatist *sindicato* system, they have an organizational framework in place—one that involves compulsory contributions from its members. Moreover, the landed elite historically had longstanding links with conservative (or ideologically flexible) political parties, facilitating their access to political power (Nunes Leal 1977).

Moreover, seeking political power at the state level is a reasonable strategy in Brazil. Ample research has examined how Brazil's federal institutions privilege the state level as the locus of power. As Abrucio (1998) and Samuels (2003) contend, governors exercise significant control over federal deputies and mayors. Consequently, "the president often deals directly with governors, not deputies, when doling out politically valuable pork-barrel resources in exchange for support

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<sup>19</sup>In an interview, a top FPA official declined to reveal their funding sources. The role of Aprosoja/FACS was cited by other interviewees and not denied by the FPA. The FPA is the official organization of the rural caucus, which informally is known as the *bancada ruralista*, though the two labels are not entirely synonymous.

<sup>20</sup>Other associations existed that brought together farmers and landowners, but they were less central to national agricultural policymaking. The Organization of Brazilian Cooperatives did engage agricultural policy, but the majority of its activities centered on other sectors. Other organizations formed in Mato Grosso, yet they were smaller and less engaged with national politics. ACRIMAT, the cattle ranchers' association of Mato Grosso, was founded in 1970 but had very limited activities, focused primarily on the community needs of ranchers around the capital city, Cuiabá. In 2007 it received a boost in funding from the creation of FABOV (Cattle Support Fund), established along with FACS, and in 2008 the organization restructured, revising its institutional charter and moving its headquarters from the city exposition grounds to the FAMATO building, along with Aprosoja and Ampa. FABOV generated around R\$3 million per year, but interviewees stated that unlike Aprosoja in particular, Acrimat was far less oriented toward national politics

within the legislature” (Samuels 2003: 5). Hence, despite the fact that agricultural policy is entirely determined at the national level, having a power base at the state level can be useful.

However, the subnational variation within Brazil in the level of rural organization suggests that history and national political institutions alone are insufficient explanations. Similarly well-financed, technically-skilled lobby groups have not formed outside of Mato Grosso. Indeed, Aprosoja attempted to spread its associational model to other soy-producing states with only limited results. Upon its creation as a state-level association, Aprosoja was compelled to create a national-level umbrella organization, Aprosoja Brasil, because the Finance and Agriculture ministries were only interested in talking to national organizations, not state-level groups. Aprosoja sought to colonize other states to create the semblance of universal representation of all soy farmers, as well as to share the financial costs of maintaining a national lobby. With the Mato Grosso group’s help, Aprosojas formed on paper in Mato Grosso do Sul, Rio Grande do Sul, Piauí, and Pará, though they lacked both an active presence in politics and the ample, state-supported funding found in Mato Grosso.<sup>21</sup> Hence, the rural mobilization in Mato Grosso is exceptional among Brazil’s states, which share the same political institutions.

Moreover, many of the historical legacies of rural political organization vary subnationally in ways that would predict an opposite pattern of contemporary political action. Mato Grosso does not figure in the history of Brazil’s landed elite and their political power: its agricultural revolution is a recent phenomenon. At the landed elite’s recent peak in national political organization and influence, during the debate over the 1988 constitution, Mato Grosso was not yet a major agricultural producer. Furthermore, reliance on traditional conservative parties did not bring Mato Grosso’s soybean elite in Mato Grosso to power. In fact, commercial farmers first entered state-level electoral politics, winning the governorship in 2002, as part of the PPS, the former Brazilian Communist Party.

Additionally, the pre-existing political organizations of the rural elite did not drive the mobilization in Mato Grosso. Neither the national-level rural congressional caucus nor the sindicato system attempted to spread its influence to the agricultural frontier. Rather than a top-down process, Mato Grosso’s large farmers organized from the bottom up, seized state power, and leveraged that influence up to the national level. To the extent that the *bancada ruralista* and the sindicato system provided an incentive for farmers to organize in Mato Grosso, it was to take over and revitalize these organizations, which lacked either the capacity or the will to achieve their political goals.

Instead, the rise of new farm associations in Mato Grosso suggests two main conclusions. First, the economics of agriculture in Mato Grosso made for greater individual returns to collective political action while also reducing obstacles to organization. Market structures, growing out of the rural laws of the 1960s, played a large role in shaping the concentrated model of production that was established in the state, encouraging and facilitating political investment. Second, Brazil’s institutions of federalism allowed Mato Grosso’s rural elite to harness their favorable capacity to organize in order to capture state-level politics as a means to shaping national-level policy. The

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<sup>21</sup> Attempts to create an association in Bahia broke down due to internal strife among the state’s few soybean farmers.

state boundary defined a unit in which agriculture was relatively more preponderant economically and in which farmers were much more concentrated. In addition, the division of responsibilities across the levels of government in Brazil facilitated the formation of an alliance between the subnational state and farm interests in lobbying the federal government for subsidies.

### **Economic institutions**

The role of organizational incentives provided by the state government was important in the formation of the new rural associations in Mato Grosso; however, farmers' ability to resolve their collective action problems was of prior importance. Farmers organized with the explicit goal of seeking public support, but this support was only offered after it was requested. With Aprosoja, for example, organizers were required to demonstrate broad support among soybean farmers for the new association and mandatory contribution, collecting the signatures of around 30 percent of all soy farmers across the state. Only when farmers could present themselves as organized and legitimate would their new association receive state support.

Rural economic structure facilitated elite collective action in Mato Grosso relative to other top agricultural states in several ways. For one, despite the fact that Mato Grosso was Brazil's top soybean-producing state, it had far fewer farmers than other leading producers. Aprosoja claims that Mato Grosso had around 5,000 soybean farmers. In contrast, there were an estimated 300,000 soy farmers in Rio Grande do Sul.

For another, landholdings were much more concentrated in Mato Grosso. As Figure 5.2 shows, properties are on average much larger in the Center-West region, and especially in Mato Grosso. The average property size in the state of Mato Grosso was 768.8 hectares—the highest in Brazil—much greater than the national average of 115.8 hectares and the averages in the southern soybean-producing states of Rio Grande do Sul and Paraná, both around 40 hectares (Hoffmann 1998: 4). The divergence is even greater when considering only soybean farmers. Based on the estimated numbers of producers and the total area of soybeans planted, Mato Grosso's soy farmers on average possessed more than 1000 hectares,<sup>22</sup> while the average size of soy farmers in Rio Grande do Sul was less than 15 hectares. That is, the average soybean farmer in Mato Grosso was around 75 times larger than his counterpart in Rio Grande do Sul. Even compared with the primary grain-producing region of the US, the midwestern "Corn Belt," which had an average farm size of 120–150 hectares (Schnepf, Dohlman and Bolling 2001: 13), Mato Grosso's farms were massive.

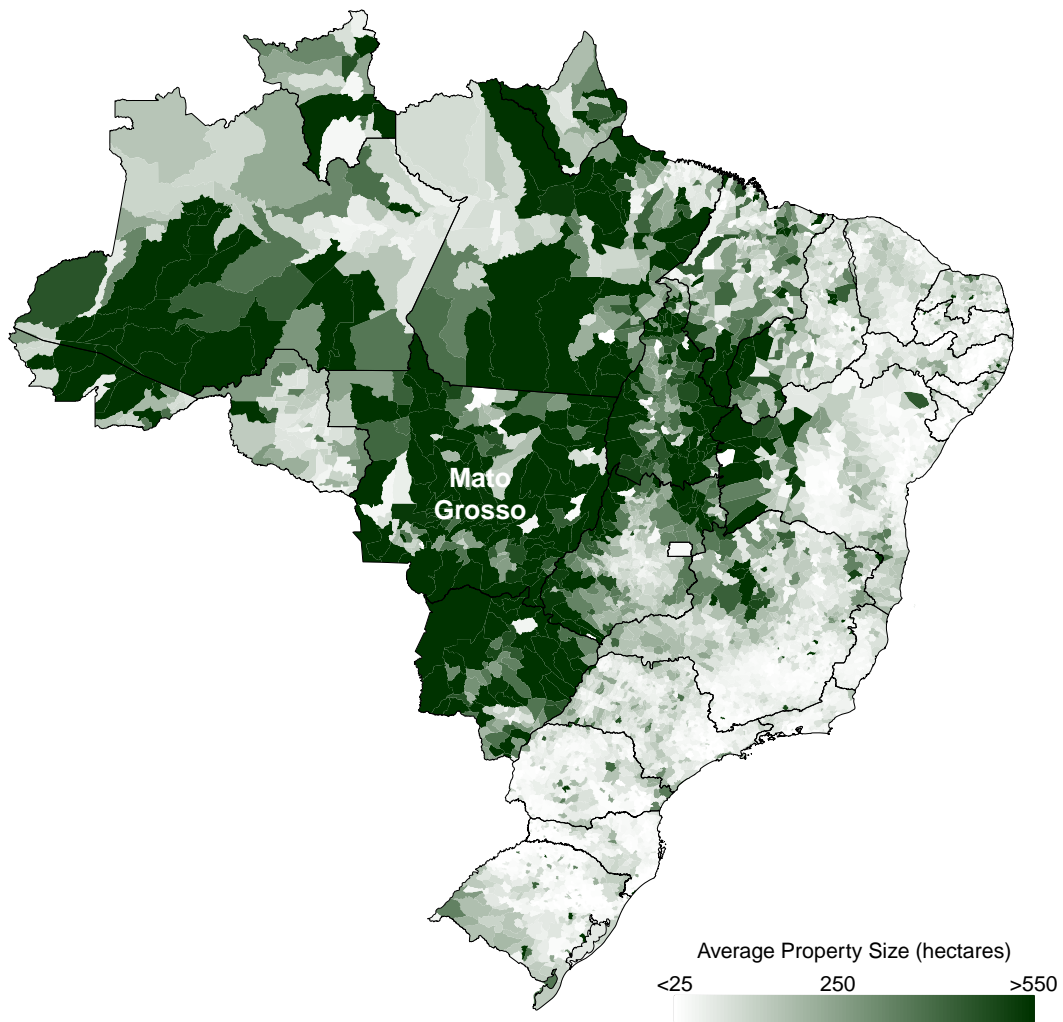
A small number of large producers is not necessarily conducive to organization. If they are geographically dispersed, it may be more difficult for them to organize. Dispersion of farmers is a common obstacle to rural organization (Bates 1981), and it was a logistical concern cited in interviews with soy farmers as a reason for seeking a state-assisted funding mechanism for their organization.

However, despite the large size of the state and the low number of producers, they were not widely dispersed across the state. Soy production was centered in a small number of Mato Grosso's

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<sup>22</sup>Schnepf, Dohlman and Bolling (2001: 13) find that two-thirds of farms in the *cerrado* region have over 1000 hectares.

Figure 5.2: Average Rural Property Size, by Municipality



Note: Author's elaboration of data from Hoffmann (1998).

141 municipalities as the map in Figure 5.3 illustrates. Furthermore, as Figure 5.4 shows, production in Mato Grosso was notably more concentrated in municipalities than in other leading grain-producing states. The top nine soy-producing municipalities (6.3 percent of municipalities) were responsible for half of Mato Grosso's output, and 75 percent came from the top 20 (14 percent). Correspondingly, Mato Grosso had a higher Gini coefficient of the concentration of production (0.802) than both Rio Grande do Sul (0.721) and Paraná (0.606).<sup>23</sup>

Cotton farmers, the elite of the soybean farmers, were fewer and number and even more geographically concentrated. Of the 455 cotton farmers (individuals and companies) registered as members of AMPA, nearly half (220) lived in only three neighboring municipalities: Campo Verde (89), Primavera do Leste (73), and Rondonópolis (58).<sup>24</sup> The proximity of these municipalities to each other—and to Cuiabá—facilitated their political organization.

In sum, differences in the structure of agriculture in Brazil's top grain-producing states shaped the prospects for elite farmers to organize. The relatively large size and small number of soybean farmers in Mato Grosso facilitated their organization, as theorized by Olson (1985). Indeed, the relevance these group characteristics is apparent in the trajectory of commercial farmers' organization in Mato Grosso. Smaller, more elite groups organized first: when Ampa was founded, there were no more than twenty cotton farmers in the state, they were geographically concentrated, and by necessity—mechanized cotton farming is highly capital-intensive—they were among the largest of the large farmers. Building on this core, and using the state to resolve potential free-riding problems among the larger group of soybean farmers, the agrarian elite expanded their organizational activities. They then attempted to use their base in Mato Grosso to organize grain farmers nationally. The mobilization was cumulative, building on the successful efforts of each prior, more narrow organization.

Why was agriculture in Mato Grosso more large-scale and concentrated? As discussed in the Argentine case in Chapter 3, rural market institutions shaped the model of production that emerged in Brazil. Rural land, labor, and credit policies of the 1960s, designed to pacify peasant mobilization and increase agricultural production without agrarian reform, had the not-so-intended consequence of destroying markets for land rental and sharecropping and making rural labor more costly (Rezende 2006b).<sup>25</sup> In particular, the goal of the 1964 Land Statute (Estatuto da Terra) was to eliminate the radicalized conflict between landless peasants and traditional landlords (*latifundiários*), creating a pacified countryside in which only landowners—including agrarian reform beneficiaries—cultivated.

Several components of the statute worked to cripple land rental markets. In restricting the types of rental and sharecropping contracts allowed, ostensibly to protect peasants from rapacious

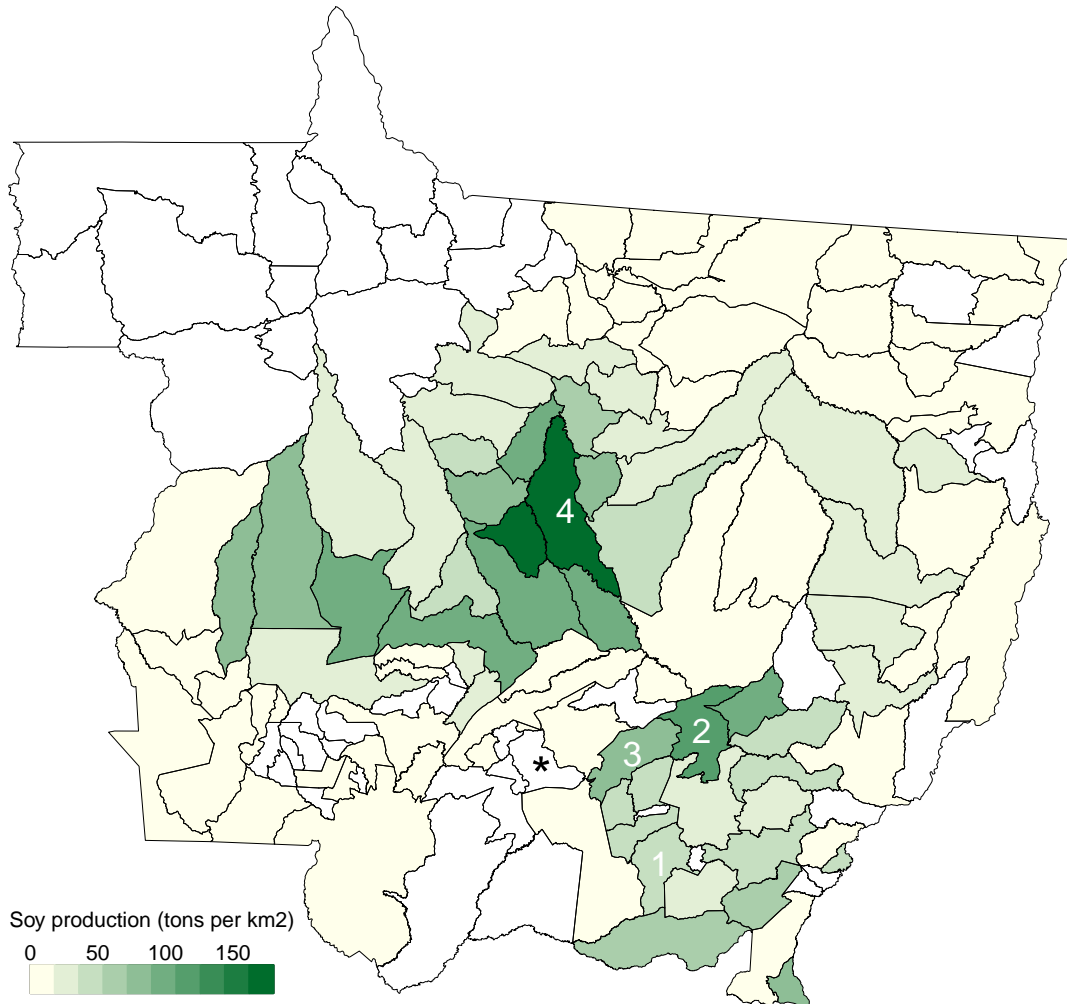
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<sup>23</sup>A Gini coefficient of 0 corresponds to the most equal distribution—in this case, that all municipalities produce the same quantity of soybeans—and 1 corresponds to the most unequal, in which one municipality produces all of the state's soybeans.

<sup>24</sup>Author's analysis of AMPA membership data collected in 2009 from <http://www.ampa.org.br/>.

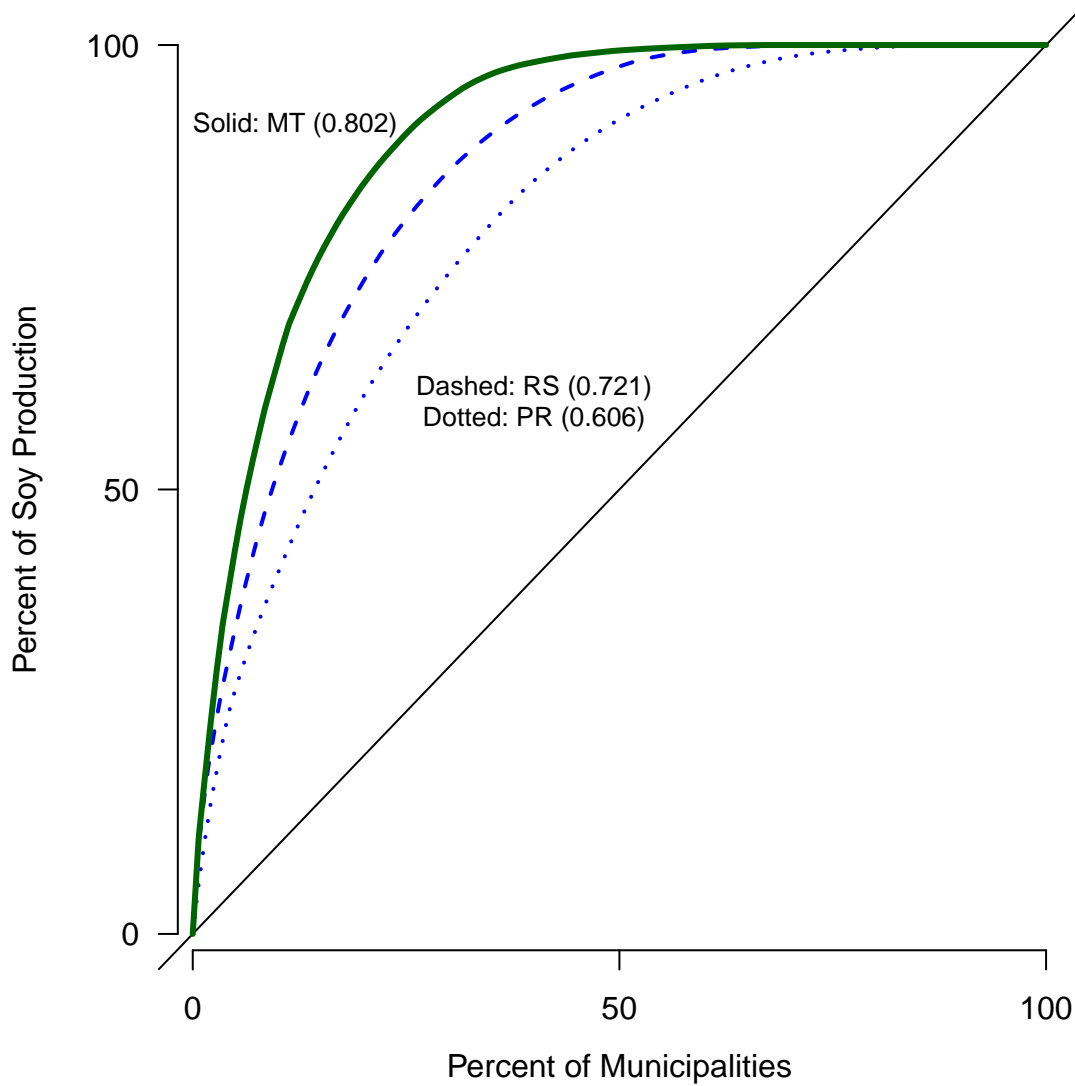
<sup>25</sup>Though not explicitly the goals of the policies, these effects were perhaps not totally unintended. If the intent was to promote a conservative modernization of the countryside, eliminating the radicalized rural landless and ensuring that all agricultural producers were property owners, eliminating markets for tenancy, sharecropping, and farm labor is one way to accomplish that goal.

