Talk for

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Place

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Trade in coffee underpins the economies of farms and factories, processors and distributors and office workers and retailers throughout the world. There is nothing unusual or unexpected in that; the same is true of many industries, or at least of ones built around primary production. As is also true of other industries, trade in coffee is intensely political, if only because its revenues furnish incomes for government. Less obvious than the economic and political significance of the industry is its impact on scholarship. Intellectual traditions have been born from the study of coffee; some have been overturned by it. The industry has shaped fields of learning.

In this talk, I will review the influence of the world of coffee on scholarship within the social sciences. The topic is a broad one and worthy of deeper thought and investigation than I have been able to give it. It is my hope that these remarks will spark further work, perhaps even by members of this audience. For one of the things that I have found delightful, puzzling, and impressive about this industry is the degree to which it has attracted the input of scholars, who apply their skills not only to its study but also to its management.

Local histories:

One of the major "schools" of scholarship that surrounds the coffee industry is also one of the most difficult to synthesize. I refer to the rich compendia of local histories that have been compiled about the industry. Some explore the rise of nations, who have entered the world economy by exporting coffee (e.g.(Paige 1997)). Others celebrate the growth of regions; the numerous studies of São Paulo (e.g.(Taunay 1943)) or of Central Colombia (e.g.(Safford 1976)) provide examples. Still others document the history of a particular plantation, village, or cooperative society; examples might include Jimenez work on Eastern Colombia ((Jimenez 1989); see also (Deas 1977)); Bunker's study of Bugisu of Eastern Uganda (Bunker 1987); or Hyden's research into the cooperative societies of Tanzania (as summarized in (Hyden 1980)). Many who contribute to such local histories are amateurs; a surprising number of these contributions nonetheless achieve a depth of insight into the world of coffee that inspires gratitude and. respect.

Such local histories are often personal, intimate, and celebratory, be it of a family, a personage, or a firm. In their innocence, they often remain unguarded, and therefore tell the discerning reader much that she might want to learn. They document the adoption and spread of coffee varieties; the establishment of farms and processing facilities; and the forging of the chains of commerce that both evacuate coffee from the interior and provision the producers with inputs and consumer goods. They record the growth of capital markets: seasonal credit, to sustain the farmer through the annual production cycle; long term credit, with which the farmer establishes, extends, or improves his farm; and, in some cases, the creation of capital markets underpinned by the assets of the industry – markets capable of fueling the movement from an agricultural economy to one based on manufacturing and industry. With portraits of families decked out in their Sunday best; pictures of gentlemen posed round an office table; or photographs of a new building – a *bodega*, a cooperative society, or a bank – in a provincial town, these histories inform us deeply about the nature of the transformation produced by the spread of the coffee trade.

In Political Economy

From these local histories have grown other forms of scholarship. One is staple theory, known in its present guise as the study of the commodity chain ((Gerreffi and Korzeniewicz 1994)). As pioneered by Innis (Innis 1930), this literature traces the impact of "production functions" on the structuring of economic and social relationships in the countryside. Some commodities, it stresses, are most profitably produced by large units; requiring large initial investments, their production is most frequently initiated by those with access to capital. Others can be produced on family farms: in the production of these goods, there are no economies of scale and few barriers to entry. The production of sugar or the mining and refining of metals provide examples of the first; the production of coffee illustrates the latter.

The first sort of industry, scholars argue generates a highly skewed distribution of income; leads to a sharp division between those who supply capital and labor; and results in class conflict. The second sort of industry leads to the creation of a peasant society; to the muting of class (though not sectoral) conflicts; and to the politics of populism rather class action. Given the initial structuring created by the production of commodities for the world market, it is argued, the subsequent histories of such societies come to differ. Different industrial structures emerge, responding to the different patterns of demand: in the first instance, one dominated by the preferences of the wealthy few, and in the second, one dominated by the consumer needs of peasant households (Baldwin 1956). They differ too in their political trajectories, as democratic forces come to prevail in the egalitarian society of small farmers while the conflict between capital and labor leads to the triumph of non-democratic forces reactionary forces in societies dominated by sugar or mining ((Becker 1983; Shafer 1994)). The study of the impact of commodity production thus becomes a form of political economy that seeks to account for differences in the class structure, economic organization, and political tendencies in the developing world.

While rich with implications for broader social themes, this literature tends to be intensely micro- in form; it focuses on the nature of production functions at the firm level. An important alternative has also emerged from these local histories, however, and is was far less micro in its orientation. I refer to dependency theory.

