

# **Has the Coffee Federation become Redundant? Collective Action and the Market in Colombian Development**

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## **Abstract:**

This paper considers the role and *modus operandi* of the National Coffee Federation of Colombia. Much respected and much criticised over time, today its role is being challenged as inappropriate to the new commitment to a free market economy. The paper evaluates the historical role of the Federation, and finds its rationale in collective action problems with an important role for historical continuity and an evolving culture. The present-day role of the Federation is also discussed, under the new market paradigm, and it is concluded that it would be rash to ignore the value-added from the special historical characteristics built up over time. The value added applies to both efficiency and equity outcomes.

## **Introduction.**

This paper considers the role and *modus operandi* of a remarkable and controversial group: the National Coffee Federation of Colombia. Over time, the Federation has been both respected and criticised, often fiercely. Today its role is being challenged as inappropriate to the new commitment, in Latin America, and specifically in Colombia, to a free market economy, and as an obstacle to a level playing field. To evaluate both the past, and the contemporary challenge, we need to explore the origins and historical role of the Federation, over its seventy years of existence, provide a basis for an attempt at imagining Colombia without its Federation, and by that means evaluating what its true role is today.

The paper first considers the puzzle of the Federation's birth and continued survival. As Mancur Olson remarked in a conference in Bogota, based on his own theory of collective action, the Coffee Federation of Colombia should not exist.<sup>2</sup> Free rider

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<sup>2</sup> Olson, 1997, paper presented in Bogota on the occasion of the 70<sup>th</sup> anniversary of the Federation.

problems consistently lead to the break up of rural producer associations with large numbers of small producers. Yet the Federation is in its eighth decade of existence. Olson finds the answer to lie in the compulsory tax imposed on the coffee sector; Robert Bates, who shares Olson's surprise and his view of the importance of the tax, emphasizes in addition that it was politicians, not producers who took the decision to create and continue the Federation.<sup>3</sup>

While we share in the conviction of the importance of the compulsory tax, we consider it still remains to be explained how this could be sustained through time. We are not happy with the view which ascribes an over-riding importance to the politicians' role. This paper seeks to tease out a fuller story of the institutional, political and economic complexities behind the Federation. We hope this will lead to a clearer assessment of its role in the development and the macro stability of the Colombian economy, the latter aspect being one which has long intrigued observers.

The necessary background to the discussion is the particular nature of the Colombian coffee economy and of its political economy. These are described in the first section. The second section analyses the political economy of the formation and early years of the Federation. The third considers the institutional consequences of the rupture represented by the Second World War and the consequent evolution of the role of the Federation in the post-war period. The fourth considers the Federation as coffee declines in importance in the Colombian economy and as the Federation is increasingly seen as an institutional anomaly in a neo-liberal world.

## **I. The Colombian Coffee Sector.**

The best-known and fundamental facts about Colombian coffee are first its potentially very high quality, and secondly that there are no economies of scale in planting and harvesting. The best coffee is grown at an altitude where only steep slopes prevail.

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<sup>3</sup> Bates 1997, p.60.

Machinery is unusable because of the terrain and because quality responds to individual picking of berries ripening unevenly. The need for discipline in picking and in cleaning the ground produces a principal agent problem, more important with recent disease problems,<sup>4</sup> to which the traditional and effective solution has been family labour. With appropriate discipline, high productivity and quality can be obtained on plots under one hectare in size.<sup>5</sup> Even the first stage in processing, the *beneficio*, which removes the pulp, can be economically performed at very small scale, since the coffee can be dried in the sun, which with limited electric power is often economical. The bottleneck is the large amount of water required (though recent technological improvements have drastically reduced this<sup>6</sup>). The possibility of producing food interplanted with coffee, useful as shade for the coffee, provides a subsistence base for the family which makes it resilient to bad times. In all these numerous ways, the small family farm has appeared as something to conserve in coffee growing. Large estates have played their part, especially in Cundinamarca and Tolima, but their role has decreased with time.<sup>7</sup>

The problem is that economies of scale do of course exist, in threshing, in warehousing, roasting and subsequent transporting, and marketing high quality coffee, with the attendant needs for brands, quality control, guarantees and publicity. Here lie the collective action problems, made the more significant by the fact that the quality of coffee is very sensitive both to the exact area in which it is grown, and to its treatment at all stages. Both factors imply a need for control and monitoring. Productivity also responds to the provision of a number of public goods – roads, health and education being chief among them.