Figure 5.3: Soybean Production in Mato Grosso



Note: 2007 soybean production per square kilometer of land in the municipality. Key: 1 = Rondonópolis; 2 = Primavera do Leste; 3 = Campo Verde; 4 = Sorriso; star indicates the capital city, Cuiabá. Author's elaboration of data from IBGE, *Produção Agrícola Municipal*

Figure 5.4: Concentration of Soybean Production in Municipalities



Note: Cumulative share of 2007 soybean production (in metric tons) across each state's municipalities. Gini coefficients of concentration of production in parentheses. Author's elaboration of data from IBGE, *Produção Agrícola Municipal*

landlords, the law served to restrict the formation of rental contracts. Like in Argentina, the tenancy restrictions destroyed traditional landlord-tenant relations; however, unlike Argentina, a new market for flexible land contracts did not emerge. Land rental markets failed to emerge in large part because the Land Statute incorporated the concept of adverse possession: tenants occupying land for five years may benefit from land reform. This threat of expropriation destroyed the rental market: rather than run the risk, landlords abandoned tenancy contracts.

Furthermore, given the statute's statement that land must fulfill its "social function," large landowners engaged in production themselves rather than leave their land idle and risk expropriation (Rezende 2006a: 17–21). These large landowners could not cultivate their expansive landholdings alone. However, rural labor law made wage labor costly. The 1963 Rural Workers' Statute (*Estatuto do Trabalhador Rural*) and subsequent complementary laws extended the Vargas-era corporatist system of labor relations to the countryside. Landowners had previously resisted their application to the rural sector, yet at this point they acceded to them in hopes that the CLT would bring rural unions and peasant leagues under government control, as it had the urban labor unions (Rezende 2006a: 8). But, this increased the bureaucratic costs of hiring workers, if not the actual wage burden of employers. In response, temporary, unskilled farm labor needs were satisfied outside the official system as informal labor. The remaining labor problem was solved through mechanization: subsidized credit targeted to large landowners, instituted in 1965, allowed them to increase production and thus avoiding the threat of expropriation espoused in the Land Statute. Unlike in Argentina, smallholders were locked out of this cheap credit market due to regulations preventing small family farms from serving as collateral, ostensibly to protect subsistence farmers from foreclosure.

In sum, the burden of labor legislation and availability of cheap credit for machinery led to overmechanization of landowners and weak labor markets. The threat of expropriation destroyed land rental markets and encouraged the cultivation of the land directly by the landowner. Small landowners were largely unable to adopt new machinery and increase their scale due to credit restrictions inhibiting their purchasing of tractors and more land, as well as due to land rental and agricultural service market failures. Without rental markets, increasing the scale of production and adopting new technology required farmers to invest more capital in fixed investments. To meet this need, the government supplied ample subsidized credit, allowing landowners to mechanize more easily and helping many buy large tracts of land on the agricultural frontier, in places like Mato Grosso.

This institutional environment encouraged the concentration of production and landownership, facilitating collective action by reducing group size. These market failures further increased the attractiveness of investing in political action. Economic investments are more costly in the context of failures in the markets for production inputs. Increasing scale and productivity typically require substantial outlays of capital into fixed investments of land and machinery. Since economic investments are more costly, political investments are hence relatively more attractive. Moreover, when the state provides credit needed to make productive investments, engaging the political process is made additionally valuable.

Interestingly, Rezende (2006a: 23) observes that in southern Brazil, family farms were not completely shut out of credit markets as they were elsewhere, speculating that more clearly-defined

land property rights or stronger social networks of European immigrant families blunted the effect of the land, labor, and credit policies there. The different market structures that evolved there—Brazil's other primary soybean-producing region—may help account for the subnational variation in rural political organization in Brazil.

Within this context of these rigid market structures, geographic and agronomic factors contributed to the acute concentration of agricultural production in Mato Grosso. First, the flat, cerrado terrain and soil type is conducive to mechanized agricultural production, as Warnken (1999) and others note. Because tractors can cover open expanses of land, large-scale production is facilitated. While the technology used has no necessary relationship with the scale of production, and specifically of land ownership—as Rezende (2006a: 31) observes and the Argentine case confirms—Brazil's rural market failures entailed that mechanization and large-scale landholdings developed together in Mato Grosso.

Second, farmers faced high costs in transportation and fertilizer, which disproportionately penalized small farmers. As for transportation, being in the center of the South American continent, farmers in Mato Grosso are about as far as possible from their export ports; soybeans from most of the state travel great distances by truck over rough roads to ports in southern Brazil. In 1998/99, average transportation costs from Mato Grosso were over 50 percent higher than those facing farmers in Paraná (US\$49 versus \$31 per ton), 160 percent above the average in Argentina, and over 400 percent greater than in the US (Schnepf, Dohlman and Bolling 2001: 14, 57). As of July 2010, the cost per ton of trucking soybeans 2,200 km from Sorriso—Brazil's biggest grain-producing municipality, located in the north-central region of Mato Grosso—to port in Paranaguá, Paraná, was R\$182.50; traveling the 1,600 km from Rondonópolis to Paranaguá, a ton cost R\$137.50.<sup>26</sup> These transportation costs translated directly into lower prices received by producers in Mato Grosso. At 2010 prices, transportation costs caused the producer price in Sorriso to be about 25 percent lower than the FOB price at Paranaguá. These costs tightened the margins of Mato Grosso's farmers, encouraging larger scale of production in order to reduce their unit costs.

Additionally, the cerrado soils require large quantities of fertilizers and other inputs to allow soybean farming. The prices of these inputs are magnified by the high transportation costs, and large producers can save money by purchasing them in bulk. According to IMEA, farmers cultivating over 10,000 hectares could receive discounts of up to 20 percent in the price of inputs.<sup>27</sup> Hence, producing on a larger scale could yield cost reductions that compensate for the high transportation costs.

Third, Mato Grosso's position on the agricultural frontier facilitated the appropriation of large properties of land suitable to modern, mechanized agribusiness. As Rezende (2002) argues, low land prices favored the emergence of large landholdings in the cerrado. Because of the distance to port and the low quality of the land (without chemical correction), land was relatively cheap in Mato Grosso. Analyzing data going back to the 1970s, Rezende (2003: 1) notes that land prices in Rio Grande do Sul have been consistently over three times more expensive than in Mato Grosso, and land in Paraná even more costly. In 2008, at the peak of the commodities boom, the price per

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<sup>26</sup>IMEA, *Boletim Semanal da Soja* no. 113, 30 July 2010.

<sup>27</sup>IMEA, "Concentração da Produção da Soja em Mato Grosso," 9 Aug. 2010.

hectare of land in the Center-West region as a whole still cost 40 percent as much as land in the South region.<sup>28</sup> Relative to the fertile Corn Belt of the midwestern US, land in Mato Grosso was one-tenth as expensive (Schnepf, Dohlman and Bolling 2001: 56). Consequently, when farmers moved to the state from southern Brazil, they commonly sold small plots of land back home and bought vastly larger properties in Mato Grosso with the same money.

### **Federal institutions**

Finally, state boundaries further helped soybean farmers enter electoral politics. For one, subnational boundaries define groups that differ in their organizational capacity than at the national level. As discussed above, farmers in Mato Grosso were well positioned to organize as a result of their economic and geographic concentration.

The subnational borders also divided two other factors of relevance to soybean farmers' capacity to organize politically: population and GDP. The rapid growth of the agricultural sector in Mato Grosso, coupled with the state's low population, made electoral success for the well-financed rural elite less costly. Campaign finance was critical because as a section of the electorate, soybean farmers and their families are not large enough to be dominant, despite the fact that the agricultural boom has been accompanied by a notable wave of migration from southern Brazil. While soybean farmers may number only around 5,000, migrants from the South more generally number over 420,000, or 15 percent of the state's population (SEPLAN 2006: 76). Although this group could be an important, previously untapped segment of the electorate for politicians to court, it alone is too small to dominate state politics. Yet, it ended up exercising disproportionately great political power in the state, holding the governorship and a third of mayoral offices.

In order to overcome this demographic disadvantage, soy farmers in Mato Grosso invested heavily in campaign finance, attempting to use their cash advantage to sway urban voters. This effort was most pronounced in the 2002 gubernatorial race, the soy farmers' first direct electoral competition. The campaign of Blairo Maggi for governor had a staggering financial advantage over his rivals. As Table 5.1 illustrates, Blairo received R\$10.4 million in donations to his campaign in 2002, worth R\$8.50 per Mato Grosso voter. His main opponent, Antero Paes de Barros, raised less than R\$0.33 per voter. That is, Blairo's campaign had over 25 times more money with which to persuade the electorate.

Importantly, the table also reveals how campaign finance dollars went farther in Mato Grosso than in other grain-producing states. Gubernatorial candidates in other states lacked both the per-capita funding and the spread over their opponents. Blairo retained his financial advantage over his opponent in 2006, though his fundraising stood out less relative to other grain-producing states. The 2002 campaign was different in that the soy elite were the outsiders, while in 2006, they had access to resources from state and local governments by virtue of their incumbency—not to mention a record of governing on which to run.

Blairo Maggi's campaign-financial advantage derived primarily from farmers and their families

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<sup>28</sup>“Grãos impulsionam preços da terra em Mato Grosso,” <http://www.agroplante.com.br/noticias.php?id=315>.

Table 5.1: Campaign Finance in Brazil's Top Grain-Producing States, 2002 and 2006

	Vote Share	Donations (R\$)	R\$ per Voter
<i>2002 Gubernatorial Elections</i>			
<b>Blairo Maggi (PPS–MT)</b>	<b>50.7</b>	<b>10,392,917</b>	<b>8.50</b>
Zeca do PT (PT–MS)	48.3	6,526,421	6.19
Marconi Perillo (PSDB–GO)	51.2	9,185,274	3.61
Marisa Serrano (PSDB–MS)	42.4	1,525,125	1.45
Álvaro Dias (PDT–PR)	31.4	4,761,182	0.93
Roberto Requião (PMDB–PR)	26.2	3,619,762	0.70
Tarso Genro (PT–RS)	37.3	3,711,823	0.63
Germano Rigotto (PMDB–RS)	41.2	3,083,662	0.52
<b>Antero Paes De Barros (PSDB–MT)</b>	<b>29.5</b>	<b>401,562</b>	<b>0.33</b>
Maguito Vilela (PMDB–GO)	32.8	815,370	0.32
<i>2006 Gubernatorial Elections</i>			
<b>Blairo Maggi (PPS–MT)</b>	<b>65.4</b>	<b>9,468,073</b>	<b>6.71</b>
André Puccinelli (PMDB–MS)	61.3	7,164,928	6.05
Alcides Rodrigues (PP–GO)	48.2	15,734,459	5.77
Delcídio Amaral (PT–MS)	38.0	4,203,864	3.55
Roberto Requião (PMDB–PR)	42.8	12,904,992	2.38
Maguito Vilela (PMDB–GO)	41.2	6,337,136	2.32
Osmar Dias (PDT–PR)	38.6	7,177,879	1.32
Olívio Dutra (PT–RS)	27.4	6,487,446	1.05
Yeda Crusius (PSDB–RS)	32.9	6,231,012	1.01
<b>Antero Paes De Barros (PSDB–MT)</b>	<b>19.8</b>	<b>1,050,182</b>	<b>0.74</b>

Note: Table includes the top two vote-receiving candidates in each of the five leading soybean-producing states. Donations per voter is based on the number of valid votes cast in the gubernatorial election. Author's elaboration of data from TSE.

who migrated to Mato Grosso from southern Brazil. Campaign finance records allow us to identify the region of birth of individual donors.<sup>29</sup> While southerners comprise roughly 15 percent of the state's population, they donated 55 percent of the individual campaign contributions in 2002, a total of R\$7.6 million.<sup>30</sup> The *gaúcho* money went disproportionately to Maggi's party, as 72 percent of donations from southerners went to the PPS. Indeed, Maggi's campaign was completely dominated by this group: 96 percent of donations from individuals to the Maggi campaign in 2002—R\$ 5.3 million—came from people born in Brazil's three southern states.<sup>31</sup>

The rapid growth of commercial agriculture in the state expanded the pool of resources available to the soy elite for political action. Commercial agriculture has rapidly become Mato Grosso's primary economic activity, and relative to other states, it is much more central to the economy. As Figure 5.5 shows, since 2002 the share of Mato Grosso's economy for which agriculture is directly responsible is over 25 percent, roughly five times greater than the national share and even far greater than in the other main soy-producing states. Moreover, agricultural growth has far outpaced both the population and the expansion of the non-agricultural sectors of the state economy. Agricultural income increased fourfold in the decade of 1995–2005, while non-agricultural income doubled during the same period. Given the steady but much lower population growth, agricultural income per capita—and per voter—increased sharply.

While this increasing economic importance of agriculture could lead state politicians to want to tax it, promoting agriculture may be in the state's general interest. Because agriculture corresponded to a large share of the state economy and was linked with an even greater share, both employment and subnational tax bases depended—directly or indirectly—on agriculture, despite the low labor-intensity of modern agriculture and the 1996 federal Kandir Law that exempted exports from all taxes. The power of this “interest of the state” in motivating politicians to carry out the wishes of the rural elite is limited, however, and the volume of money invested in electoral campaigns by soybean farmers suggests that they were unconvinced that state politicians would act accordingly. Indeed, many politicians and rural leaders interviewed in Mato Grosso asserted a belief that if an economic class did not have its own elected representatives, it would have no political voice because politicians do not seek to advance the common good.

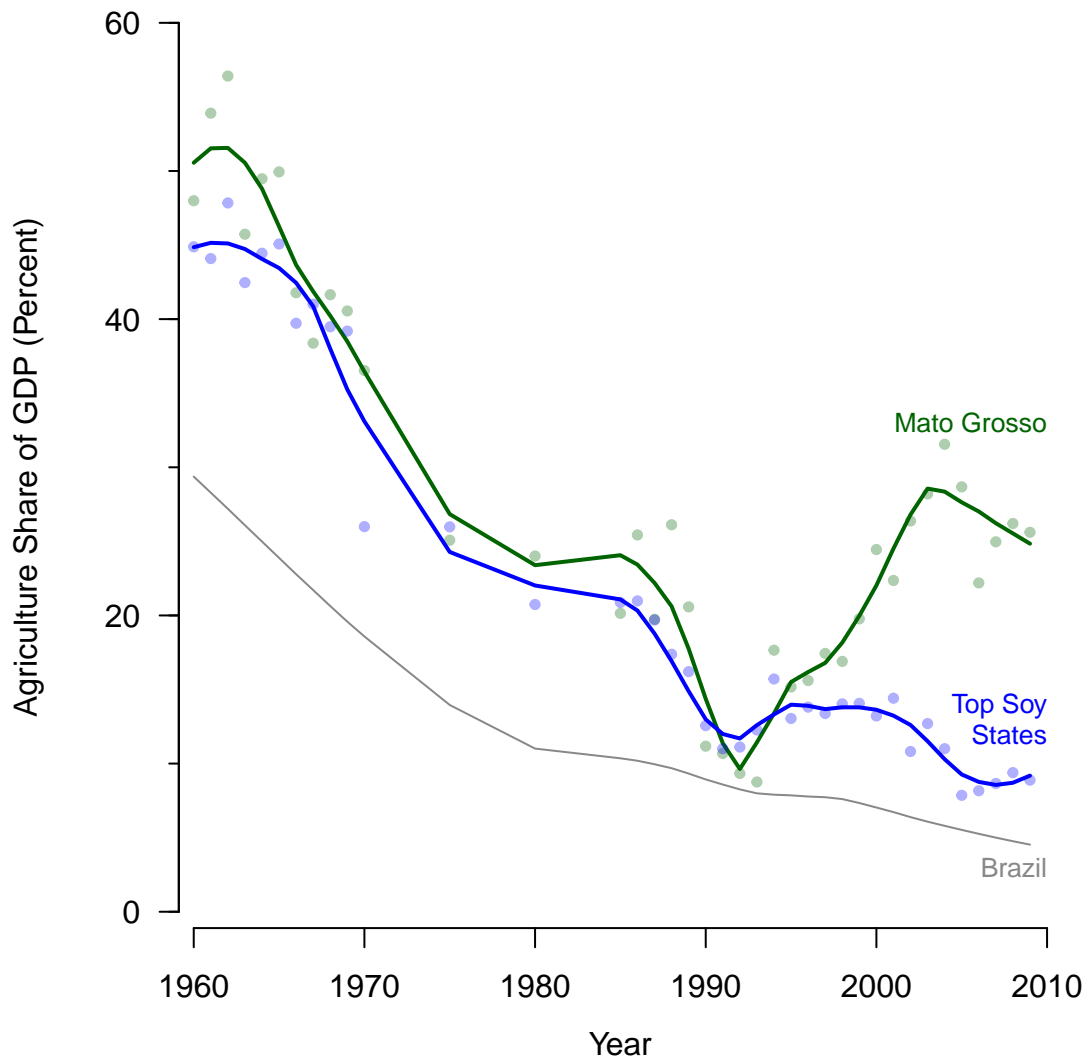
Although agriculture is a seemingly unlikely sector for state-level organization because all relevant policies are decided at the national level, given the importance of governors within Brazil's federal institutions, it is perhaps not surprising that large farmers sought to dominate state-level electoral politics in Mato Grosso. Indeed, bargaining with the president for support was a key result obtained by the Maggi government. In one notable, public episode, after the first round of the 2006 elections, Blairo agreed to support Lula in the presidential run-off. In exchange, the government then authorized the release of R\$1 billion in subsidized credit to finance the year's soy

<sup>29</sup>The ninth digit of a donor's identification number (CPF) corresponds to his or her state of birth. Individuals born in Rio Grande do Sul have 0 for the ninth digit, and those born in Santa Catarina and Paraná have a 9.

<sup>30</sup>Overall, money from *gaúchos* comprised 27 percent of the state's total donation pool in 2002 when including corporate donors, which cannot similarly be identified by the state of birth of their owners.