The dependency literature constitutes one of the most important forms of political economy that emerged from the study of development. Founded upon the multitude of local histories in the developing areas, it argued that while profits were being generated from commodity production, the societies themselves were failing to develop. Seeking to account for the resultant pattern of global inequality, students of dependency attempted to isolate the core factors that account for the failure of developing nations to catch up with those in the developed world.

For present purposes, it is significant that the dependency theorists focused in particular on the political economy of the coffee-producing regions. While an in depth and full probing of the roots of the dependency school would trace its origins to the writings of Lenin and Hobson,[1] it would also have to focus on the controversies sparked by the great post war price rise and the efforts of Latin American nations to manage the coffee boom in the face of reactions by consumers in the United States.[2] In particular, the dependency theorists focused on Brazil, the largest of the coffee producers and the one that most vigorously challenged the United Stats (e.g. see (Furtado 1963; Cardoso and Falleto 1979)). While concentrating on the international conflicts surrounding the production of primary products, they also paid close attention to the internal political struggle between what they characterized as the "feudal elite" of the agricultural sector and the nascent capitalist impulse lodged within local industry.

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[1] A task already ably performed by Palma Palma, G. (1978). "Dependency: A Formal Theory of Underdebvelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment." <u>World Development</u> **6**: 886-924.

[2] I deal briefly with this conflict in Chapter 4 of *Open Economy Pollitics.*

The work of the dependency theorists profoundly shaped the patterns of policy intervention that became characteristic not only of Brazil, but also of other developing nations. In keeping with Prebisch-like analysis of the structure of trade between the developing and developed world, they advocated forms of intervention that would shift the terms of trade between the industrial and primary products, including coffee. In keeping with theories of capitalist development, they advocated as well the political extraction of profits from the coffee sector and their investment in the urban and industrial sector. While deeply identifying with the fortunes of the coffee-producing regions, the dependency theorists did *not* identify with the fortunes of the coffee industry. The object of their scholarship may have been the region, but the goal of their scholarship was to promote industrial development.

From the point of view of the international coffee industry, the importance of the dependency theorists was that they provided a justification for the political management of the industry, both at the national and the global level. The doctrines legitimated the ascendancy of such units as the *Instituto do Café* in Brazil and its efforts to manage international trade.

In Political Science

Events in the coffee industry have not only led to the creation of new modes of thought. They have also helped to overturn existing theories. Most notable, perhaps, was the impact of research into coffee markets upon the study of international relations, one of the basic fields that compose modern political science.[3] For most scholars, the study of international relations rests upon two premises. One is that at the global level there is no international government; in contrast to national politics, international politics is thus viewed as anarchic and as lacking an institutional structure. A second is that the units that function at the international level are nation states; these are viewed as unitary actors, each choosing in ways that enhance its national interests. What is intriguing about the coffee industry is that it shows both premises to be flawed and this field of scholarship therefore to rest upon weak foundations.

As is well known, from the early 1960s to the late 1980s, the International Coffee Organization (ICO), with its bicameral legislature, enforced "economic clauses" that limited quantities and so stabilized prices in the global coffee market. For many of its members, coffee exports constituted a major source of export earnings; and the power of the ICO to govern the coffee market profoundly affected their economic welfare.

Studies by commodity specialists (e.g. (Akiyama and Varangis 1988)) and scholars alike (e.g. (Jaramillo 1989)) have demonstrated the economic impact of the ICO. While profoundly differing in their assessment of its impact upon welfare, they agree that the ICO limited supplies in hard currency markets and thereby stabilized the price of coffee within that zone. Given its ability to influence prices, the ICO proved to be capable of regulating international markets. Given its ability to limit exports, the ICO proved itself able to alter the behavior of states. The ICO can therefore be thought of as a political

[3] The others being comparative politics, political theory, and the study of politics in the United States.

institution that governed markets at the global level. And it therefore constitutes evidence that challenges one of the basic premises of the field of international relations.

I have studied the structure and operations of this international government (Bates 1997; Bates 1999) I explored the allocation of power within the ICO; the rules that governed decision making; and the impact of its structure and rules upon the allocation of export rights. In addressing these themes, I have also explored the origins of the organization and its impact on member states. In so doing, I uncovered reasons to challenge the second major premise of international relations theory: that in the global arena, states are unitary actors.

The origins of my skepticism lie in the behavior of consumer nations, and especially the United States. Insofar as the goals of the ICO were economic, then the organization most certainly violated the national interests of the consuming nations; it often acted to stabilize – i.e. to keep from falling – the international price of coffee. And yet the United States employed its bureaucracy to police and to limit coffee imports, thus helping to enforce the quotas set by the ICO and to drive up the price of coffee.