Two further characteristics of the Colombian coffee sector should be noted which have consequences for collective action. The first is the regional concentration of

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<sup>4</sup> The broca, an insect imported from Africa and very damaging to productivity, so far can best be controlled by removing every last ripe berry from the tree, so depriving the insects of food, and by assiduous removal of infected fruit from the ground, though insecticides and the use of parasites which eat the grub are being worked on at CENICAFE (interview, Director of Cenicafe, Manizales 1998)

<sup>5</sup> To secure an *income* above the poverty line, however, more than one hectare is typically required.

<sup>6</sup> By a factor of 40! And with a simple and easily accessible technology and beneficial recovery of by-products.

<sup>7</sup> The structure of property changed greatly between the 1920s and the 1960s, both with estates being divided and with expansion occurring in the areas typified by small farms.

small-scale production, which has facilitated organisation.<sup>8</sup> The second concerns the political economy of the Colombian coffee sector: there are wealthy coffee producers and wealthy coffee families, but often (though not always) they own only a modest *finca*, or farm. The bulk of their wealth has typically come from coffee trading, financial activities, commerce in general and real estate –activities often springing from coffee, but not from large-scale production of coffee. In more recent years, of course, wealth has come from industry as well. In addition, the labour intensive nature of coffee production has limited the potential for reinvestment of the surplus back in coffee. Thus in the decades we have first to consider, the 1920s and 1930s, when the Federation was born, many well-known politicians came from coffee families, and might well have had a direct interest in a coffee farm – though they could hardly be described first and foremost as coffee producers. They were typically looking elsewhere for profitable opportunities to invest the money made, directly or indirectly, from coffee. This striking characteristic has had three major consequences over time. First, those with organisational capacity and resources have formed an elite within the sector, even though they may have been small coffee producers. Second, the various politicians who over the decades have fought the Federation have very often shared an underlying common *interest* with the coffee sector.<sup>9</sup> Third, the coffee elite has been interested in investment opportunities elsewhere in the economy. These facts modify any sectoral interpretation of clashes of interest.<sup>10</sup> Battles might be fought over the manner of organisation of the sector, or exactly how to promote coffee abroad – but never over the fundamental role of coffee and the Federation as its key international agent.

## II. The Early Years.

For the first thirty years of the century Colombia conformed to the general tendency: efforts to form a producers' association failed.<sup>11</sup> In 1920, under pressure of market

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<sup>8</sup> Montenegro 1996 and 1999 elaborate the significance of this point.

<sup>9</sup> A classic and extreme example might be President Alfonso Lopez Pumarejo himself, who in his first government (1936-40) fought various battles with the Federation (eg over whether it should be taken more fully into the public sector, and over output restrictions) while himself belonging to one of the biggest coffee families of Colombia.

<sup>10</sup> For a brilliant and subtle description of the politics of coffee, see Palacios, especially chapter 10.

<sup>11</sup> The early efforts are described with full documentation in Junguito and Pizano (1997), the definitive history of coffee institutions, and above all the Federation, and a key source for all that follows.

collapse, the efforts even rose to the height of calling the first Coffee Congress and constituting a *Junta Delegataria* to defend Colombian coffee in the international market, an organisation which subsequently disappeared without trace.<sup>12</sup> The collapse of boom into bust in the 1920s left the sector vulnerable, as big traders collapsed and/or abandoned Colombia. By 1927 the price was weakening. Impending economic crisis again forced action: this time traders and producers persuaded the Government of Antioquia to convoke a further Congress, in Medellin in June. Here the Coffee Federation was born. Its functions were assigned to be:<sup>13</sup>

- to adopt and get adopted by official bodies effective measures to ensure the development and defence of the sector;
- to oversee the effective application of legal provisions affecting coffee;
- to get cost-reducing measures adopted;
- to get the best possible conditions of transport for coffee;
- to direct publicity efforts inside Colombia and abroad.