<sup>31</sup>*Gaúchos* also provided over half of the individual financing to the re-election campaign of Jonas Pinheiro (PFL)—the longtime supporter of elite rural interests, whom Maggi had previously backed financially—to the national Senate. The PPS did not run their own candidate for Senate against Jonas.

Figure 5.5: Agricultural Share of GDP



Note: “Top soy states” includes Goiás, Mato Grosso do Sul, Paraná, and Rio Grande do Sul, the states ranking second to fifth in soybean production behind Mato Grosso. Source: IBGE

harvest.<sup>32</sup> While an unpopular move with many commercial farmers, Maggi defended his decision, arguing that—because all of agribusiness was backing Lula’s rival, Geraldo Alckmin—unless he supported Lula, the sector would lack someone who could negotiate with the government should Lula prevail.

Presumably also part of the deal to get Maggi to join the ruling coalition, the Lula government agreed to place Luiz Antônio Pagot, Maggi’s right-hand man, in charge of Dnit (Departamento Nacional de Infra-Estrutura de Transportes – National Infrastructure and Transportation Department), the agency that implements highway and other infrastructure projects. Controlling the highway department could yield benefits for Mato Grosso’s commercial farmers given the high transportation costs they face in exporting their crops.<sup>33</sup> Hence, although subnational offices do not formally have many competences that affect the profitability of commercial agriculture, the nature of power dynamics in Brazil’s federalism confer them with influence on national-level policymaking.

The importance of this federal bargaining varies across states. While pursuing pork may be a universal concern, not all states benefit equally from federal transfers. Some states receive a greater share of their budgets from federal transfers, while others are net losers from Brazil’s fiscal federalism. Was Mato Grosso’s position within the federal system sufficiently distinct so as to induce such a special relationship between the state government and agrarian elites? On the one hand, Mato Grosso’s public finances did not appear to be more dependent on federal transfers than average. By the 2000s, Mato Grosso depended on federal transfers for one-fourth of the state budget, very near to the national average. Mato Grosso relied slightly more on federal transfers than the other top soybean-producing states—Paraná, Rio Grande do Sul, Goiás, and Mato Grosso do Sul—for the southern states were more affluent. However, Mato Grosso received a far smaller share of its revenue from transfers than all states in the poorer North and Northeast regions of Brazil. Moreover, decades ago when federal transfers were a larger share of Mato Grosso’s budget, state politicians did not support commercial farmers to the degree seen since 2002.

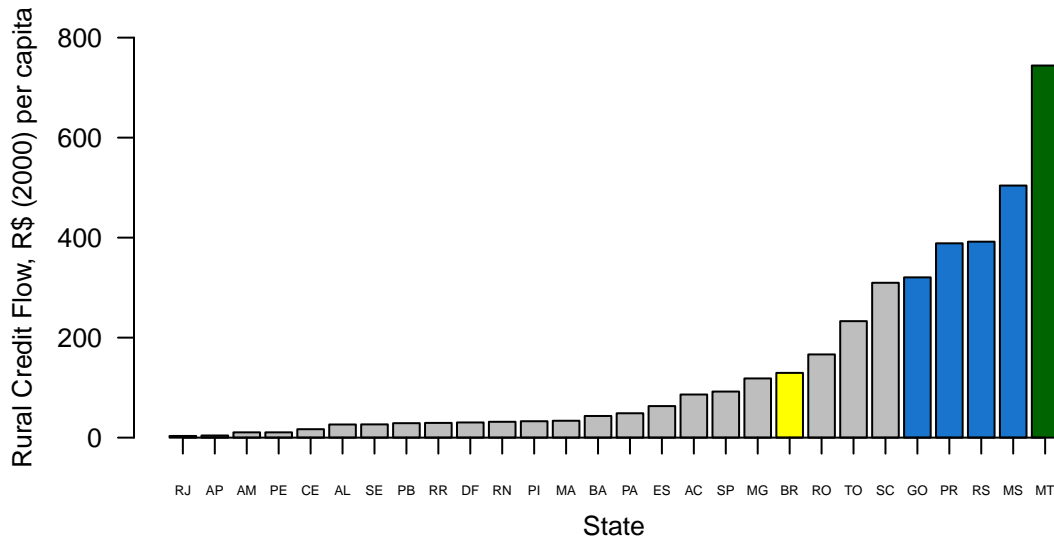
On the other hand, much of the federal money that supports agriculture and other sectors does not pass through the subnational governments, instead passing through the Banco do Brasil to the private sector in the form of subsidized credit. On a per-capita basis, as Figure 5.6 reveals, Mato Grosso was by far the biggest recipient of rural credit. R\$744.24 (in real currency indexed to the year 2000) per resident flowed to the state in 2003, over five times the national average. Agricultural credit was a key issue of interest to soybean farmers everywhere—note that the top five per-capita recipients of credit were the top five soybean producing states—and due to the capital intensity of production, it was even more important in Mato Grosso. Subsidized credit was the price that Maggi demanded in 2006 in exchange for his support of Lula in the presidential runoff. Moreover, Mato Grosso has extra opportunities to seek federal credit as it was the only state eligible for funds in both the Center-West regional development fund (FCO) and the Amazonian

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<sup>32</sup>*Folha de S. Paulo*, “Após apoio de Maggi, governo libera R\$ 1 bilhão para produtores de soja,” 14 Oct. 2006. Of course, both Maggi and the government denied that a support-for-money deal had been made. See also *Folha*, “Blairo Maggi nega ter dado apoio a Lula a troco de dívida,” 12 Oct. 2006.

<sup>33</sup>There may have been other games in mind. Pagot was defenestrated in 2011 as part of a scandal in which it was alleged that the PR was using its control over DNIT and the Transportation Ministry to reward public works firms who supported the party.

Figure 5.6: Rural Credit Flow Per Capita, 2003, by State



Source: Banco Central do Brasil

fund (SUDAM).

Hence, the state government and state-level politicians had similar, often shared interests with large farmers within Brazil's federal system: both sought subsidies from the federal level. Supporting agriculture could thus be costless to the state—the federal government paid the subsidies—while yielding political gains for the politicians who advocated for the state's primary economic activity. As a result, state politicians and commercial farmers can be natural allies, and in Mato Grosso, the incentives behind this alliance were stronger than in other states. Even though subnational governments have little direct responsibility for policies relevant for agriculture, subnational organization of a farm lobby is perfectly logical.

In sum, Mato Grosso's small population and non-agricultural economy further facilitated the soy elite's political organization, and the division of responsibilities within Brazil's federal system created a greater harmony of interests between the state government and the rural elite. Campaign contributions went farther in Mato Grosso than in more developed, populated states, and given the soybean farmers' economic advantage, outpacing the growth of other sectors, they were better able to convert their dollars into the votes needed to win elections. Building a similar financial advantage in Paraná or Rio Grande do Sul would require much more fundraising, which would be challenging even if the collective action problems facing farmers there were similarly minor. This last point highlights the importance of prior organization in order to capture politics, which in turn can further the organization. Extensive state support for Mato Grosso's farm lobby occurred after the farmers' organized to finance campaigns and capture state and local office. Some states may be easier to capture than others, but they will not capture themselves.

## 5.4 Conclusion and Comparative Perspective

Both economic and political institutions have decisively shaped the logic of collective action in Brazil's modern agricultural sector. Brazil's federalism created opportunities and incentives for subnational organization, even around national-level policies, but it does not alone explain the pattern of organization that emerged. Mato Grosso's position in Brazil's federal system increased the incentives for state-level organization, and particularly for state-level politicians to support such organizations. These factors facilitated organization in Mato Grosso ahead of other states. Agricultural production is highly concentrated in Mato Grosso, reducing their collective action problems, and the state's low population made electoral success for the well-financed rural elite less challenging.

State incentives to organizations do not sufficiently explain the pattern of organization that exists in Brazil's rural sector: economic determinants of collective action are particularly relevant in agriculture. Arguing against collective-action analyses of business associations, Schneider (2004: 54) writes that in Latin America, "there were no cases of strong, durable encompassing associations that emerged in the twentieth century in the absence of selective incentives from the state." On the one hand, this does appear to be the case with farmers' associations in Brazil: previous attempts at national-level soybean farmers' organizations failed due to a lack of resources, stemming from an inability to resolve free-rider problems. However, Mato Grosso's associations were only able to obtain state support once they had already organized. Notably, the scale of the campaign to win the gubernatorial election in 2002, before the creation of the powerful Aprosoja, indicates that actors must be able to organize somewhat before the state will provide selective incentives. Indeed, the expectation of support from the state government may have encouraged farmers to organize, but similar incentives exist in other states as well. It was the ability of Mato Grosso's farmers to overcome the initial obstacles to organization that allowed them to seize the opportunity.

Federalism has other interesting implications for collective action. While Brazil's federal institutions create subnational groups that may be more easily organized than the national-level group, it poses different challenges to organization. State-level organizations face a federal version of the problem Olson terms the "exploitation of the large by the small," in which larger actors, which have greater individual returns to collective action, pay a disproportionate share of the costs of organizing, and the smaller actors free-ride. Mato Grosso's soybean-farmers' association may have been powerful and well funded, but it financed the vast majority of the sector's national lobbying activity. Soybean farmers in other states benefited from their political actions without paying dues. In fact, in its quest to set up other state-level entities across the country, Aprosoja subsidized these new associations in their initial stages. In interviews, organizers in Aprosoja-RS (Rio Grande do Sul) seemed to view the Mato Grosso organization as a generous benefactor or grant-making institution, appealing to it for funding for certain projects. One has to speculate whether the success of Aprosoja-MT had harmful side effects for the bottom-up organization of farmers in other states as they became dependent, in a *rentier* sense, on outside financial support.

Finally, the relative ease with which a small group of farmers was able to rise in state politics underscores the importance of malapportionment in political institutions. That is, it takes far fewer votes to elect a senator in a less populated state like Mato Grosso than in a populous state, and

this difference effectively over-represents voters in underpopulated areas. Given the importance of governors in national politics in Brazil as deal-makers, a type of malapportionment also derives from the federal system: in electing their governor, voters are also electing a national representative. And just as votes do not equally map onto elected representatives in a malapportioned system, dollars may not map equally onto voters across states. The concentration of soybean farmers in Mato Grosso and their ability to mobilize their resources is more valuable there because it takes fewer votes to win office.

## Chapter 6

# Property Rights and Political Investment

A central argument of this research is that rural market structures shape the incentives of elite farmers to invest in political action, both in interest groups and in political parties. Highly flexible markets for land rental and services in Argentina's central agricultural region facilitated the adoption of a new, high-productivity mode of agricultural production, centered around the cultivation of soybeans for export. These markets lowered the cost to Argentine farmers of expanding or adopting new technologies, and as farmers rapidly invested in production, they withdrew from their previously influential political associations, which offered lower expected returns to their investments.

Brazilian agriculture, in contrast, modernized in a context of distinct market structures. Consequently, while Brazilian agriculture came to employ a relatively similar level of technology to Argentina, Brazilian farmers had vastly different political and economic investment strategies. Due to failures in rental markets, large-scale agriculture in Brazil required large-scale landownership. This resulted in the concentration of agriculture in a small group of producers with high levels of fixed capital investments—producers who as a result had a relatively greater incentive to invest in political action.

Land ownership is an inherently political question, and where property rights are less secure, landowners face greater incentives to invest to protect their assets from expropriation. Rural elites have notably flourished in Brazil's national legislature, wielding great political influence through the *bancada ruralista* (rural caucus). However, politics sometimes occurs by other means: landowners in some parts of Brazil have funded private militias to eject squatters. How does the security of private property rights in land affect the political participation of the landed elite?

This chapter explores localized threats to rural private property, in the form of land invasions by landless rural workers, to examine variation in the perception of the security of land ownership. Analyzing detailed individual-level data on the economic status of over 350,000 Brazilian politicians, I find greater political investment in localities where the economic institutions of land property rights are less secure. Land invasions are associated with a greater number of landowning candidates running for mayor, a higher vote share received, and more landowners elected mayor. Invasions have a weaker effect on landowners running for city council and no effect on politicians who are small farmers. I also implement a series of nonparametric tests, which confirm the general

findings from the regression analysis.

In addition to highlighting the relationship between land market structures and political investment, the chapter makes both empirical, conceptual, and theoretical contributions to the study of Brazilian politics, and it has significant practical implications for social-movement politics. Empirically, it provides a deeper descriptive analysis of Brazil's political class. The compilation and examination of politicians' asset ownership, crossed with the membership lists of government assistance programs, provides new insight into the economic status of local political leaders. Conceptually, this allows for an improved classification of elites. In a Marxian sense, these data sources capture politicians' relation to the means of production: who owns property, hires labor and capital, and sells to the market, and who produces primarily for subsistence? Such fine-grained personal economic data on politicians, from multiple sources, has never been systematically analyzed for these purposes before.

Theoretically, this improved classification allows the researcher to move beyond the left-right ideological spectrum, which is particularly critical given that the majority of parties in Brazil, particularly at the local level, do not operate with a strict adherence to any ideology. Because most party labels do not systematically convey this type of information, in order to explore the foundations of conservative political power in Brazil, a more materialist approach to categorizing politicians may be more fruitful. These data permit such a classification.

In a practical sense, this research explores whether land invasions are actually counter-productive to the interests of their participants. Land invasions are generally accepted to be a successful means to pressure the government to redistribute land, but could they have side effects that outweigh the benefits to the rural poor? By mobilizing conservative politicians and citizens in defense of the perceived threat to their property, land invasions can contribute to a more conservative bias among elected officials, who then work against social spending programs that could have broad effects for the rural and urban poor more generally.

## 6.1 Context and Arguments

Property-rights insecurity affects how economic actors allocate their investments. For one, as Conning and Robinson (2006) argue, the threat of expropriation leads landowners to avoid taking on tenant farmers for fear that the tenants will seek the ownership of the land. Particularly given that property rights are politically defined—and defended—one would expect that landowners would allocate more investments into the political system when they perceive a threat. Many have focused on the role of the landed elite in fighting to preserve conservative, repressive, and quasi-feudal political and economic systems for precisely this reason (cf. Paige 1975).

In a democratic context, the options available to landowners are generally more limited, even if some landowners attempt to resolve disputes extralegally. Securing power requires winning elections, by any means necessary. Land invasions can lead to greater landowner participation in electoral politics through two channels. First, land invasions may increase the willingness of landowners to decide to run for local office. Second, local parties and political machines, seeking to tap into conservative reactions within the electorate, may recruit candidates with a pro-business,

landowning profile. Interviews with mayors, party leaders, and other local political figures in the states of Mato Grosso and Rio Grande do Sul, conducted in 2008–2009, revealed that both processes do occur for more general economic considerations, and it is reasonable to expect that land invasions would have provoked a similar response.

In Brazil, land property rights are in many places uncertain, ambiguous, and overlapping (Foweraker 1981). In this context, one might expect a generally high level of landowner involvement in politics throughout Brazil. Even so, land invasions serve as a clear, localized reminder that the rural poor and the government could redistribute land that, regardless of the formal legal standing, a landowner believes to be legitimately his. In the empirical analysis, I find that even when controlling for fine, local-level variation, municipalities that experience land invasions in the year prior to the election have significantly higher levels of landowner political activity.

In finding that weakening property rights induces a conservative electoral reaction, this chapter is a counterpoint to de Janvry, Gonzalez-Navarro and Sadoulet (2011), which finds that granting more full private property rights to land reform beneficiaries in Mexico caused a right-wing shift in local elections. One key difference in the two studies lies in the elite focus of the current analysis.

## 6.2 Data and Identification

I examine data on local-level politicians in the 2008 election, compiled from a range of sources. The raw data on politicians was analyzed to generate an original dataset classifying candidates based on their asset ownership. Details on the collection and analysis of the raw asset declarations and other data can be found in the appendix.

### Dependent Variables: Landowner-Candidates

Starting in 2008, all candidates for mayor (*prefeito*) and city council (*vereador*) are required to declare their assets, as well as a series of biographical information, to the electoral authorities, the Tribunal Superior Eleitoral (TSE). I collected this data, which contain a description of each asset and a stated cash value. I searched the asset declarations for rural real estate, and identified the amount of land, in hectares, contained in each property.

The dataset contains 354,703 candidates in 5,563 municipalities. There are 14,654 candidates each for mayor and vice-mayor and 325,195 candidates for city council. These candidates declared a total of 750,986 assets, of which 87,763 (11.7 percent), were identified to be rural properties. Of these properties, 46.3 percent specified a quantity of land, while the rest simply declared that they were a property, e.g. “fazenda”. Using the subset of rural properties with a quantity of hectares specified and the corresponding asset values, I computed state-level median land values and imputed the quantity of land onto the other properties. Aggregating by candidate, this yielded 61,918 candidates with some rural property, or 17.5 percent, with a median property holding among landowners of 22.5 hectares. Breaking down by office, 38.5 percent of mayoral candidates, 29.1 percent of vice-mayoral candidates, and 16.0 percent of city council candidates declared some rural property.

There are valid concerns about the quality of these data. In particular, because the asset declarations are self-reported, candidates may have incentives to understate or omit their property holdings. The high level of tax evasion in Brazil, coupled with property-rights uncertainty and ambiguity, amplify the incentives to underreport. Indeed, of the 354,703 candidates, only 244,932, or 69.1 percent, made an asset declaration. However, underreporting may not be as severe of a problem as it initially seems. For one, many of the over 30 percent of candidates not declaring assets may in fact not own assets—i.e. the lack of asset reporting may indicate zeroes, not missing data. Most candidates without asset declarations are candidates for city council, and these candidates are typically less affluent. In fact, 91.9 percent of mayoral candidates and 84.9 percent of vice-mayoral candidates made an asset declaration. For another, while candidates may be uncertain of which assets they need to declare—for example, is it necessary to declare minor possessions, such as a cell phone?<sup>1</sup>—rural real estate clearly is an asset to be declared. Moreover, within a small rural community where landowners are notable figures, it would be difficult for a landowner not to declare any property. They may, however, underreport the size of the property. I discuss below how I attempt to address this type of bias.

Another concern is transcription errors and misspellings in the asset declarations. Some asset declarations contain nonstandard spellings of words, and in some cases, the declared value of the asset is nonsensically high. To address the former problem, I searched asset declarations with a range of flexible search strings to identify misspelled rural property keywords, as discussed in the appendix. Regarding the latter, I use dichotomous indicators of whether a candidate owns more land than some threshold, rather than the quantity of land owned itself.

Given this data on land ownership, how does one identify “landowners” in the class-based sense we are exploring here? That is, based on this data, how does one distinguish a small, primarily subsistence farmer from market-oriented farmers and absentee landlords? What amount of land ownership determines whether a farmer perceives land invasions as a threat to his private property?

Some studies use a threshold, such as 100 hectares, to separate small from large landowners. However, this may introduce regional biases because average farm sizes vary greatly across Brazil, as Figure 5.2 shows. The average property size in the state of Mato Grosso is 768.8 hectares, versus 41.2 hectares in Rio Grande do Sul and 26.1 hectares in the northeastern state of Sergipe (Hoffmann 1998: 4). Hence, the significance of 50 or 100 hectares varies greatly across Brazil. Using a fixed landownership threshold may thus exaggerate the number of commercial farmers in interior states like Mato Grosso and understate their numbers in the South and Northeast.