In seeking to account for this behavior, it is tempting to continue to adhere to the "unitary actor" premise and to argue that states possess complex interests, composed not only of economic but also of security concerns. But a close study of the record reveals how lightly security concerns were taken, particularly by members of the United States Congress, whose votes were needed to ratify membership in the ICO and the enforcement of its provisions. A second, and ultimately more convincing, response is to abandon the original premise. Rather than seeing states as unitary actors which pursue collective "national interests," it proves better to instead account for the foreign policy of the United States in terms of the preferences of sub-national elites who mobilized the power of the state bureaucracy so as to secure their objectives in the global arena. In the case of the ICO, these elites included bureaucrats on the one hand --- especially those in the Department of State -- and economic elites on the other – and especially the large coffee roasting firms. The two forged an alliance and mobilized the power of the United States in ways that enabled them to enhance their interests, even at the expense of the American consumer. The lesson learned from the study of coffee is that international relations does not take the form of states acting in ways that maximize national interests; it takes the form of the use of national power by subnational elites, who seek to attain objectives in abroad.

Studies of the international coffee industry thus led to a change in the way in which scholars conceive of the study of international politics. The importance of analyzing international politics at the subnational level becomes even more clear when we turn our attention to the producing nations.

Many see the ICO as resulting from the attempts of Brazil and other large producers to shift the terms of trade in favor of primary products; the national interest in development, it is argued, accounts for this choice of policy. And yet, when Brazilian policy is studied, we find numerous instances in which Brazil, the largest exporter of coffee, *failed* to implement a policy that would have limited exports and raised prices in international markets. Moreover, when Brazil succeeded in advancing such a policy, we then find other nations – particularly in Africa and Central America – which appear to have been unable to do so. While agreeing to limits of exports, they lacked the finances, the warehouses, and the administrative structures necessary to govern their coffee industries and to limit exports on global markets. A major impediment in the creation of the ICO, then, was the apparent inability of producer nations to act in support of their interests in global markets.

A major reason for the weakness of the producer nations was that conflicts at the national level had first to be resolved before actions could be taken at the international. There were numerous ways to secure the limitations of exports. But each implied a different allocation of costs and benefits, and struggles over who was to reap the rewards, and who to bear the costs, retarded the adoption of policies to export policies. One way of achieving the ICO's objective was to tax exports, as was often done in Africa; this measure transferred resources from producers to the state. A second was to purchase and stockpile coffee, as was done during the first republic in Brazil; this way of limiting exports transferred resources from the state to the farmers. Alternatively, as was tried in Kenya, the state could license production; this policy too limited exports, but at the cost of conflict within the rural areas, as established exporters restricted entry by new growers. The result "green on green" rivalry stood in contrast to that engendered by the over valuation of the local currency. Such a policy weakened incentives to export and thus induced adherence to export limits. While rural producers of coffee might suffer from the lower value of their dollar earnings, consumers of imports – many concentrated in the urban sector – stood to benefit. In seeking ways to implement international policies that would advance "producer interests," then, the producing nations had first to resolve internal conflicts. Before reaping the benefits of their foreign policies, they had to determine which domestic groups would bear the costs. The resolution of significant distributive conflicts stood as a necessary prelude to international action.

The study of consumer nations suggested the need for reformulating the dominant approach to international relations. It suggested that rather than resulting from the maximization of collective interests, agreements at the international level are better seen as resulting from the efforts of domestic elites to use the power of states to advance their interests at the global level. The experience of the producing nations lends impetus to this reformulation. The reduction of coffee exports, and thus the securing of higher earnings in world markets, could be achieved in a variety of ways, with profoundly different distributive implications. An analysis of the struggle among subnational interests is thus an essential component of the explanation of the international conduct of states.

Modern Economics

In closing, I wish to stress the impact of the study of the coffee industry on a last major branch of scholarship: that of modern economics, and in particular, of the *new institutionalism* within it.

Since the time of Adam Smith, economics has focused on the study of markets. On the one hand, it has looked at the determinants of demand; on the other, it has explored the behavior of suppliers. And it has then explored the formation of prices and the conduct of markets, as they reconcile the preferences of consumers with the performance of those who produce goods and services.

By the mid 1980s, the basic properties of the market model had been established. Economists then turned their attention to sources of market failure. As they investigated the impact of information costs, ill-defined property rights, and other sources of market failure, economists increasingly focused upon institutions. The study of information costs led to the study of contracts, for example, while the study of externalities led to the study of legal systems. Institutions thus came to occupy the position once formerly occupied by markets at the center of the concerns of the economics profession.