A proposal for a tax on coffee already arose at this first congress, to be rejected after much debate. It appears to have come from the representatives of government – specifically the Ministry of Industry.<sup>14</sup> The government presumably saw an opening to achieve what had hitherto been unthinkable – a tax on coffee sales – if the proceeds were handed over almost in their entirety and under contract to the coffee sector – namely to the Federation. The Congress, however, concluded with a robust recommendation, that apart from the already-existing tax on river transport, the sector should bear no tax whatsoever at any level.<sup>15</sup> The next year, the National Committee, constituted by the Congress as the permanent body of the Federation, with full authority when Congress was not in session, returned to the subject and accepted the idea, despite the depressed international price. The revenues were to come to the Federation under a contract which governed the use of the resources, to last for an initial period of ten years.

This was a historic breakthrough, without which the initiative of the Federation would probably have gone the way of previous efforts. The breakthrough was a product of

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<sup>12</sup> Junguito and Pizano 1997 p2.

<sup>13</sup> Quoted in Junguito and Pizano, 1997, p7. They discuss the various versions and texts.

<sup>14</sup> Junguito and Pizano, 1997 (p6 fn 26).

crisis, and was consolidated by the crisis which now worsened. As the coffee price declined, coffee producers and traders fell increasingly into debt. The need for agreeing action with and through the state became increasingly apparent. Ways of cutting costs became of supreme importance. The 1929 Congress adopted the final version of the statutes of the new Federation, which was to be financed by a tax on the export of coffee, and in 1934 the Congress proposed to the government an increase in the tax to provide additional resources to the coffee sector. The breakthrough was institutionalised, aided, beyond doubt, by a political and economic crisis that “...allowed the coffee bourgeoisie to weld its class interests to the state in a form as indissoluble as a traditional Catholic marriage...”<sup>16</sup>

There was nothing in the prevailing orthodoxy of the time to stand in the way of such a development. Intervention in markets was if anything the orthodoxy. Civil society organisation could facilitate the role of the state, by making taxation easier, by assuming certain functions which might otherwise have been performed by the state such as monitoring and control of quality, and marketing. It was only much later that the Federation would be perceived as an obstacle to a level playing field, in so far as it both set the rules and entered the market as a player.

In its early days, the Federation was small and elite in nature, its power coming from the overwhelming weight of coffee in the economy, the severity of the economic crisis, the public profile and political connections of leading coffee figures and the urgency, as perceived by the government as well as the coffee sector, of solving certain collective action problems to improve the marketing and bargaining power of coffee internationally. Its influence was enhanced by the far-sighted perception of its founding members that it needed to be kept above and apart from the political party strife which dogged Colombian politics and was for decades the source of a high level of violence.<sup>17</sup> The web of services which would in due course – principally in the 1950s and 1960s – create a mass base, was to take time to build. Initially, coffee moving through the Federation’s warehouses in the early years of the 1930s amounted

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<sup>15</sup> Acuerdo II, cited in Juguito and Pizano 1997, p6.