The regional differences in property sizes is largely a function of the wide range in land quality and economic potential of rural property throughout Brazil. Consequently, for administrative purposes, the Brazilian government has set different thresholds by municipality for what separates small, “family agriculture” from “commercial agriculture.” The *módulo fiscal*, or fiscal unit, is an attempt to standardize landholdings across municipalities, and it is the basis for the government’s classification of types of rural properties, from *latifúndio* down to *minifúndio*.

The government has increasingly provided special benefits to family farmers. Notably, the Programa de Fortalecimento da Agricultura Familiar (PRONAF), created in 1996 and greatly ex-

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<sup>1</sup>1,097 candidates did, in fact, declare their cell phones.

panded under the Lula government (2002–present), gives small, family farmers access to lines of subsidized credit. Farmers who own no more than four *módulos fiscais*, use mainly family labor, have a household income of no more than R\$110,000, and live on or near the property are eligible for PRONAF.

Because of the significant benefits available and the credibility of the program, it is reasonable to believe that all who are eligible for PRONAF will be registered for it.<sup>2</sup> Hence, an alternative—and conceptually superior—method for identifying landowners in the capitalist sense is to examine the set of candidates who own some rural property but who are not registered for PRONAF. This measurement has the advantage of building in the regional variation in the size of smallholding, thereby eliminating the potential bias that a single ownership threshold might bring. Moreover, by incorporating economic factors beyond mere asset ownership, this approach more closely identifies landowners based on their relation to the means of production. A candidate who owns a small amount of land but is not registered for PRONAF must not be a family farmer, must earn too much money, or must live elsewhere. Consequently, we can infer that their landholding is for portfolio investment purposes—an absentee landlord—or that they are in fact a larger farm operation than they may have declared to the electoral authorities. Both types would likely perceive a land invasion to be a threat to private property. In this way, we can both more closely measure the concept of interest and reduce measurement error.

I collected data on beneficiaries registered with PRONAF from the Ministério de Desenvolvimento Agrário (MDA). The MDA maintains a database of who has filed the requisite paperwork, the Declaração de Aptidão ao Pronaf (DAP), demonstrating their eligibility to receive benefits. This database contains over 3.5 million beneficiaries, 19,598 of whom presented themselves as candidates in the 2008 municipal elections. Of these, 4,738 declared owning land to the electoral authorities. Nearly all PRONAF-candidates—94.5 percent—ran for city council.

Based on these data sources, I construct two measures of whether a candidate should be considered a landowner: (1) candidates that own more than the municipality’s median property size and are not registered for PRONAF; and for robustness, (2) candidates that own more than 100 hectares. Results are robust to a range of property-size thresholds. I also examine the set of candidates who are registered for PRONAF to see whether small farmers respond differently from capitalist landowners.

To construct the first measure, I examine Hoffmann’s (1998) municipal-level land ownership data, which includes measures of the percent of properties smaller than several thresholds: 10, 20, 50, and 100 hectares. I defined the municipality’s median property size to be the smallest of {10, 20, 50, 100} for which the associated percentage of properties is greater than 50; for those in which none of the four values is greater than 50, I assign the value of 100 hectares. Landowners are defined as those owning more than the municipality’s median property size. To further incorporate municipal-specific characteristics of the land distribution, I exclude those landowners who are eligible for PRONAF, according to the MDA.

I aggregate the candidate measures for the two offices, mayor and city council, at the municipal

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<sup>2</sup>That is, anyone with the means and inclination to run for elected office will also take advantage of PRONAF if he/she is eligible.

level, which is the level at which the treatment variable—land invasions—is measured. For each, I compute two municipal-level outcome variables: the entry of landowning candidates and their electoral performance. These are summarized in Table 6.1 and discussed below.

### **Entry of Landowners as Candidates**

The first outcome of interest is the share of candidates in a municipality who are landowners or PRONAF recipients. For both measures of landowners, while a greater share of municipalities have at least one landowning candidate for city council than for mayor, this does not mean that there are a greater share of landowners running for city council. In fact, the average municipal-level share of landowning candidates for mayor is three to four times that for city council, depending on the measure of landowning. Logically, the more restrictive landownership threshold (100 hectares) has lower shares of landowning candidates.

Figures 6.1 and 6.2 show the geographic distribution of landowners under the two different measures. As suggested above, the 100-hectares threshold appears regionally biased, identifying far fewer landowning candidates in the southern and southeastern regions of Brazil than does the measure that uses the municipal-specific median property size.

For PRONAF candidates, as highlighted above, there are many fewer candidates than there are landowning candidates, and of these, they are overwhelmingly for city council. Less than 6 percent of municipalities have a candidate for mayor who is registered with PRONAF, which may limit our ability to make inferences about PRONAF mayoral candidates. In contrast, over 80 percent of municipalities have at least one council candidate who is registered with PRONAF, with an average municipal share of candidates of 0.09, greater than the average for the hybrid landowner measure.

### **Vote Shares**

The second set of outcomes is the aggregated vote share of landowning candidates. That is, rather than grouping by party or supposed ideological bloc, I group based on candidates' asset position. Average total vote share of landowning candidates ranges from 21.8 percent for mayoral tickets with at least one non-PRONAF landowner down to 3 percent for city councilmen with over 100 hectares. For PRONAF candidates, the opposite relationship holds, in which the average vote share for city council is nearly triple that for mayor, largely owing to the to the low number of mayoral candidates.

### **Winners**

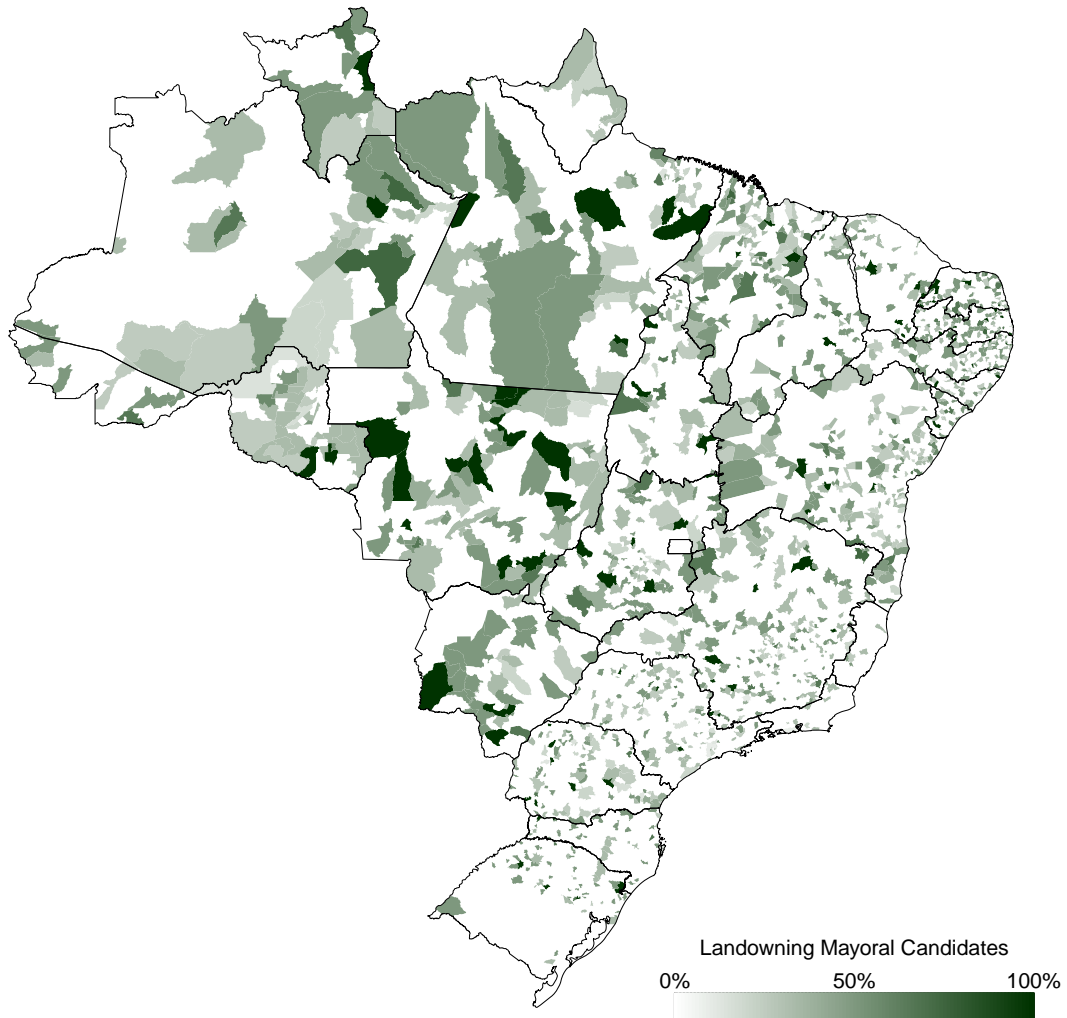
Third, I examine the results of the elections: whether the mayoral candidate elected is a landowner and the share of councilmen-elect that are landowners. Using the first measure, 1,139 landowners were elected mayor (22.5 percent), while 591 mayors-elect owned more than 100 hectares (11.7 percent). Comparing to the respective numbers of municipalities in which at least one landowner ran for mayor, for both measures landowners were elected in around half of these

Table 6.1: Summary Statistics for Dependent Variables

	Municipalities		Candidate Share		Vote Share		Winners		
	N	%	Mean	SD	Mean	SD	Mean	SD	
> median, not in PRONAF	Mayor	2045	40.4	0.206	0.286	21.8	31.3	0.225	0.418
	City Council	3671	72.5	0.060	0.068	6.8	7.9	0.020	0.033
> 100 hectares	Mayor	1200	23.7	0.108	0.216	11.6	24.0	0.117	0.321
	City Council	2582	51.0	0.026	0.040	3.0	4.8	0.008	0.020
Registered for PRONAF	Mayor	295	5.8	0.026	0.112	2.3	10.6	0.013	0.114
	City Council	4074	80.5	0.088	0.099	7.4	9.4	0.020	0.041

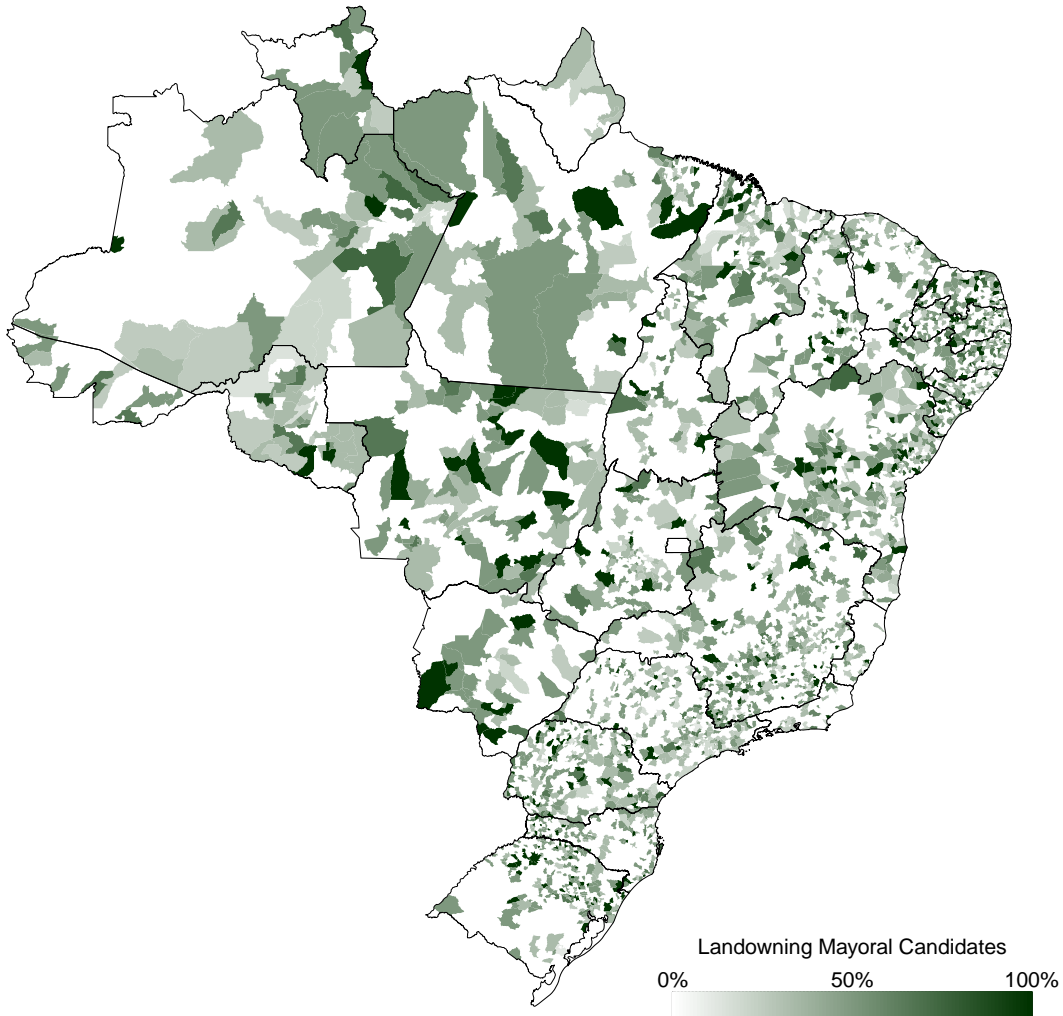
Note: Sample of 5061 non-metropolitan municipalities. The “Municipalities” columns indicate the number and percentage of municipalities with at least one candidate meeting the measurement criteria. Source: Author’s elaboration of TSE and MDA data.

Figure 6.1: Map of Mayoral Candidates Owning > 100 Hectares, 2008



Note: shading indicates the share of mayoral candidates in 2008 owning over 100 hectares of land, according to their official asset declarations. Darker colors indicate greater proportions of landowning candidates. Author's elaboration of data from TSE.

Figure 6.2: Map of Mayoral Candidates Owning &gt; Median Hectares, 2008



Note: shading indicates the cumulative vote share received by mayoral candidates in 2008 (1) owning more land than the the municipality's median property size, according to their official asset declarations, and (2) not registered as family farmers with PRONAF. Darker colors indicate greater proportions of landowning candidates. Author's elaboration of data from TSE, MDA, and Hoffmann (1998).

municipalities. In contrast, only 67 elected mayoral candidates were PRONAF beneficiaries. As for city council, the average share of elected councilmen that are landowners is quite small.

### **Other Dependent Variables**

I also examine other municipal-level outcomes based on the candidates' asset data. Ownership of land is generally correlated with ownership of other types of assets, and one may wonder whether an observed effect of land invasions on the share of candidates who are landowners is actually a wealth effect. That is, it could be the case that more affluent candidates run for office in municipalities that experience land invasions, and hence land ownership would merely be a proxy for general wealth.

To consider this possibility, I calculate the share of total asset value declared by candidates that comprises rural real estate, averaged across candidates at the municipal level for both mayoral and city-council offices. I do this both for all candidates and for the subset of candidates that declare owning land. Finally, I also examine candidates' mean total declared asset value, irrespective of whether the assets are land. Summary statistics for these variables are included in Table 6.2.

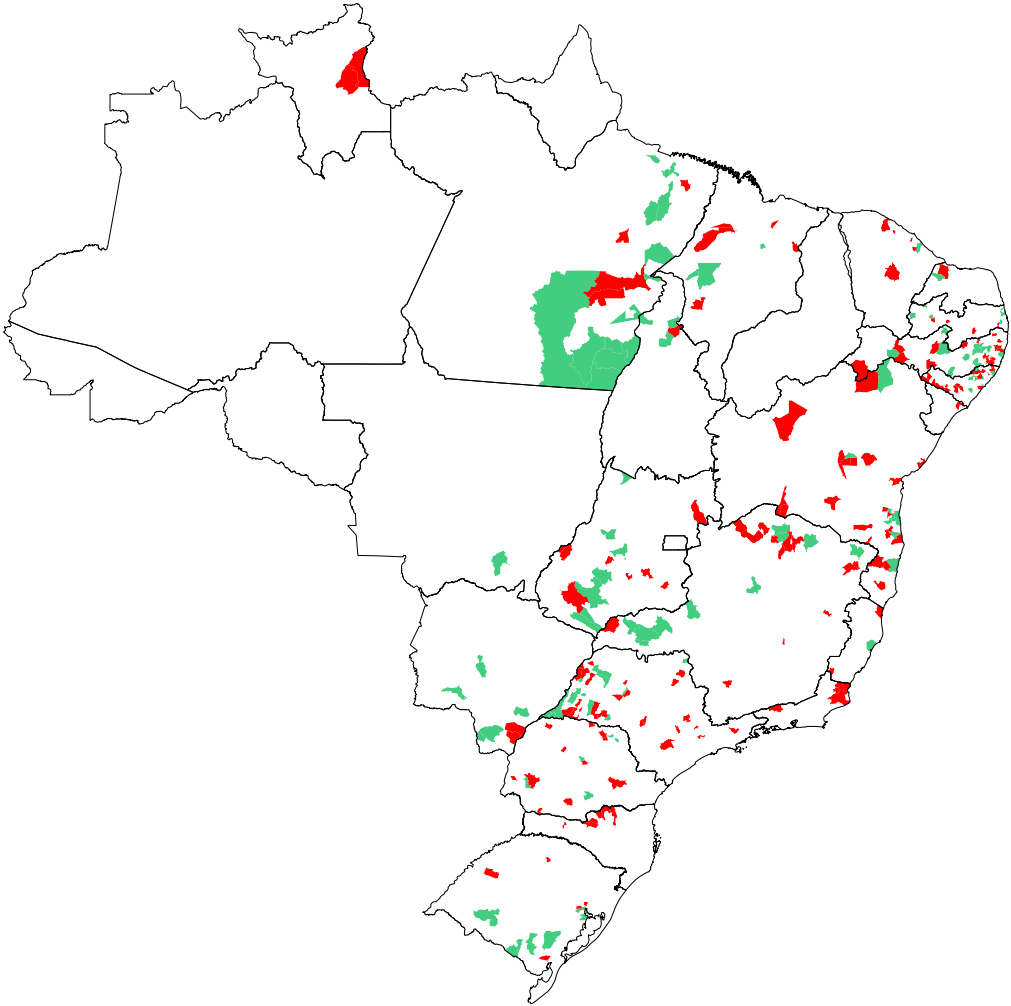
### **Treatment: Land Invasions**

The independent variable of interest is an indicator of whether or not a land invasion occurred in 2007, the year prior to the municipal elections. Land invasions data come from the Comissão Pastoral da Terra (CPT), a Church-based organization that monitors conflict over land and rural working conditions. Of the 5061 rural municipalities, 247 experienced an invasion in 2007. Of these, 140, or 57 percent, had an invasion led by the the Movimento dos Trabalhadores Rurais Sem Terra (Landless Workers Movement, or MST), Latin America's largest social movement. Figure 6.3 reveals the geographic dispersion of land invasions across Brazil.

Land invasions clearly are non-random events: social movements carefully select the properties they choose to invade. Social movements will target municipalities, but the targeting may be based on characteristics such as the existence of a large, unproductive farm in one municipality but not in its neighbor. That is, within a localized region, the factors that lead social movements to choose one property over another to invade are largely independent of the municipal-level political dynamics of interest here. To illustrate, Hidalgo, Naidu, Nichter, and Richardson (2010) examine within-municipality variation and show that adverse weather shocks—droughts and floods—cause more land invasions on average by reducing agricultural income. These rain shocks are spatially correlated, but land invasions will not occur in all municipalities within a drought-affected region. Rather, social movements pool their efforts, resources, and manpower in one or few land invasions. A group of neighboring municipalities may experience the same conditions, and hence have the same underlying probability of having a land invasion, yet an invasion will not be realized in all of them.