The study of coffee has played a significant role in the development of the this new intellectual movement. Traditionally, government agencies that intervene in agricultural markets have been treated harshly by economists. For Ricardo, it was the Corn Laws that earned his deepest scorn; for Smith, it was the exploitation of the country by the town, as urban guilds sought to shift the terms of trade, using their control of urban markets to extract low cost grain from the country and imposing limits to competition, and thus high prices for consumer goods manufactured in town. In the contemporary period, economists who study the developing world have focused their criticisms on marketing boards.[4] Separating the domestic from the international price, these agencies, economists contend, alters the pattern of prices in markets in ways that weaken incentives among farmers and distort the allocation of resources in the domestic economy.

And yet, upon inspection, it has become clear that agencies such as marketing boards may in fact enhance welfare. Working with one eye on the literature on the new institutionalism and another on the facts provided by the operations of coffee exporting agencies, scholars have found reason to mute the criticisms mounted by their market-oriented colleagues.

Upon close inspection of the coffee trade, it becomes clear that there is ample reason to introduce institutions into economic life. Coffee production produces un-priced externalities, the correction of which may require the enforcement of property rights. Examples would include the production of effluents and the pollution of water courses by up-stream pulperies. Coffee marketing is characterized by information asymmetries, as the consumption attributes of coffee are costly to discern before processing. To prevent a resultant loss of value, producers may therefore call for the use of state power to defend the integrity of brands, so that it becomes rational for them to expend costly effort in developing high quality. Coffee production requires the provision of public goods. Technical progress can be appropriated at near zero cost, and expenditures on research into crop protection and new varieties therefore is often best financed through taxes. As

[4] See for example the famous "Berg Report," Bank, W. (1981). Accelerated Development for Africa: An Agenda for Action. Washington DC, The World Bank.

the power to tax belongs to the state, these considerations too provide a rational for the regulation of the industry.

These, and other, facts of life are clear to many who work in the industry. And upon assimilating them, economists have had to moderate their critical appraisal of the role of marketing boards and to view them as institutional innovations that enabled the industry to enhance its performance in areas of economic life in which markets are prone to fail. The study of marketing boards in the coffee industry thus joined the study of other agricultural institutions in lending impetus to the development of the new institutionalism ((Stiglitz 1986; Bardhan 1989; Harriss, Hunter et al. 1995); see also North(North 1981)).

While helping to promote the development of this new approach, it should be noted, the study of the coffee industry also helped to modify its trajectory. One way of viewing the new institutionalism is to see it as addressing the circumstances under which coercion can be profitably introduced into economic life. Another is to view it as a second generation of welfare economics, which focuses on the conditions under which states can replace markets. Viewed in this way, a major problem becomes clear. For as stated by Barry Weingast (Weingast 1995), an agency that is powerful enough to create property rights surely possesses as well the power to destroy them. To complete its agenda, then, the new institutionalism needs a theory of the state. It must be able to explain why those who possess power would employ it in ways that safeguard the profitability of the industry, rather than appropriating them.

Recall the discussion of the variety of ways in which producer states adjusted to the limitations imposed by the ICO. Some benefited farmers; others, the state or urban industry. Recall too the criticisms of the marketing boards on the part of the market-oriented economists. Not all such criticisms were wrong, of course, and any student of the coffee industry can point to boards that served more as instruments of predation than they did as means of enhancing the performance of the coffee industry.

The lesson for the new institutionalists, then, is that they must extend their vision. To point to the benefits of the use of power in economic life is not to explain why institutions enhance the performance of markets and increase the economic welfare of industries. To account for the favorable impact of institutions upon the welfare of the industry, the analyst must also explain why power was deployed out of a regard for the interests of the industry, rather than for the interests of others who might covet its assets.

For the new institutionalists, then, the experience of the coffee industry provided the inspiration to move beyond the free market prescriptions of an earlier generation of economists ((Bauer 1945; Lal 1984)) and to grasp the economic rationale for the use of power in economic life. In addition, it proclaims the importance of taking the next step: of joining other economists in moving to the study of political economy.

Conclusion

This paper has explored the scholarly impact of research into coffee. In doing so, it has, I am aware, just scratched the surface. The intellectual life of many developing countries has been shaped by students of the industry – persons who have played a prominent role in writing the economic history of their countries, in analyzing their economic development, and in influencing government policies. As argued in this essay, the coffee industry has nurtured not only consumers and producers and captains of industry, but also scholars – and scholarship.

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