<sup>16</sup> Palacios 1980 p211. Palacios documents how in the crucial years between 1929 and 1934 the self-concept and internal organisation of the new-born Federation *evolved* towards a strongly centrally controlled group with a key political role.

to only 10% of the crop. By 1938-39 the Federation was only purchasing 6% of the crop. Its role in exports was even smaller, at 3%.<sup>18</sup> But even from the beginning, the Federation was pursuing the interests of small producers. One of its earliest actions was to purchase coffee in the regions of small producers where the producer price was a lower proportion of the external price than in regions of large estates, and by so doing raise the price.<sup>19</sup>

The Federation was also beginning to work widely for the defence of the coffee sector as a whole: in 1931 a share issue was authorised to create the *Caja Agraria*, which began to provide some relief from debt, and in 1932 a premium on the rate of exchange was secured to compensate in part for the weak external market.<sup>20</sup> Other activities included the establishment of warehouses in 1929. But the principal focus of activity was international. Colombian coffee needed representation abroad and an international image. Offices were opened in New York in 1930. The key collective action problem which needed solving to improve the quality of international marketing was that of branding. In 1932, the officers of the Federation, already building the central control which was to mark its history, secured the insertion of a clause into its contract with the government, establishing a registry of marks of origin. They also secured a Presidential decree 'making it illegal to ship coffee from one region under the mark established for another and authorizing the creation of a network of inspectors to enforce the decree'. As Bates comments, 'The members of the national committee then served as a virtual court of law'.<sup>21</sup> This was surely as important as the provision of access to tax receipts.

Central management was already evidencing its ability to perceive the long run interest of the sector, to deliver and execute what the government also saw as indispensable, and to retain the trust of the members even while individually they fought to maximise their own short-term interest. From an early date, leading members of the Federation appear to have perceived the value of establishing trust and credibility, both at the macro level of government policy-making and at the micro

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<sup>17</sup> This was emphasized in interviews with Jorge Cardenas, General Manager of the Federation today, Gilberto Arango Londoño and Diego Pizano, September 1999, Bogota.

<sup>18</sup> Junguito and Pizano 1997 Tables VII-1 to VII-4.

<sup>19</sup> Ocampo p249. The number of members was 4000 in 1930, and already 50,000 in 1934 (p248).

<sup>20</sup> Junguito and Pizano 1997, p16.

level of individual small producers. Thus they worked to establish with successive governments their technical authority and their integrity, in a way which drew them step by step into the heart of policy making at the national level. The policy making concerned coffee, but also went wider, since the elite of the Federation understood how far their own fortunes were knit into both the successful broad support of coffee and the diversification away from coffee. Thus from the 1930s successive leaders sought to reinforce an ethos which established the Federation as a highly professional organisation, with standards of austerity and discipline that were to become a by-word. Many interviewed confirmed the role of the General Manager from 1937 to 1958, Manuel Mejía Jaramillo, in developing a culture of austerity and probity. This was continued by subsequent Managers.<sup>22</sup> The key elite members persisted in their policy of keeping the Federation ‘above’ party politics. This strategy is perceived by many observers today as the key in preserving the ‘ethic’ of the group relatively free from corruption.<sup>23</sup> The element of professional competence is summed up by Palacios: “By 1935 it was clear that the coffee group in the FNCC were better able to understand and act in the international market, than the changing Ministers of the Exchequer.”<sup>24</sup>

This culture colours our interpretation of the political struggles between Federation and Government. These battles were real. The Government now began to work towards a pact with Brazil, allocating export quotas; however, the regional producers making up the National Committee did not favour this, preferring to free ride. The government achieved its end, only to have the pact broken by producers in 1937.<sup>25</sup> Simultaneously the renegotiation of the Federation’s contract with the government in 1935 increased the representation of government in the National Committee from one to six, an event treated by some commentators as a significant swing toward government control. The extent to which this measure was a curtailment of the power of the Federation is debatable however. Central management could see that having government representatives present in the key debating chamber increased the value

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<sup>21</sup> Bates 1997, p63.

<sup>22</sup> For example, Mejía was renowned for refusing to use official cars of the Federation. Arturo Gomez, who succeeded Mejía, confirmed this and that he himself continued such practices. (Interview, Buenos Aires, August 1999.)

<sup>23</sup> Interviews cited in footnote 17 above.