What determines which properties social movements select? As Houtzager (2005) notes, land conflict in Brazil became increasingly judicialized in the 1990s, with legalistic definitions and arguments playing a larger role. Land invasions are simply the first step in a lengthy legal process

Figure 6.3: Map of Land Invasions, 2007



Note: Municipalities shaded red experienced at least one land invasion in 2007 organized by the MST, and green municipalities experienced a non-MST invasion. Source: CPT

Table 6.2: Summary Statistics for Other Variables

	Mean	SD
<i>Other Dependent Variables</i>		
Land as Share of Asset Value, Mayor	0.125	0.171
Land as Share of Asset Value, City Council	0.124	0.0875
Land as Share of Asset Value Among Landowners, Mayor	0.195	0.249
Land as Share of Asset Value Among Landowners, City Council	0.481	0.202
Log (Total Asset Value, R\$1000s), Mayor	12.3	1.50
Log (Total Asset Value, R\$1000s), City Council	10.9	0.799
<i>Covariates</i>		
Land Invasions, 2007	0.0488	0.215
Land Invasion, 1988-2005	0.270	0.444
Log (Population), 2007	9.30	1.02
Income Gini, 2000	0.563	0.0579
Log (GDP per capita), 1991	4.61	0.573
Log (GDP per capita), 2000	4.94	0.572
Log (Area)	6.27	1.28
Log (Average Property Size), 1998	4.25	1.14
Log (Unused Arable Land), 1995	6.39	2.28
Land Gini	0.746	0.134
Families in PRONAF, share	0.291	0.318
Log (Rural Credit Stock), 2004	13.7	2.32
Agrarian Reform, 1979-2002 (Dichotomous)	0.261	0.439
PT Mayoral Vote Share, 2004	0.0690	0.137
PT Presidential Vote Share, 2006	0.522	0.179

Note:  $N = 5061$

that the social movement hopes will culminate in expropriation. Consequently, the criteria that make a property desirable as an invasion target are determined by legal technicalities and by the landlord's expected willingness to defend his/her property claim in the courts. Regarding the former, according to the Brazilian constitution, the government can expropriate land not fulfilling its "social function" and redistribute it.

More specifically, Hidalgo and Richardson (2008) survey a number of anthropological case studies of land invasions and rural social movements in Brazil. These case studies suggest that the targeting is linked with characteristics of individual properties, not broader characteristics of

municipalities and political classes. One prominent determinant is landowner indebtedness. Highly indebted landowners are typically less likely to resist the land invasion because the government's purchase of the land is a more desirable outcome for them than filing bankruptcy. Landowners in debt to the bank also commonly owe back wages to their workers, which further helps the MST's case for expropriation in terms of arguing that the property was not fulfilling its social function. In an illustrative example, Lewin, Ribeiro and Silva (2005) provide a detailed case study of the arrival of the MST to Campos dos Goytacazes, Rio de Janeiro state, to organize a land invasion in 1997. They find that the primary factor that brought the MST to town was that a fazenda in the municipality was high on a list of properties indebted to the Banco do Brasil.

Selection criteria such as this, which are important for the decision of where to invade, are not likely to be important for municipal-level outcomes of interest, such as electoral outcomes. Hence, while the selection of municipalities (and properties within municipalities) to invade is not random, there frequently are neighboring municipalities very similar to the one invaded with perhaps the only meaningful difference being that it was not invaded.

To identify the effect of land invasions, I use fixed effects to examine variation within micro-regions of municipalities. Micro-regions are defined by IBGE as contiguous municipalities in a given state that share an urban center and have similar demographic, economic, and agricultural characteristics. These 557 micro-regions should absorb much of the unobserved heterogeneity, allowing comparison of relatively similar municipalities. In addition, I include controls for unused arable land, rural credit, and lagged income. To the extent that the criteria that affect which properties are invaded—availability of land not fulfilling its social function and high landowner indebtedness in the context of an economic downturn—vary at the municipal level, these covariates should capture the variation.

## Covariates

In the regression specifications that follow, I control for observed variation on a range of potential confounders. Summary statistics for these variables are found in Table 6.2. Data on land invasions in previous years, PRONAF membership, and average property size come from the aforementioned sources. Land Gini data also come from Hoffmann (1998), modified to incorporate the share of landless rural workers in each municipality, as in Hidalgo et al. (2010). Electoral returns, both for the 2008 elections (the dependent variables) and for the 2004 and 2006 vote shares received by the Partido dos Trabalhadores (Workers' Party—PT), included as a control for the strength of the left in the municipality, are from the TSE. The remaining variables come from IBGE, the Brazilian census bureau. Missing values in the property size, land Gini, and unused arable land data were imputed by taking the average of the values for the nearest two municipalities, based on geographic distances between the centers of each municipality. Restricting the sample to non-metropolitan municipalities, as defined by IBGE, and eliminating observations with missing data results in a sample of 5061 municipalities.

### 6.3 Results

Tables 6.3–6.5 show OLS specifications with three different dependent variables: the share of mayoral candidates owning more than the median property size and not registered for PRONAF (Table 6.3), owning more than 100 hectares (Table 6.4), and those enrolled in PRONAF (Table 6.5). For both landowner measures, a land invasion in the year prior to the election is associated with an increase in the municipality's share of candidates for mayor who are landowners. For candidates owning more than the median property size, an invasion is linked with a 4–5.4 percent increase in the share of landowning candidates for mayor. These estimates correspond to roughly 20–25 percent of the mean candidate share for this measure (20.6 percent), a sizable effect.

Coefficient estimates are generally stable as covariates are added, and with the full specification of covariates, results are statistically significant with 95 percent confidence. For candidates owing more than 100 hectares (Table 6.4), the estimated effect of land invasions is slightly larger relative to the mean: a 3.7–5 percent increase in the share of landowner-candidates, or 34–46 percent of the mean. For PRONAF beneficiaries, however, land invasions do not have a statistically significant relationship with the share of mayoral candidates. Not surprisingly, the strongest predictor of the entry of PRONAF candidates for mayor is the share of the municipality's population enrolled in PRONAF. Hence, while land invasions are associated with a landowner reaction in local politics, they do not appear to galvanize similarly the rural poor.

For city council (Table 6.6), the coefficient estimates for the effect of land invasions on the entry of landowner candidates are small and not robustly statistically significant. For the first landowner measure (Columns 1–2), invasions have no statistically significant relationship with the entry of candidates for city council. For candidates owning more than 100 hectares (Columns 3–4), land invasions are associated with a 0.5 percent increase in the share of landowning city-council candidates, statistically significant at the 90 percent level in the specification with all controls included. For PRONAF candidates, land invasions are actually associated with a smaller share of candidates in the base specification (Column 5), but this relationship is not robust to the inclusion of covariates (Column 6). Again, the strongest predictor of the entry of PRONAF candidates is the share of the municipal population registered for PRONAF.

Turning to the vote shares received by landowners (Table 6.7), a similar pattern emerges. Land invasions are associated with a larger mayoral vote share for landowners using either measure (Columns 1 and 3), but for city council, the effect is smaller and only statistically significant for the more restrictive landowner measure (Column 4). Estimates for mayoral vote share are statistically significant with 99 percent confidence and substantively large, indicating a 4.8–6.1 percent increase in the vote share of landowners. In contrast, land invasions have no effect on PRONAF candidates' vote shares, while the prevalence of PRONAF in the municipality correlates highly with the outcome (Columns 5–6).

These greater mayoral vote shares for landowners translate into a larger share of landowners being elected, as Table 6.8 shows. Columns 1 and 3 present linear probability models with the dependent variable indicating whether the winner of the mayoral election was a landowner. Invaded municipalities are 7 percent more likely to elect a mayor who owns more than the municipality's median property size (Column 1) and 5.8 percent more likely to elect one owning more than 100

Table 6.3: Candidate Entry for Mayor, DV = Landed (&gt; Median)

	(1)	(2)	(3)	(4)	(5)
Land Invasion, 2007	0.054** (0.021)	0.052* (0.021)	0.040 <sup>+</sup> (0.021)	0.045* (0.021)	0.045* (0.021)
Land Invasion, 1988-2005		0.008 (0.011)	-0.011 (0.012)	-0.002 (0.012)	-0.001 (0.012)
Log (Population), 2007			0.025** (0.008)	0.020* (0.008)	0.020* (0.008)
Income Gini, 2000			-0.116 (0.107)	-0.112 (0.107)	-0.119 (0.107)
Log (GDP per capita), 1991			-0.018 (0.025)	-0.004 (0.025)	-0.003 (0.025)
Log (GDP per capita), 2000			0.041 (0.062)	0.047 (0.062)	0.050 (0.062)
Log (Area)			-0.026 (0.042)	-0.006 (0.042)	-0.006 (0.042)
Log (Area) × Log (GDP per capita)			0.005 (0.008)	0.005 (0.009)	0.005 (0.009)
Log (Average Property Size), 1998				-0.044*** (0.007)	-0.045*** (0.007)
Log (Unused Arable Land), 1995				-0.002 (0.003)	-0.002 (0.003)
Land Gini				0.088 <sup>+</sup> (0.050)	0.083 <sup>+</sup> (0.051)
Families in PRONAF, share				0.056* (0.024)	0.055* (0.024)
Log (Rural Credit Stock), 2004				-0.004 (0.003)	-0.004 (0.003)
Agrarian Reform, 1979-2002 (Dichotomous)				-0.009 (0.012)	-0.010 (0.012)
PT Mayoral Vote Share, 2004					-0.047 (0.032)
PT Presidential Vote Share, 2006					0.057 (0.055)
$R^2$	0.15	0.15	0.16	0.16	0.16

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . <sup>+</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Table 6.4: Candidate Entry for Mayor, DV = Landed (&gt; 100 ha)

	(1)	(2)	(3)	(4)	(5)
Land Invasion, 2007	0.050** (0.015)	0.048** (0.016)	0.037* (0.016)	0.037* (0.016)	0.037* (0.016)
Land Invasion, 1988-2005		0.007 (0.008)	-0.009 (0.009)	-0.009 (0.009)	-0.009 (0.009)
Log (Population), 2007			0.009 (0.006)	0.012 <sup>+</sup> (0.006)	0.011 <sup>+</sup> (0.006)
Income Gini, 2000			0.025 (0.080)	0.025 (0.080)	0.017 (0.080)
Log (GDP per capita), 1991			-0.007 (0.019)	-0.005 (0.019)	-0.005 (0.019)
Log (GDP per capita), 2000			0.008 (0.046)	0.008 (0.046)	0.014 (0.047)
Log (Area)			-0.020 (0.031)	-0.021 (0.032)	-0.019 (0.032)
Log (Area) × Log (GDP per capita)			0.007 (0.006)	0.007 (0.006)	0.007 (0.006)
Log (Average Property Size), 1998				0.003 (0.006)	0.002 (0.006)
Log (Unused Arable Land), 1995				-0.001 (0.002)	-0.001 (0.002)
Land Gini				-0.011 (0.038)	-0.014 (0.038)
Families in PRONAF, share				0.018 (0.018)	0.016 (0.018)
Log (Rural Credit Stock), 2004				-0.001 (0.002)	-0.001 (0.002)
Agrarian Reform, 1979-2002 (Dichotomous)				-0.001 (0.009)	-0.002 (0.009)
PT Mayoral Vote Share, 2004					-0.010 (0.024)
PT Presidential Vote Share, 2006					0.058 (0.041)
$R^2$	0.16	0.16	0.17	0.17	0.17

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . <sup>+</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$

Table 6.5: Candidate Entry for Mayor, DV = Pronaf Beneficiaries

	(1)	(2)	(3)	(4)	(5)
Land Invasion, 2007	-0.005 (0.008)	-0.005 (0.008)	0.001 (0.008)	0.002 (0.008)	0.001 (0.008)
Land Invasion, 1988-2005		-0.000 (0.004)	0.009* (0.005)	0.011* (0.005)	0.010* (0.005)
Log (Population), 2007			-0.015*** (0.003)	-0.010** (0.003)	-0.010** (0.003)
Income Gini, 2000			0.011 (0.043)	0.010 (0.042)	0.012 (0.042)
Log (GDP per capita), 1991			-0.014 (0.010)	-0.001 (0.010)	-0.001 (0.010)
Log (GDP per capita), 2000			-0.026 (0.025)	-0.012 (0.024)	-0.013 (0.025)
Log (Area)			-0.017 (0.017)	-0.010 (0.017)	-0.010 (0.017)
Log (Area) × Log (GDP per capita)			0.004 (0.003)	0.002 (0.003)	0.002 (0.003)
Log (Average Property Size), 1998				-0.003 (0.003)	-0.003 (0.003)
Log (Unused Arable Land), 1995				-0.000 (0.001)	-0.000 (0.001)
Land Gini				0.029 (0.020)	0.031 (0.020)
Families in PRONAF, share				0.083*** (0.009)	0.083*** (0.010)
Log (Rural Credit Stock), 2004				0.001 (0.001)	0.001 (0.001)
Agrarian Reform, 1979-2002 (Dichotomous)				-0.003 (0.005)	-0.003 (0.005)
PT Mayoral Vote Share, 2004					0.015 (0.012)
PT Presidential Vote Share, 2006					-0.013 (0.022)
$R^2$	0.11	0.11	0.13	0.14	0.14

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Table 6.6: Candidate Entry for City Council Elections

	Landed (> Median)		Landed (> 100 ha)		Pronaf	
	(1)	(2)	(3)	(4)	(5)	(6)
Land Invasion, 2007	0.003 (0.005)	0.006 (0.005)	0.006* (0.003)	0.005+ (0.003)	-0.013* (0.006)	0.003 (0.004)
Land Invasion, 1988-2005		-0.004+ (0.003)		-0.001 (0.002)		0.008** (0.003)
Log (Population), 2007		0.004* (0.002)		0.002* (0.001)		-0.007*** (0.002)
Income Gini, 2000		-0.030 (0.023)		-0.021 (0.014)		0.057* (0.023)
Log (GDP per capita), 1991		-0.005 (0.005)		-0.003 (0.003)		-0.015** (0.005)
Log (GDP per capita), 2000		-0.019 (0.013)		-0.017* (0.008)		0.003 (0.013)
Log (Area)		-0.012 (0.009)		-0.013* (0.005)		0.015+ (0.009)
Log (Area) × Log (GDP per capita)		0.003+ (0.002)		0.003** (0.001)		-0.003+ (0.002)
Log (Average Property Size), 1998		-0.022*** (0.002)		-0.001 (0.001)		-0.002 (0.002)
Log (Unused Arable Land), 1995		-0.001+ (0.001)		-0.000 (0.000)		0.000 (0.001)
Land Gini		0.032** (0.011)		-0.005 (0.007)		-0.006 (0.011)
Families in PRONAF, share		-0.006 (0.005)		0.003 (0.003)		0.236*** (0.005)
Log (Rural Credit Stock), 2004		-0.001 (0.001)		-0.001 (0.000)		0.001 (0.001)
Agrarian Reform, 1979-2002 (Dichotomous)		-0.001 (0.003)		-0.001 (0.002)		0.001 (0.003)
PT Mayoral Vote Share, 2004		-0.002 (0.007)		0.000 (0.004)		-0.005 (0.007)
PT Presidential Vote Share, 2006		-0.027* (0.012)		-0.012+ (0.007)		0.006 (0.012)
$R^2$	0.25	0.30	0.26	0.27	0.43	0.68

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . +  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Table 6.7: Vote Shares Received by Landowners, Both Offices

	Landed (> Median)		Landed (> 100 ha)		Pronaf	
	Mayor	Council	Mayor	Council	Mayor	Council
	(1)	(2)	(3)	(4)	(5)	(6)
Land Invasion, 2007	6.060** (2.272)	0.693 (0.533)	4.815** (1.741)	0.674* (0.331)	0.095 (0.787)	0.400 (0.461)
Land Invasion, 1988-2005	-0.361 (1.331)	-0.188 (0.312)	-0.788 (1.020)	-0.106 (0.194)	0.986* (0.461)	0.818** (0.270)
Log (Population), 2007	3.312*** (0.922)	0.877*** (0.216)	1.995** (0.707)	0.450*** (0.135)	-0.960** (0.320)	-0.984*** (0.187)
Income Gini, 2000	-8.779 (11.638)	-2.878 (2.729)	2.157 (8.917)	-3.098+ (1.697)	-1.410 (4.033)	6.025* (2.363)
Log (GDP per capita), 1991	1.010 (2.750)	-0.408 (0.645)	0.179 (2.107)	-0.454 (0.401)	-0.309 (0.953)	-0.909 (0.558)
Log (GDP per capita), 2000	2.314 (6.765)	-2.592 (1.586)	0.057 (5.183)	-2.693** (0.987)	-0.432 (2.344)	1.715 (1.373)
Log (Area)	-2.186 (4.597)	-2.004+ (1.078)	-3.228 (3.522)	-2.331*** (0.670)	-0.620 (1.593)	1.916* (0.933)
Log (Area) × Log (GDP per capita)	0.746 (0.927)	0.457* (0.217)	0.854 (0.710)	0.531*** (0.135)	0.126 (0.321)	-0.399* (0.188)
Log (Average Property Size), 1998	-4.150*** (0.808)	-2.404*** (0.190)	0.476 (0.619)	-0.047 (0.118)	-0.448 (0.280)	-0.161 (0.164)
Log (Unused Arable Land), 1995	-0.348 (0.307)	-0.131+ (0.072)	-0.177 (0.235)	-0.053 (0.045)	-0.009 (0.106)	0.063 (0.062)
Land Gini	9.112+ (5.505)	3.151* (1.291)	-0.156 (4.218)	-0.889 (0.803)	4.574* (1.908)	0.118 (1.118)
Families in PRONAF, share	7.125** (2.615)	-0.853 (0.613)	2.644 (2.004)	0.345 (0.381)	7.061*** (0.906)	20.797*** (0.531)
Log (Rural Credit Stock), 2004	-0.500 (0.338)	-0.069 (0.079)	-0.176 (0.259)	-0.088+ (0.049)	-0.027 (0.117)	0.067 (0.069)
Agrarian Reform, 1979-2002 (Dichotomous)	-1.185 (1.355)	-0.307 (0.318)	-0.122 (1.038)	-0.142 (0.198)	-0.161 (0.469)	-0.287 (0.275)
PT Mayoral Vote Share, 2004	-5.730+ (3.431)	-0.756 (0.804)	-0.798 (2.629)	-0.426 (0.500)	1.839 (1.189)	0.067 (0.697)
PT Presidential Vote Share, 2006	5.313 (5.952)	-2.720+ (1.395)	6.893 (4.560)	-1.611+ (0.868)	-1.082 (2.062)	-0.460 (1.208)
$R^2$	0.17	0.29	0.17	0.26	0.14	0.62

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . +  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

hectares (Column 3). These coefficient estimates are statistically significant at the 95 percent confidence level. Given the 247 municipalities with land invasions in 2007, these probability estimates suggest that the election of 14–17 landowning mayors is attributable to land invasions. In contrast, there is no statistically significant relationship between land invasions and landowners' electoral outcomes for city council (Columns 2 and 4), nor are invasions associated with more PRONAF candidates being elected (Columns 5 and 6).

The findings about the PRONAF candidates in the preceding tables should strengthen our confidence in the observed effect of invasions on landowner political outcomes. One might be concerned that the observed relationships between land invasions and landowners are spurious: municipalities where land invasions occur may be more rural and agricultural, and even conditioning on micro-regions, we might also expect more landowners in politics in those places. However, to the extent that there is an observed relationship between invasions and PRONAF-candidate outcomes, the effect works the other way—invaded municipalities have *fewer* family-farmer candidates (cf. Table 6.6, Column 5). Hence, if invasions were merely a spurious indicator of ruralness, they would have to indicate a certain kind of ruralness in which family farmers are either less prevalent or less politically active.

Finally, as Table 6.9 shows, the effect of invasions on landowners' political action is not simply an effect on wealthy candidates. Examining the share of assets that are land among all candidates, land invasions are associated with the entry of candidates for whom land is a greater share of their asset portfolio. Columns 1 and 2 examine the mean share of candidates' assets that are land, while Columns 3 and 4 look at the average land share of assets among only candidates who declared owning some land. Both outcomes are thus independent of the two measurement criteria for classifying individual candidates as landowners used in the preceding specifications. For mayoral candidates, invaded municipalities are estimated to have 3 percent greater share of rural real estate in total asset value, an increase of roughly 25 percent of the mean (12.5 percent of asset value) (Column 1). City council candidates are also land-richer on average (1.3 percent, Column 2), though this represents a smaller increase relative to the mean (12.4 percent of asset value). These estimates are significant with 95 percent confidence.

While candidates in invaded municipalities have a greater share of their assets as land, these candidates are not wealthier on average. As Columns 5 and 6 show, there is no statistically significant relationship between land invasions and the mean total asset holdings of candidates for either mayor or city council. This suggests that the observed relationship between land invasions and the participation and success of landowners in local politics is not indicative of a general effect on all asset owners.

## 6.4 Nonparametric Tests

To explore these findings further, I conduct nonparametric tests for the effect of land invasions on landowner political outcomes. If the identifying assumptions hold—i.e. that conditional on micro-regions, land invasions are “as-if” random at the municipal level—invaded and non-invaded municipalities are exchangeable, and we can compute the exact level of a difference-in-means test

Table 6.8: Landowners Winning Elections, Both Offices

	Landed (> Median)		Landed (> 100 ha)		Pronaf	
	Mayor	Council	Mayor	Council	Mayor	Council
	(1)	(2)	(3)	(4)	(5)	(6)
Land Invasion, 2007	0.070*	0.002	0.058*	0.002	0.006	0.003
	(0.031)	(0.002)	(0.024)	(0.001)	(0.009)	(0.002)
Land Invasion, 1988-2005	-0.018	-0.000	-0.018	-0.001	0.005	0.001
	(0.018)	(0.001)	(0.014)	(0.001)	(0.005)	(0.001)
Log (Population), 2007	0.030*	-0.002*	0.013	-0.001	-0.007 <sup>+</sup>	-0.005***
	(0.012)	(0.001)	(0.010)	(0.001)	(0.004)	(0.001)
Income Gini, 2000	-0.117	-0.006	-0.007	-0.016*	-0.011	0.006
	(0.157)	(0.012)	(0.121)	(0.007)	(0.044)	(0.012)
Log (GDP per capita), 1991	0.055	-0.002	0.019	-0.001	0.001	0.002
	(0.037)	(0.003)	(0.029)	(0.002)	(0.010)	(0.003)
Log (GDP per capita), 2000	-0.034	-0.025***	0.040	-0.011**	-0.011	0.009
	(0.091)	(0.007)	(0.070)	(0.004)	(0.026)	(0.007)
Log (Area)	-0.045	-0.017***	-0.020	-0.008**	0.000	0.004
	(0.062)	(0.005)	(0.048)	(0.003)	(0.017)	(0.005)
Log (Area) × Log (GDP per capita)	0.010	0.004***	0.005	0.002**	0.000	-0.001
	(0.013)	(0.001)	(0.010)	(0.001)	(0.004)	(0.001)
Log (Average Property Size), 1998	-0.048***	-0.007***	0.005	-0.001	-0.004	0.000
	(0.011)	(0.001)	(0.008)	(0.000)	(0.003)	(0.001)
Log (Unused Arable Land), 1995	-0.002	-0.000	-0.000	-0.000	-0.000	0.000
	(0.004)	(0.000)	(0.003)	(0.000)	(0.001)	(0.000)
Land Gini	0.126 <sup>+</sup>	0.006	0.009	-0.002	0.052*	0.003
	(0.074)	(0.005)	(0.057)	(0.003)	(0.021)	(0.006)
Families in PRONAF, share	0.080*	-0.000	0.008	-0.001	0.037***	0.076***
	(0.035)	(0.003)	(0.027)	(0.002)	(0.010)	(0.003)
Log (Rural Credit Stock), 2004	-0.004	-0.000	-0.001	-0.000	-0.001	-0.000
	(0.005)	(0.000)	(0.004)	(0.000)	(0.001)	(0.000)
Agrarian Reform, 1979-2002 (Dichotomous)	0.006	-0.002	0.009	-0.001 <sup>+</sup>	0.000	-0.001
	(0.018)	(0.001)	(0.014)	(0.001)	(0.005)	(0.001)
PT Mayoral Vote Share, 2004	-0.056	-0.002	-0.009	-0.002	0.018	0.004
	(0.046)	(0.003)	(0.036)	(0.002)	(0.013)	(0.003)
PT Presidential Vote Share, 2006	0.058	-0.017**	0.091	-0.010**	-0.040 <sup>+</sup>	-0.009
	(0.080)	(0.006)	(0.062)	(0.004)	(0.023)	(0.006)
$R^2$	0.15	0.26	0.15	0.19	0.10	0.51

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . <sup>+</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Table 6.9: Asset Value of Candidates, Both Offices

	Land Share		Land Share, Landowners		Total Assets	
	Mayor (1)	Council (2)	Mayor (3)	Council (4)	Mayor (5)	Council (6)
Land Invasion, 2007	0.030*	0.013*	0.043*	0.007	0.144	0.016
	(0.013)	(0.006)	(0.019)	(0.015)	(0.106)	(0.053)
Land Invasion, 1988-2005	0.001	-0.000	0.011	0.000	-0.018	-0.058 <sup>+</sup>
	(0.007)	(0.004)	(0.011)	(0.009)	(0.062)	(0.031)
Log (Population), 2007	-0.008	0.000	-0.007	-0.006	0.058	-0.281***
	(0.005)	(0.003)	(0.008)	(0.006)	(0.043)	(0.021)
Income Gini, 2000	-0.067	0.035	-0.138	0.044	0.615	-0.322
	(0.065)	(0.032)	(0.095)	(0.075)	(0.545)	(0.271)
Log (GDP per capita), 1991	-0.011	-0.007	-0.021	0.014	-0.069	-0.081
	(0.015)	(0.008)	(0.022)	(0.018)	(0.129)	(0.064)
Log (GDP per capita), 2000	-0.014	-0.006	-0.011	0.008	0.478	-0.056
	(0.038)	(0.019)	(0.055)	(0.044)	(0.317)	(0.158)
Log (Area)	-0.013	-0.003	-0.026	0.024	0.216	-0.008
	(0.026)	(0.013)	(0.037)	(0.030)	(0.215)	(0.107)
Log (Area) × Log (GDP per capita)	0.006	0.001	0.008	-0.005	-0.016	0.026
	(0.005)	(0.003)	(0.008)	(0.006)	(0.043)	(0.022)
Log (Average Property Size), 1998	-0.003	-0.003	-0.007	-0.005	0.022	-0.065***
	(0.005)	(0.002)	(0.007)	(0.005)	(0.038)	(0.019)
Log (Unused Arable Land), 1995	0.001	-0.001	0.001	-0.001	-0.004	0.005
	(0.002)	(0.001)	(0.003)	(0.002)	(0.014)	(0.007)
Land Gini	0.001	0.002	-0.003	0.028	-0.446 <sup>+</sup>	-0.266*
	(0.031)	(0.015)	(0.045)	(0.035)	(0.258)	(0.128)
Families in PRONAF, share	0.016	0.002	0.024	-0.047**	0.154	0.286***
	(0.015)	(0.007)	(0.021)	(0.017)	(0.122)	(0.061)
Log (Rural Credit Stock), 2004	-0.002	-0.000	0.001	0.000	0.014	0.015 <sup>+</sup>
	(0.002)	(0.001)	(0.003)	(0.002)	(0.016)	(0.008)
Agrarian Reform, 1979-2002 (Dichotomous)	-0.000	-0.000	-0.003	-0.005	-0.021	-0.024
	(0.008)	(0.004)	(0.011)	(0.009)	(0.063)	(0.032)
PT Mayoral Vote Share, 2004	0.035 <sup>+</sup>	-0.002	0.032	0.001	0.023	-0.038
	(0.019)	(0.009)	(0.028)	(0.022)	(0.161)	(0.080)
PT Presidential Vote Share, 2006	0.047	0.005	0.078	0.155***	-0.081	-1.072***
	(0.033)	(0.016)	(0.049)	(0.038)	(0.278)	(0.139)
$R^2$	0.12	0.20	0.13	0.18	0.18	0.51

Note: Micro-region fixed effects included in all specifications.  $N = 5061$ . <sup>+</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

Table 6.10: Nonparametric Tests for Treatment Effects

	Landed (> Median)		Landed (> 100 ha)		Pronaf	
	Mayor	Council	Mayor	Council	Mayor	Council
<i>Electoral Outcomes</i>						
Candidate Entry	0.021** (0.008) [0.260]	-0.007 (1.000) [0.070]	0.037*** (0.000) [0.025]	0.002* (0.024) [0.326]	-0.011 (0.510) [0.036]	-0.019** (0.006) [0.000]
Vote Share	3.940** (0.002) [0.071]	-0.199 (1.000) [0.671]	4.986*** (0.000) [0.008]	0.566** (0.004) [0.072]	-1.007 (0.512) [0.046]	-1.883* (0.020) [0.000]
Winners	0.053** (0.004) [0.071]	-0.005 (0.518) [0.001]	0.060*** (0.000) [0.015]	0.000 (0.282) [0.960]	-0.001 (1.000) [0.873]	-0.009* (0.032) [0.000]
<i>Asset Profile</i>						
	Land Share		Land Share, Landowners		Total Assets	
	0.018* (0.014) [0.110]	0.006* (0.048) [0.281]	0.029* (0.014) [0.071]	0.018 (0.924) [0.101]	0.181* (0.026) [0.053]	-0.380* (0.018) [0.000]

Estimates of mean differences between invaded municipalities and those not invaded in 2007, not conditional on micro-region fixed effects.  $p$ -values from permutation test, with land invasions permuted within micro-regions, in parentheses;  $p$ -values from parametric two-sample  $t$ -test in square brackets. Stars correspond to permutation test: \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$

by permuting the land invasions indicator variable within micro-regions.

## Treatment Effects

Table 6.10 presents results from both the permutation tests for all outcome variables analyzed above, as well as for the parametric  $t$ -tests for differences in means between invaded and non-invaded municipalities. Estimates are in most cases lower in magnitude than in the fixed-effects regressions because here the micro-region effects have not been removed. However, the structure of the permutation test, by permuting treatment within groups, ensures that the hypothesis tests are conditional on micro-regions. There appears to be no systematic relationship between the  $p$ -values from the nonparametric (in parentheses) and parametric (in square brackets) tests: some are larger with the nonparametric test while others are smaller.

Results are broadly consistent with those found above. Land invasions are associated with

more landowners running for mayor, greater landowner vote share, and a greater probability of having a landowner elected (Columns 1 and 3, top three rows), while there is no robust effect on city council elections (Columns 2 and 4). Candidates are also on average more land-rich in invaded municipalities (Row 4).

Some minor differences emerge as well. For one, the nonparametric tests do find a negative relationship between land invasions and candidates for city council who are enrolled in PRONAF. For another, the average total wealth of mayoral candidates (Column 5, Row 4) is found to have a positive relationship with land invasions, statistically significant at  $\alpha = .05$ .

## Difference in Differences

Finally, I restrict the sample to mayoral races in which the incumbent is running for re-election. By using the 2008 data, we can identify the landowning status of the incumbent mayor, even though asset data was not collected in the prior election (2004). This allows us to examine the change in landowning status of the elected mayor within municipalities, thereby controlling for municipal-specific characteristics.

The difference-in-differences estimate is easily calculated, and in fact is easily tested with the permutation test. Treatment indices are permuted—in this case, within groups, as above—and the difference in means is calculated on the change in landowning status of the elected mayor (a variable with scores in  $\{-1, 0, 1\}$ ).

In this restricted sample, there are 3,020 municipalities, or 60 percent of the broader sample. One may be concerned that this subsample is not representative of all municipalities; that is, municipalities in which the incumbent runs for re-election may be different from those where the incumbent does not run. Because of term limits, however, this difference should be minimal. Since mayors can only serve two consecutive terms, incumbents can only seek re-election half of the time. Additionally, the empirical differences on observables between the subsample and the rest of the municipalities are minimal. Table 6.11 shows permutation test results for differences between the 3,020 municipalities with re-election campaigns in 2008 and the other 2,041 municipalities. Few estimates are statistically significant, and differences are small in magnitude, particularly when compared with differences between invaded and non-invaded municipalities discussed above.

This restricted sample has additional limitations. Because we only know the asset position of the incumbent, not all candidates from 2004, we can only examine the outcome of the election, and only for the executive office—i.e. the change in landowning status of the winning mayoral candidate.

Moreover, it is not surprising that there is very little within-municipality variation in whether the mayor is a landowner. Indeed, 90 percent of municipalities in the subsample see no change between 2004 and 2008. Hence, the data do not contain much of an effect to explain. Consequently, while a small and positive difference in differences exists between invaded and non-invaded municipalities (0.015), the permutation test does not return a statistically significant  $p$ -value ( $p = 0.646$ ).<sup>3</sup>

<sup>3</sup>For this test, I used as the treatment variable an indicator of whether a land invasion occurred in the municipality

Table 6.11: Differences Between Municipalities With and Without Re-Election Campaigns

	Estimate	<i>p</i>
Land Invasion, 1988-2005	0.021	0.330
Log (Population), 2007	0.082*	0.018
Income Gini, 2000	0.001	0.806
Log (GDP per capita), 1991	0.004	0.460
Log (GDP per capita), 2000	0.010	0.162
Log (Area)	-0.004	1.000
Log (Area) × Log (GDP per capita)	0.079*	0.024
Log (Average Property Size), 1998	-0.002	1.000
Log (Unused Arable Land), 1995	-0.104	0.684
Land Gini	0.016 <sup>+</sup>	0.066
Families in PRONAF, share	-0.031	0.148
Log (Rural Credit Stock), 2004	0.102 <sup>+</sup>	0.092
Agrarian Reform, 1979-2002 (Dichotomous)	0.005	0.950
PT Mayoral Vote Share, 2004	0.012**	0.002
PT Presidential Vote Share, 2006	0.011**	0.004

Estimates of mean differences between municipalities in which the incumbent mayor ran for re-election in 2008 and those in which there was no incumbent in the race. *p*-values correspond to the permutation test, with the re-election indicator permuted within micro-regions. <sup>+</sup>  $p < .10$ , \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$

## 6.5 Conclusions

Examining municipal-level variation within narrow regions, this chapter finds that land invasions are associated with a greater number of landowning candidates running for mayor, a higher vote share received, and more landowners elected mayor. Invasions have a weaker effect on landowners running for city council and no effect on politicians who are small farmers. Further examination using within-region permutation tests confirms the general findings.

The chapter provides quantitative evidence to support the argument that market structures have an effect on the political behavior of rural elites. While the broader research highlights the great differences in rural markets between Argentina and Brazil, this chapter finds that even smaller, localized variations in institutions matter. Where markets are well functioning and private property rights clear and secure, the landed elite does not need to invest resources in controlling the coercive apparatus of the state.

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during the mayoral term, i.e. 2005–2007, not just in 2007.

**Part IV**  
**Conclusion**

# Chapter 7

## Conclusion

### 7.1 Main Themes

This research has explored how economic changes in the agricultural sector have affected rural politics and redistributive policy more generally. The chapters focused primarily on within-case analyses and comparisons. In this chapter, I bring them together for more general conclusions, and I bring in evidence from countries other than Argentina and Brazil.

#### **Redistributive Policy and the Rural Sector**

The agricultural sector is generally politically weak in urbanized, less economically developed societies. Farmers are difficult to organize because they are dispersed across a wide territory. Redistributive policies are set in the center, and it is more difficult for rural interests to mobilize there than it is for industrial or commercial interests. In urbanized societies, to the extent that rural elites have had power historically, it has often been because one urban faction sought an ally against another urban faction at a given time, or because rural elites were also involved in industry or commerce. In exchange for their support of urban interests—low food prices or political stability, for example—rural elites often received great autonomy to rule the countryside without interference from the national government. The rural poor ultimately bore the cost and lacked the capacity to seek redress.

Yet, in the cases of Argentina and Brazil, as agriculture steadily decreased as a share of the national economies, and as rural outmigration also depleted the countryside, even rural elites lost the influence they once had. Moreover, as agricultural technology changed, the composition of the rural elite itself shifted. In Argentina, while traditional landowning families participate in the soybean economy, many of the top producers today descend from families that arrived in Argentina much later from Italy and Central Europe. In Brazil, the vast majority of soybean farmers in the cerrado region have been on the land for under 30 years. Hence, in both countries, the rural elite have had to recreate their political machinery, despite any history of power they may have had—and Brazilian farmers have been much more successful in this regard.

The level of economic development, and particularly the relative sizes of the agricultural and non-agricultural sectors, has been theorized as a determinant of rural-urban redistributive policy, but the relationship is clearly quite complex. A relatively smaller agricultural sector, or general economic development, is not sufficient for rural-biased policies to emerge, as the case of Argentina demonstrates. Rather, the relationship between development and rural-urban redistributive policy is mediated by other factors, such as the capacity of the rural sector to organize politically, which are shaped not only by economic development.

The Brazilian case provides a further twist. While agriculture is a minority share of the Brazilian economy, and hence less desirable to tax and cheaper to subsidize, this relationship varies across subnational units. Indeed, in Mato Grosso, where the mobilization of soybean farmers was most pronounced, agriculture was a much larger share of the economy than the national average. Hence, the spatial distribution of agriculture is also relevant for its political potential—a fact that is not unique to agriculture, as enclave economies have had vastly different political dynamics (Collier and Collier 1991: 35). Moreover, the federal system adds an institutional angle to the urban-rural conflict. While agriculture is economically preponderant in Mato Grosso, and hence a potential source of tax revenue, farmers were able to harness the preexisting center-periphery dynamics between the states and the national government, turning the state government into an ally. Hence, the relationship between development and redistributive policy became channeled through intragovernmental politics.

## **Economic institutions**

This research has argued that rural market structures shape the capacity of farmers to organize and exercise political influence. Property rights and markets for the exchange of factors of production, such as land rental and service markets, have a strong influence on the economic and political interests of individual farmers, and they also affect the ease with which they can organize collectively. These markets are institutions that were created and evolved as international commodity markets expanded and a more capital-intensive production model developed and diffused through these countries. Domestic politics shaped the formation of these economic institutions, causing them to develop very differently in Argentina and Brazil.

The effect of economic institutions works in three interrelated ways. First, market institutions affect the expected returns ( $probability \times benefit - cost$ ) of investment alternatives, and when economic investments have greater expected returns, actors will invest less in political investments, all else equal. Second, by affecting the extent to which asset purchase rather than rental is necessary, markets shape the intensity of political demands. Actors with fixed assets are less able to adapt to changing conditions and will thus invest more to preserve the status quo. Third, these institutions have a powerful selection effect: they determine the types of actors and business models that survive over time.

When markets work, those farmers that are successful in taking advantage of them thrive; they invest fewer resources in political action, which makes subsequent political action less likely to pay off, thereby reinforcing the trend. Where markets fail, those who are successful in advancing their businesses through other means—securing land by force, gaining privileged access to subsidized

credit, using their large size to secure more favorable terms from suppliers, and so on—thrive. Production becomes concentrated among a smaller number of large asset holders, who have greater propensities to invest in political action as a means to economic ends.

In a sense, this is the other side of Bates' (1981) findings on state interventions in agriculture in Africa. Agriculture was both taxed and subsidized because doing so gave politicians greater power: by artificially making inputs scarce, politicians benefited from their ability to provide those inputs at their discretion. However, this system also creates a farming class selected on their ability to win subsidies from the state. Particularly when the state withdraws from the selective provision of inputs and thus loses its leverage over large farmers, as Brazil significantly did in the market reforms of the 1990s, one is left with a situation in which large farmers are well conditioned to pressure the political arena for subsidies. In this way, policies that may have once given the state power over large farmers have left the opposite legacy.

## **Federalism**

In the Brazilian case, federal institutions play a central role in the renovation of the rural lobby and the rise of soybean elites in Mato Grosso. Indeed, the focus of Chapter 5 is on an essentially state-level mobilization that leveraged its ability to organize subnationally to build a national political presence. In contrast, subnational politics was absent from the Argentine analysis, save for a brief appearance in the 2008 rural conflict (Chapter 4), in which rural organization leaders pressured provincial governors to support their cause. What accounts for this difference?

To address this question, we must first clarify how exactly federal institutions shaped the Brazilian outcome. It is worth recalling that much of the analysis in Chapter 5 focuses on the subnational comparison of Brazilian states, for which the federal institutions themselves are broadly the same. Hence, we are first looking for features of the federal system that create asymmetries across subnational units. A second set of features are those that are common to all subnational units but that enable or mediate the effect of other explanatory factors, factors that are not distributed uniformly across all units.

Regarding the former, subnational boundaries define territories with different economic compositions, as discussed above, and with different group sizes and identities. They thus define the scope of collective action problems. Farmers in Mato Grosso were much more homogenous, large-scale, and fewer in number than in other parts of the country, and definitely more so than in the country at large. Moreover, the state had a low population and a relatively large agricultural sector, which facilitated farmers' efforts to gain access to state-level elected office. In contrast, Argentina's main agricultural region is split among provinces that also contain large urban populations and the bulk of the country's industrial base. In this sense, Argentina's agricultural region is much more like the Brazilian state of Rio Grande do Sul than Mato Grosso. All else equal, the strategy of financing campaigns to win subnational office would be much more costly for Argentina's soybean farmers than it was in Mato Grosso.

Regarding the latter, subnational governments in Brazil are institutionally more autonomous and powerful than their Argentine counterparts. For one, Brazilian state governments have sufficient fiscal autonomy such that they can collect taxes and spend the revenue as they see fit. Several

important taxes, including the sales tax (ICMS), are collected at the state level, giving state governments significant authority to regulate and support business activities, including the funding of interest groups.

In contrast, the Argentine federal system is much more centralized. Through the system of coparticipation, provincial governments are highly dependent on fiscal transfers from the national government (Eaton 2004). Argentine provincial governments are more reliant on federal money for basic operational costs. Brazilian subnational governments do receive significant funding from the federal level, but these transfers are earmarked for certain policies, like health care and education, and are less subject to discretion at either the national or local level. The Argentine central government can—and does—use its ability to withhold transfers to provincial governments in order to discipline unruly governors. Brazilian states are not subject to the same degree of coercive pressure. Given the greater centralization in Argentina, subnational governments are not as easily a point of access for interest groups that challenge the national government's interests.

Hence, it would be institutionally much more difficult for a system of subnational revenue collection in support of a national lobby to emerge in Argentina. The subdivision of territory that a federal system creates is relevant for organization, but it is additionally critical that the subnational units have sufficient resources and autonomy from the center such that subnational-level organization is worthwhile. Indeed, it is telling that many of Argentina's rural associations are unitary, seated in Buenos Aires (like SRA), and those that have more of a federal structure themselves are either based in local communities (like AACREA) or have federal units that do not map onto provincial boundaries (like CRA). If, as Skocpol, Ganz and Munson (2000) and Crowley and Skocpol (2001) argue, organizations that form within federal systems reflect that institutional context, the lack of meaningful provincial-level rural organizations in Argentina is revealing.

The division of responsibilities within Brazilian federalism further supported rural organization. While responsibility for providing most social services, such as health care and education, has been decentralized, because agricultural policy is largely derived from macroeconomic policy—with inflation, exchange rate, and wage policy driving agricultural policy outlines—it remains highly centralized. Consequently, despite the fact that national, urban political interests may have no desire to support a well organized farm lobby, subnational governments may have common cause with rural interests because both seek greater transfers from the federal government. As a result of these factors, farmers in Mato Grosso were more able to mount a political campaign to capture state government and convert it into an ally and advocate for their national policy objectives.

### **The state and interest groups**

Throughout the project, the relationship between the state and the rural political organizations has been central. In particular, the new farm organizations that were most successful in Brazil were the ones that received support from the state government. In his work on peak business associations, Schneider (2004) finds that state actions that encourage or discourage business organization tend to outweigh underlying economic determinants of collective action. Unless the state encourages organizations, such as through providing privileged access to policymaking, they typically

fail.

Like Schneider, I find that in many cases, benefits emanating from the state, not limited to access to policymakers, encouraged rural sector organization in Brazil and Argentina, and organizations in both countries have sought—and to varying degrees obtained—financial support from their governments. However, the evidence from Mato Grosso in particular suggests that the causality is reversed: the state government gave incentives to organizations once they had already organized. This is because collective action problems in agriculture are widely acknowledged to be more severe than in other sectors (Olson 1985), and agricultural policy in developing countries is typically subordinated to the interests of the urban centers (Bates 1981). National politicians may not have the same interests in organizing farmers as they do for the captains of industry because of the incentives to redistribute rural wealth.

While states can support organizations in many ways, one particularly salient feature in these cases has been financial support. The funding mechanism in Mato Grosso, by which the state government collected and supplemented a mandatory contribution from all farmers and passed it to their lobby groups, was a key to the organizations' success in influencing national agricultural policy. Argentine rural organizations, despite their complicated relationship with the national government, have also benefited from public funding, and they have also explored how to get more of it. As discussed in Chapter 3, the FAA in the 2000s was highly dependent on revenue from the sale of bills of lading (*cartas de porte*), based on a concession from the national agriculture regulators. That arrangement did imply a different relationship between the state and the organization than in the case of Aprosoja in Mato Grosso, for the revenue for the organization came from a service it provided, available to members and non-members alike. The government was not inserted between the organization and its members.

The Argentine national government did provide funding to marketing organizations, such as the Argentine Beef Promotion Institute (Instituto de Promoción de la Carne Vacuna Argentina – IPCVA). The organization, created by a law in 2001, was funded by a contribution assessed on all slaughtered cattle, bringing in an estimated Arg\$15–20 million per year. Unlike the farmers' associations in Mato Grosso, IPCVA had representatives from ranchers, the meat industry, and the government on its board of directors. This prevented ranchers' efforts to turn IPCVA into a political lobby for their interests.<sup>1</sup>

Argentina's traditional rural associations did consider a new funding mechanism that would have involved the state more directly. Under the proposal, the Labor Ministry would collect an additional percentage on top of what they already collect in payroll taxes from farmers and pass it to a general fund that would support the four traditional associations, as well as UATRE, the association of rural workers and stevedores. By tacking a surcharge onto an existing tax, rather than creating a new tax, securing financing would be politically less contentious—a strategy that farmers in Mato Grosso also exploited. Indeed, rural leaders in Argentina surmised that a simple resolution from the Labor Ministry, rather than a law, would be sufficient.<sup>2</sup> Not surprisingly, however, the proposal failed to get off the drawing board.

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<sup>1</sup>Interview 78271

<sup>2</sup>Interview 66308

The key difference between these cases of public financing for organizations in Argentina and the successful cases in Mato Grosso is the autonomy the organizations received. In Mato Grosso, the soybean fund was privately operated; the state government's role was to put money into it. While in principle, a future state government could exert influence over the organizations by threatening to stop collecting funds for them, the nature of the intra-federal political conflict in Brazil suggests that the government would have few reasons to do so. As long as farmers kept their focus on lobbying the national government, state politicians should have little cause to see the farm organizations as threatening. Moreover, unlike with Argentina's IPCVA, there are fewer other means by which the Mato Grosso government could shape the organizations' activities on a day-to-day level. Hence, the arrangement between the state government and Mato Grosso's associations is long on inducements and short on constraints (cf. Collier and Collier 1979).

### **Economic linkages**

Chapter 2 discusses how a change in the linkage between the agricultural sector of the economy and the rest of the national economy had far-reaching effects on the type of redistributive policy that resulted. Because soybeans, unlike beef and wheat, are not consumed in Argentina, policies that capture soybean revenue do not have a direct effect on food prices, and hence real wages. Likewise, policies to depress food prices no longer entail foregoing major sources of export revenue, and hence foreign exchange income. The change in what Argentine farmers produce thus removed one political obstacle to taxing them aggressively.

In contrast, Brazil consumes much more of its soy production. Warnken (1999: 11–3) contends that the military regime in Brazil promoted soybean cultivation, among other reasons, in order to reduce domestic food prices and to support the poultry industry by providing cheap inputs. As a result, in 2011, Brazil consumed 72 percent of the soybean oil and 50 percent of the soybean meal produced domestically.<sup>3</sup>

This difference in domestic consumption patterns does not have a major role in explaining the difference in redistributive policies across the two countries. Aside from all of the other causal factors discussed in the analysis, a number of issues mitigate the importance of the domestic market for soybeans in Brazil. With the exception of soybean oil for home cooking, soybean products are not directly consumed by the urban population. Brazilians eat meat from animals that were fed soybean meal, and soy derivatives are contained in many food products; however, the link between a change in soybean prices and urban real wages is very indirect. And, unlike beef was in Argentina, cooking oil is not an important part of the basket of goods workers consume, nor is it viewed as an indicator of the general state of the economy. In contrast, the price of beef remains psychologically important in Argentina today. Hence, the level of domestic consumption of soybeans is different than domestic consumption of beef.

That said, the presence of a strong domestic market for soybeans has several important implications for Brazilian politics. As one example, the debate over genetically-modified organisms

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<sup>3</sup>Meal consumption increased markedly over the past two decades. Schnepf, Dohlman and Bolling (2001) report that Brazil consumed 75 percent of its oil and 30 percent of the meal domestically in the early 1990s.

(GMOs) was contentious and protracted in Brazil. Genetically-modified soy was only provisionally permitted in Brazil in 2004. In contrast, genetically-modified soybeans were introduced in Argentina in 1996 without debate, and nearly all soybeans produced in Argentina are GMO.

## Path dependence

Finally, this research has focused on causal processes that have unfolded over decades, tending toward the big, slow-moving, and invisible end of the spectrum (Pierson 2003). Most of these processes have involved increasing returns, feeding back into themselves and reinforcing over time (Pierson 2000). Notably, changes in the strength of an organization exhibit this characteristic, in which the increase or decrease in group strength at one time has an effect on future increases or decreases. In Argentina, we saw that once the traditional rural associations began declining in relevance, membership declined, which further weakened the organizations. Organizations have a certain level of inertia—the decision of just one member to quit may not trigger a downward spiral—but if a change is significant enough to alter perceptions of the organization’s strength, it can have increasing returns over time. This effect is particularly relevant when considering the individual incentives to participating in an organization: if individual expected returns to investing in the organization are a primary consideration, then the instrumental effectiveness of the organization plays into the investment decision. Anything that affects individual-level incentives to invest in an organization then have notably increasing returns because contemporary decisions affect the decisionmaking calculus in the future.

The formation of rural market structures and their effect on the nature of agricultural modernization are also path dependent. Indeed, rural market failures may be more important for their effect on the development of commercial agriculture than for their continuing effect as contemporary institutions. That is, while contemporary differences in land-rental and agricultural-service markets persist between Brazil and Argentina—land rental was negligible in Brazil, while over half of Argentina’s soybeans were produced on rented land—the more important effect of these economic institutions lies in how they shaped the emergence of the Brazilian agribusiness model: the large-scale, capital-intensive form of production. It is reasonable to expect that if vibrant land rental markets were suddenly created in Mato Grosso, there would be little or no effect on soybean farmers’ political action.

In fact, a 2010 study revealed that the concentration of soy production in Mato Grosso has dramatically increased, a phenomenon they attribute to the rise of Argentine-style rental arrangements. Between 2005 and 2010, the share of land cultivated by the twenty largest producers has increased from 9 to 20 percent.<sup>4</sup> Some of this concentration is linked with the arrival of international agricultural groups in Mato Grosso, particularly from Argentina. For example, El Tejar, Argentina’s largest soybean producer, has begun renting from soy farmers in Mato Grosso, essentially hiring landowners to continue farming their own land. The company supplies the working capital and bears much of the risk, while the landowner trades autonomy for a guaranteed wage.

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<sup>4</sup>IMEA, “Concentração da Produção da Soja em Mato Grosso,” 9 Aug. 2010. See also “Vinte grupos concentram 20% da área plantada de soja em MT.”

Hence, the emergence of a specific type of rental and labor market in Mato Grosso has, if anything, contributed to the further concentration of production. Agriculture remained highly concentrated among a small group of large landowners with interests in shaping the political system. The market structures at the time of the initial development of the sector were most relevant for creating this concentrated group.

## Commodities and Rentier Politics

Despite the magnitude of the economic transformation in agriculture, little research exists on the political economy of agricultural commodities in the contemporary era. This is striking given the strong intellectual tradition of analyzing the impact of commodity exports, including agriculture, on the political and economic history of Latin America. Reliance on the export of agricultural and mineral commodities has been linked to the formation of weak states (Karl 1997; Centeno 2002) and to economic underdevelopment (Furtado 1976; Cardoso and Faletto 1979). Moreover, political scientists and economists have analyzed at length how natural resource endowments, rather than encouraging robust economic growth and the development of stable, effective political institutions, tend to provoke the opposite in developing countries. Some have noted how other sources of non-tax revenue, such as foreign aid (Morrison 2007, 2009) and federal transfers to subnational governments (Gervasoni 2010), can unleash similar types of rentier politics. This resource curse literature, however, typically excludes agricultural commodities from the scope of their arguments. When scholars explicitly address agriculture, they assert that agricultural commodities cannot provoke a resource curse because (1) agricultural production is labor intensive; (2) agriculture does not generate rents, or abnormally large profits; and (3) the state does not capture agricultural export revenue (Ross 2001: 331-2; Dunning 2008: 24).

However, contemporary commercial agriculture presents distinct issues that challenge many of the basic assumptions of these existing literatures. Economically, agricultural production, particularly of commodity crops, has modernized. This transformation has increased the capital intensity, decreased the labor intensity, and increased the optimal scale of agricultural production. Additionally, the penetration of international markets into the countryside is more widespread. As a result, traditional views on the political salience of agricultural exports need to be reconsidered.

The case of Argentina illustrates how agricultural exports can fuel export-oriented populism, or in the words of Mazzuca (2012), “rentier populism.” Agricultural exports are hugely important to the Argentine economy—around one-fourth of total exports are soybeans alone—yet they do not even approach the centrality to the national economy that oil does in many producing countries, which can be more than 80 or 90 percent of GDP. The Argentine economy is far more developed and diversified than in many oil- and mineral-dependent countries. It is thus striking the degree to which the Argentine state has become dependent on soybean revenues. As the Kirchner governments increased soybean taxes through 2008, they claimed (disingenuously) that they were taxing the crop to prevent monoculture, to keep the economy from becoming dependent on soybeans. Yet, many critics rightly observed that it was the government that had become soy-dependent. The fiscal demands of its broad-based and targeted subsidy programs increasingly tied the Kirchners’ ability to govern to the price of soybeans in Chicago. The effects of this resource dependence on

the Argentine state also appear to be significant and should be the subject of future research.

## 7.2 Comparative Perspective

As distinctive as the political model developed by Mato Grosso's farmers seems, it actually follows developments in the United States. Indeed, many interviewees at APROSOJA cited the "checkoff" system in the US as the model they were following. First in several midwestern states, then nationally as a part of the 1990 farm bill, laws were passed mandating a contribution from all soybean farmers. Checkoffs exist for 18 crops and ranching activities in the US, and they raise large sums of money. Soybean farmers paid 0.5–1 percent of the sale price of their crop to the checkoff, generating well in excess of \$100 million in the 2000s.<sup>5</sup> The beef checkoff brought in \$77 million in 2010 from a \$1-per-head of cattle contribution.

Despite many similarities, the Mato Grosso system had several key differences. For one, the role of the state was much more direct in Brazil. In both countries, the law made the contributions mandatory, but in Brazil, the state government did the revenue collection for the private sector, whereas in the US, silo operators collected the soybean checkoff, for example. Additionally, the Mato Grosso state provided a matching contribution to that which the farmers paid, thereby directly subsidizing the interest group. The other key difference was that, under the laws that created the checkoffs in the US, this money could only be used for research and marketing, not political action. There was no such firewall in Mato Grosso: organizations were empowered generally to advance the interests of their farmers. On a technical level, the prohibition seemed to be generally followed in the US, albeit with occasional lapses.<sup>6</sup> The crop marketing boards must be officially apolitical, yet their research and publications undoubtedly help the political arm of the farm lobby. This division of labor, which sounds similar to the emerging farm lobby in Argentina, appears to have served US farmers well.

The Argentine system of export taxes on soybeans has also inspired other governments to consider how to capture booming agricultural commodity wealth. Paraguay considered imposing taxes on soybean exports: Fernando Lugo in fact promised to raise taxes on soybeans immediately upon taking office in 2008. Paraguay is South America's third-leading soybean-producing country, and the crop is Paraguay's top export, responsible for nearly 50 percent of total exports during the 2000s. Moreover, soybeans are primarily cultivated by foreign nationals, with Brazilians responsible for around 60 percent alone.<sup>7</sup>

The new soy tax did not come to pass, however. Lugo took office in August 2008, and commodity prices fell sharply immediately after as the global financial crisis exploded. The proposal was abandoned in October. Aside from any inopportune drop in international prices, the proposal faced political challenges from the landed elite. Large landowners maintain significant influence in national politics, to the point that a land conflict was the event that triggered Lugo's swift removal from office in 2012, the so-called "golpeachment."

<sup>5</sup><http://www.soybeancheckoff.com/collections.htm>

<sup>6</sup>William Newman, "Audit Finds Problems in Cattlemens Spending," *New York Times*, 2 Aug. 2010.

<sup>7</sup>"Religioso Fernando Lugo é eleito presidente do Paraguai," *Estado de São Paulo*, 21 Apr. 2008.

### 7.3 Broader Effects

This research focuses on explaining how rural political power has evolved as the agricultural sector has been transformed, for rural political power is one of the key determinants of rural-urban redistributive policy. The implications of both rural power and urban bias can be far-reaching. It could be argued that urban bias can lead to positive development outcomes. Less developed countries may be able to foster industrialization by appropriating some of the agricultural surplus. Indeed, depressing food prices to increase urban real wages could also help lower costs for nascent industries. Moreover, extracting wealth from rural elites may also have the political benefit of weakening a conservative opponent of development. Export elites, particularly agricultural exporters, traditionally wielded great political power (Smith 1969; Williams 1994; Bates 1997; Paige 1997), and in many places landowners autonomously controlled the vast countryside (Nunes Leal 1977; Mazzuca 2003). Taxing agricultural commodities can thereby have economic, political, and social virtues.

However, just because developmentalist policies can have an urban bias does not mean we should conclude that urban bias is good for development. The distortionary impacts of urban-biased policies can have negative long-term effects on economic development, poverty, and inequality. The distributional effects are often highly regressive, for elites tend not to suffer the consequences of urban-biased policies; poorer, small farmers typically bear the costs (Bates 1981). Additionally, the source of fiscal revenue (agricultural taxes) has no necessary relationship with how states spend their resources. More often than not, the appropriated agricultural surplus is spent on short-run consumption, not long-run investment, as the case of Argentina illustrates. Historical examples of marketing boards and state-run monopsonies gone bad are abundant.

This research has shown that when farmers organize, urban bias can be reverted or prevented. Yet, promoting the formation of a strong rural lobby is not necessarily the ideal solution. Rural bias distorts the economy in countless ways as well, as seen in developed countries with high farm subsidies. Rural-biased policies in developed countries, moreover, reinforce global inequality by closing off export markets and reducing prices for producers elsewhere. A strong farm lobby may also pursue policies with detrimental impacts on the environment. Moreover, facing a powerful rural sector, governments seeking to redistribute from agriculture may be forced to employ indirect means, such as exchange rate manipulation, resulting in broader implications for macroeconomic policy (Hirschman 1968). Although clearly the result of many factors, the appreciation of the Brazilian *real* throughout the 2000s provided perhaps the only means available to the national government to capture commodity export revenue and subsidize consumers.

While this analysis does not resolve these dilemmas, it does advance understanding of the determinants of rural political power and its effects.

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# Appendix A

## Acronyms

Table A.1: Acronyms of Organizations and Government Agencies

Acronym	Name	English
<b>Argentina</b>		
AACREA (Crea)	Asociación Argentina de Consorcios Regionales de Experimentación Agrícola	Argentine Association of Regional Agricultural Experimentation Consortia
AAPRESID	Asociación Argentina de Productores en Siembra Directa	Argentine Association of No-Till Farmers
ASAP	Asociación Argentina de Presupuesto y Administración Financiera	Argentine Association of Budget and Financial Administration
BCRA	Banco Central de la República Argentina	Central Bank of the Argentine Republic
CARBAP	Confederación de Asociaciones Rurales de Buenos Aires y La Pampa	Confederation of Rural Associations of Buenos Aires and La Pampa
CGT	Confederación General del Trabajo	General Confederation of Labor
CGE	Confederación General Económica	General Economic Confederation
CIARA	Cámara de la Industria Aceitera de la República Argentina	Chamber of the Oilseed Industry of the Argentine Republic
CONINAGRO	Confederación Intercooperativa Agropecuaria	Agricultural Inter-cooperative Confederation

*(Continued on next page)*

Acronym	Name	English
CRA	Confederaciones Rurales Argentinas	Argentine Rural Confederations
FAA	Federación Agraria Argentina	Argentine Agrarian Federation
ICPVA	Instituto de Promoción de la Carne Vacuna Argentina	Argentine Beef Promotion Institute
INDEC	Instituto Nacional de Estadística y Censos	National Statistics and Census Institute
INTA	Instituto Nacional de Tecnología Agropecuaria	National Institute of Agricultural Technology
MECON	Ministerio de Economía y Finanzas Públicas	Ministry of Economy and Public Finances
ONCCA	Oficina Nacional de Control Comercial Agropecuario	National Office of Agricultural Commerce Regulation
SAGPyA	Secretaría de Agricultura, Ganadería, Pesca y Alimentos	Secretariat of Agriculture, Ranching, Fisheries, and Food
SRA	Sociedad Rural Argentina	Argentine Rural Society
UATRE	Unión Argentina de Trabajadores Rurales y Estibadores	Argentine Union of Rural Workers and Stevedores
UIA	Unión Industrial Argentina	Argentine Industrial Union
<b>Brazil</b>		
ACRIMAT	Associação dos Criadores de Mato Grosso	Mato Grosso Cattlemen's Association
AMPA	Associação Mato-grossense dos Produtores de Algodão	Association of Cotton Producers of Mato Grosso
APROSOJA	Associação dos Produtores de Soja do Estado de Mato Grosso	Association of Soybean Producers of Mato Grosso
CNA	Confederação da Agricultura e Pecuária do Brasil (Confederação Nacional da Agricultura)	Confederation of Agriculture and Ranching of Brazil
CNPSO	Centro Nacional de Pesquisa em Soja (Embrapa Soja)	National Soybean Research Center
CONTAG	Confederação Nacional dos Trabalhadores na Agricultura	National Confederation of Farm Workers
CPT	Comissão Pastoral da Terra	Pastoral Land Commission

*(Continued on next page)*

Acronym	Name	English
DNIT	Departamento Nacional de Infra-Estrutura de Transportes	National Infrastructure and Transportation Department
EMBRAPA	Empresa Brasileira de Pesquisa Agropecuária	Brazilian Agricultural Research Corporation
FABOV	Fundo de Apoio à Bovinocultura de Corte	Cattle-raising Support Fund
FACS	Fundo de Apoio à Cultura da Soja	Soybean Support Fund
FACUAL	Fundo de Apoio à Cultura de Algodão	Cotton Support Fund
FCO	Fundo Constitucional de Financiamento do Centro-Oeste	Constitutional Fund for Financing in the Center-West
FAMATO	Federação da Agricultura e Pecuária do Estado de Mato Grosso	Federation of Agriculture and Ranching of the State of Mato Grosso
FETHAB	Fundo Estadual de Transporte e Habitação	State Transportation and Housing Fund
FPA	Frente Parlamentar da Agropecuaria	Congressional Caucus of Agriculture
ICMS	Imposto sobre Circulação de Mercadorias e Serviços	Tax on Circulation of Goods and Services
IMEA	Instituto Mato-Grossense de Economia Agropecuária	Institute of Agricultural Economics of Mato Grosso
INCRA	Instituto Nacional de Colonização e Reforma Agrária	National Institute for Colonization and Agrarian Reform
IPEA	Instituto de Pesquisa Econômica Aplicada	Institute of Applied Economic Research
IBGE	Instituto Brasileiro de Geografia e Estatística	Brazilian Institute of Geography and Statistics
MAPA	Ministério de Agricultura, Pecuária e Abastecimento	Ministry of Agriculture, Ranching, and Food Supply
MDA	Ministério de Desenvolvimento Agrário	Ministry of Agrarian Development
MST	Movimento dos Trabalhadores Rurais Sem Terra	Landless Workers' Movement
PCB	Partido Comunista Brasileiro	Brazilian Communist Party

(Continued on next page)

Acronym	Name	English
PPS	Partido Popular Socialista	Popular Socialist Party
PR	Partido da República	Party of the Republic
PROALMAT	Programa de Incentivo ao Algodão de Mato Grosso	Cotton Incentive Program of Mato Grosso
PRONAF	Programa de Fortalecimento da Agricultura Familiar	Program to Strengthen Family Agriculture
SEDER	Secretaria de Estado de Desenvolvimento Rural	State Secretariat for Rural Development
SENAR	Serviço Nacional de Aprendizagem Rural	National Service of Rural Learning
SUDAM	Superintendência do Desenvolvimento da Amazônia	Superintendency for the Development of the Amazonian Region
TSE	Tribunal Superior Eleitoral	Supreme Electoral Court

## Appendix B

### Field Research and Interview Data

I conducted 14 months of field research in Argentina and Brazil between July 2007 and June 2009, roughly evenly divided between the two countries. I was in Argentina for four trips—July–August 2007, February–June 2008, December 2008–January 2009, and May 2009—and in Brazil three times—July 2007, September–November 2008, and February–June 2009. During this time I interviewed 141 subjects, established numerous other informal contacts, attended private internal meetings of several organizations, collected a wide range of documents, and worked to secure multiple quantitative data sources. Throughout the research, interviews are cited by five-digit codes, which were randomly assigned to them in order to protect the identity of those interviewed.

Table B.1 presents a count of the interviews conducted during this period, broken down by country, category, and subcategory. Many interviewees are classified in multiple subcategories. Nearly half of interviewees—68—were affiliated with an organization in the rural sector. Examining the breakdown by national- versus subnational-level, I interviewed more subnational representatives in Brazil, while almost all were at the national level in Argentina, a difference that in part reflects the research design. The difference is slightly misleading, however, in that many associations in both countries have a confederal system in which a subnational (state, provincial, or regional) president is commonly also a national-level vice president. In Brazil, I interviewed these people at the state level in the function of state president, while in Argentina, I interviewed them in Buenos Aires in their role as vice president of the national association.

As the middle set of subcategories shows, in Argentina I interviewed a relatively balanced number of subjects from the traditional farmers' associations (SRA, CRA, FAA, and Coninagro), the newer technical associations (AACREA and AAPRESID), and other associations in the sector, such as agroindustry groups and production-chain associations. In Brazil, in slight contrast, interviews concentrated more on fewer associations: 14 of the 33 interviewees were affiliated with the powerful soybean-farmers' association APROSOJA, either in Mato Grosso, Rio Grande do Sul, or Brasília. This number included several founding members, all five current and former presidents (three in Mato Grosso, one in Rio Grande do Sul, and one at the national level), and two vice presidents. I also interviewed representatives of the three private funds, established by law in recent years in Mato Grosso, that collect compulsory contributions from farmers of soybeans, cotton, and cattle in order to finance organizations and activities that advance the farmers' interests.

Table B.1: Interviews Conducted in Argentina and Brazil

	Brazil	Argentina	Total
<b>Rural-sector association members</b>	<b>33</b>	<b>35</b>	<b>68</b>
- National	11	33	44
- Subnational	24	2	26
- In one of the four traditional associations	—	14	14
- In a technical or production-chain association	—	10	10
- In other sectoral association	—	13	13
- (Ex-)Presidents	11	4	15
- (Ex-)VPs/officers	3	6	9
- Executive Directors and Administrators	14	11	25
- Technicians	5	14	19
<b>Farmers and Agribusinessmen</b>	<b>24</b>	<b>17</b>	<b>41</b>
- Farmers (producers)	15	11	26
- Agroindustry	9	6	15
<b>Government officials</b>	<b>18</b>	<b>7</b>	<b>25</b>
- National	9	7	16
- Subnational	9	0	9
- (Ex-)Secretaries/Ministers of Agriculture	1	2	3
<b>Rural-sector politicians</b>	<b>20</b>	<b>4</b>	<b>24</b>
- National-level	5	2	7
- State-level	4	0	4
- Municipal-level	7	1	8
- Assistants	3	0	3
- Party officials	4	1	5
<b>Journalists, academics, and other observers</b>	<b>8</b>	<b>14</b>	<b>22</b>
<b>Total interview subjects</b>	<b>79</b>	<b>62</b>	<b>141</b>

Note: Some subjects held positions in multiple areas, so category subtotals sum to more than the total number of interview subjects.

In the second largest category, 41 interviewees were farmers or otherwise worked in the agricultural sector. In each country, roughly 60 percent of these were primarily farmers (agricultural producers), with the rest working elsewhere in the production chain for firms that sell inputs to farmers and buy their products, firms such as Cargill and Monsanto. Most of the 26 interviewees who are primarily farmers are among the largest farmers in each country, and some also engage in other activities, such as operating silos and shipping firms and selling consulting services. In Argentina, I interviewed three of the top five largest farmers.

In the third category, I interviewed 25 government officials, including administration officials (secretaries and subsecretaries), mid-level directors, and rank-and-file functionaries. Elected officials are excluded. The contrast between the numbers for Brazil (18) and Argentina (7) once again reflect in part the subnational focus of the Brazilian research, but another important factor is the difficulty in access I faced in Argentina resulting from the heightened state of conflict during the majority of my time in the country. In April 2008, a few weeks into the conflict between farmers and the Kirchner government, some key officials in the Secretariat of Agriculture were shuffled, and a gag order was allegedly issued. I only was able to conduct one more interview within the Secretariat after this point, though I did manage to interview former officials.

Fourth, I interviewed 24 rural-sector politicians and people involved in the political process. This category is dominated by Brazilians (20) due to the success of Brazilian farmers in organizing and supporting candidates in elections and the failure of Argentine farmers (pre-2009) in coordinating. In Brazil, I focused special attention on the “Turma da Botina,” the movement of large farmers who entered electoral politics in Mato Grosso. I also interviewed state and national legislators to explore the evolution of the powerful rural caucus in recent years as soybean farmers invested increasing sums of money in campaign finance and lobbying. In Argentina, of the four politicians I interviewed, two had not yet entered electoral politics at the time of the interview. The one municipal politician I interviewed was at the time the only grain farmer elected mayor in the country.

Finally, I interviewed 22 journalists, academics, and other well-connected experts. Particularly in Argentina, where access to government officials, politicians, and credible facts was difficult to obtain, these informed observers were very helpful in elucidating and in providing context.

As a final note, because I returned to Buenos Aires on multiple occasions, I was able to re-interview several subjects on different occasions. This was particularly useful given the constantly evolving political situation in Argentina involving the farm sector. In contrast, I did not re-interview subjects in Brazil, although I did have repeat interactions with some. This is because in general I did not do follow-up trips to the various research locations. The exception is Mato Grosso: I traveled to Cuiabá in July 2007 and in October–November 2008 and interviewed representatives of APROSOJA on both occasions, but not the same people.

In addition to formal interviews, I also had more informal interactions with research subjects in both countries that were quite revealing. For example, on multiple occasions I was invited to private, internal meetings of the rural associations under study. In addition to observing the internal workings and power dynamics of these groups, I was able to note the statements and arguments of many key leaders with whom I was not able to schedule an interview. These statements were likely more candid than I would have obtained from a direct interview.

## Appendix C

### List of Large Farmers in Argentina

This list of large farmers and agricultural firms was compiled from coverage in *La Nación* throughout the 1990s and 2000s, primarily in the Rural section. Searching was conducted online at <http://buscador.lanacion.com.ar/>. The list is not intended to be complete but merely indicative of the scope of contemporary agriculture, although all of the top producers are included. Names of owners, directors, or principal investors are included where available, as are locations.

- El Tejar (Oscar Alvarado)
- Juan Avellaneda [southern Santa Fe]
- José Borleto [central Córdoba]
- Alfonso Cañón [Venado Tuerto, Santa Fe]
- Estudio Cazenave: Fondo Agrícola de Inversión Directa (FAID) (Santiago Casares y Eduardo Serantes)
- Cresud (IRSA, Elstain)
- Oscar Faccioli, Espiga SRL
- Gastón Fernández Palma [southeastern Buenos Aires]
- Openagro SA: Darío Genua, director
- Omar Grazioli [Inrville, Córdoba]
- Los Grobo (Gustavo Grobocopatel) [Carlos Casares, Buenos Aires]
- Lacau family
- Ignacio Lartirigoyen
- Mario Nardone [Santa Fe]

- Olmedo Agropecuaria (Alfredo Olmedo)
- Roberto Peiretti [Monte Buey, Córdoba]
- Rodríguez-Fogante, La Redención-Sofro: Marcos Rodríguez, Rogelio Fogante, Germán Fogante [Inriville, Córdoba]
- Fernando Rojas Panelo
- Luis Riopedre [9 de Julio, Buenos Aires]
- MSU (Manuel Santos de Uribe Larrea)
- AGD: Aceitera General Deheza (Roberto Urquá) [Córdoba]
- Víctor Trucco [Santa Fe]
  
- Adecoagro/Adeco Agropecuaria SRL (George Soros)
- Calyx Agro (Dreyfus)
- Nidera
- Liag Argentina (Kahlbetzer family) [Australia]
- Compañía Argentina de Granos, de Adelaida María
- Administración Duhau
- La Viznaga
- El Grupo Ceres Tolvas; Siembras Asociadas
- Agrarius

## Appendix D

# Brazilian Candidate Data Collection and Compilation

All candidates for mayor and city council in 2008 were required to declare their assets, as well as a series of biographical information, to the regional electoral authorities. These subnational authorities passed the declarations to the national Tribunal Superior Eleitoral (TSE), which maintains a database of the candidates and their declarations. This data is open to the public, and the TSE allows access to the database on their website.

Despite being publicly available, the database has seen only limited use to date. Journalists have accessed this database in order to report on individual candidates, but because the TSE database only allows queries of single candidates, more systematic analysis is challenging. A few organizations—notably, the UOL media group, which includes the newspaper *Folha de S. Paulo*, and *Transparência Brasil*—have obtained copies of the database and conducted some analysis.

To build the dataset, we<sup>1</sup> opted to collect the data from the UOL website rather than from the TSE directly for a few reasons. First, and most importantly, the UOL site facilitated the data scraping because of how it queried the underlying database—and because it could return up to 200 candidates with a single HTML call. Given that the database involves over 350,000 candidates, and given that the internet query was the primary bottleneck of the data collection process, this greatly sped up the process. Second, the UOL database reports the federal identification numbers (CPF) of the candidates, while the TSE site does not. Clearly, the master TSE database contains CPFs, but their online version excludes them.

Data compilation occurred over several days in January 2010. After reconstructing the UOL database, we filled in a few gaps—candidates missing from the UOL database—by cross-checking with the TSE database. In the end, our dataset contains over 99.6 percent of the candidates who ran for office in 2008.

To identify candidates who declared owning rural property, I searched each asset declaration for several terms. First, I searched for declarations that specified an amount of land, primarily *hectares* and *alqueires*—an archaic, non-standardized unit of land measure—their abbreviations

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<sup>1</sup>Data collection was a joint effort between Danny Hidalgo and I.

*ha* and *alq*, and numerous variations on their spelling. Second, I searched for several words that indicate a rural property: *fazenda*, *gleba*, *chácara*, *gleba*, *sítio*, *terra*, and *propriedade*, filtering out those that were modified by the word *urbano/a*. I also searched on *lote*, *terra*, and *imóvel* and selected only those modified by the word *rural* because they tended to be used to describe urban property unless explicitly stated as rural. I then spot-checked the results and refined the search to filter out assets that were incorrectly included as rural properties.

Next, I determined how much land each rural property comprised. For properties where a quantity was declared, the procedure was straightforward. I converted alqueires to hectares based on standard conversion values for the different types of alqueires, taken from a reference table from the Ministério de Desenvolvimento Agrário and from <http://www.imoveisvirtuais.com.br/medidas.htm>. That is, an alqueire paulista is 2.42 hectares, mineira and goiana are 4.84 ha, and the alqueirão is 19.36. For alqueires with no modifier, I multiplied them by 3.02, the median of the various alqueire measures in the MDA table.

For rural properties for which no land area was given, I imputed a quantity of hectares based on the declared value of the asset. I computed a median price per hectare for each state using the subset of assets with hectares specified, then used this value to estimate the number of hectares for these other properties. Finally, I aggregated the asset data by candidate, resulting in 61,918 candidates who declared owning rural land, or 17.5 percent of candidates.

Data on PRONAF registration were downloaded from <http://smap.mda.gov.br/credito/dap/listaAgricultores.asp?> in the first half of May 2010. The data contain the name, CPF, and date of registration—that is, when the applicant was declared eligible to receive PRONAF—as well as the municipality and state.