<sup>24</sup> Palacios 1980, Endnote 79, p309

<sup>25</sup> Ocampo (1989), Bates (1997).

of that chamber as a means to concert coffee policy, and certainly placed the Federation at the heart of policy making.<sup>26</sup> It also increased management's authority and ability to negotiate solutions in the long-run interest of the sector, against the instinctive short-termism of individual producers. Battles with the government were the necessary stuff of politics: the tax increases on the sector that followed in a steady stream through the forties and fifties ended up in the coffers of the coffee fund which was controlled by the Federation, as we shall see, but it was important for the national government that they could present the result, to *other* sectors of the economy, as the outcome of a battle. Politicians and central management did not exactly orchestrate this battle, but there was an underlying perception of its inevitable nature and trust in the outcome.

### **III. The Coffee Fund and the Postwar Federation.**

With the Second World War, we come to the second point of rupture. With the abrupt loss of important European markets, it was seen as essential by the producing nations of Latin America to share the US market among themselves in an orderly fashion, and to deal with the internal consequences of the resulting quotas. The International Coffee Agreement (ICA) was signed in Washington in November 1940. The government of Colombia decided to create a fund, the *Fondo Nacional del Café*, to buy and sell coffee stocks. This fund was constituted as an account of the National Exchequer, but its management was assigned by contract to the Federation.<sup>27</sup> The General Manager of the Federation was accredited by the Government with powers to represent Colombia abroad and to approve accords on Colombia's behalf. The innovation represented a decisive step in the acceptance of a culture of quotas, as opposed to the previous practice of free-riding on Brazil – a step from which there would now be no turning back.

The enormity of this break was only made apparent once the War was over, and the decision was taken to keep the Fund in existence, and to allow it to invest in 'coffee activity'.<sup>28</sup> The true institutional development now occurred gradually, as the concept of the Fund was broadened to incorporate activities which allowed the coffee sector

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<sup>26</sup> *Informes del Gerente*, annual reports to the annual Coffee Congress.

<sup>27</sup> Junguito and Pizano 1997, p77. See also Ocampo 1989 for an authoritative account of this period.

opportunities to diversify, which could include any income-generating activity. The key instruments here were in due course the various Regional Finance Corporations, created by the Fund as enterprises of the Fund, in the 1960s and 1970s. By this means, the fact that coffee required little direct reinvestment could be turned to advantage, and the need for other channels for investment accommodated, as the coffee surplus was re-allocated elsewhere, either by the direct investments of those farmers with enough production to have a surplus, or via the investments of the Coffee Fund.

The expansion of functions, to include activities in sectors other than coffee, was made possible by the increase in its income. New or increased taxes, or implicit taxes via differential exchange rates, were declared in 1948, 1951, 1958 and 1959. Usually after a debate, the revenue from the tax would be assigned largely to the Fund. The functions of the Fund were broadened to include credit operations designed to broaden coffee market opportunities (1959) and in the 1960s its role in setting and stabilising prices was greatly extended. It was given the obligation to act as residual buyer at a minimum price for the entire coffee crop. The Fund developed the marketing of inputs to the sector and increased technical services. Gradually, it became the regulating body of the whole coffee sector, implementing the decisions of the National Committee.<sup>29</sup>

By these means the gradual decline in the importance of coffee in the economy, shown in table 1, could be accommodated without its wealthier producers experiencing disadvantages, and without losing proportionately its economic influence. Successive government economic teams found it exceptionally useful that restructuring could thus happen harmoniously.

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<sup>28</sup> Decision of the fifteenth Congress in 1945. See Junguito and Pizano, 1997, p16. The investments of the Fund are described pp172ff.

<sup>29</sup> The detail is given in Junguito and Pizano 1997 chapter 2 and in Palacios, 1980 pp248ff.

**Table 1**

<b>Share of Coffee in GDP and in Agricultural Production, 1950-94 (a)</b>		
Five-year averages, in per cent		
	% GDP	%Agricultural value added
1950-54	10.1	25.9 (b)
1955-59	10.0	25.6
1960-64	8.2	25.9
1965-69	6.4	22.4
1970-74	2.8	12.1
1975-79	3.5	15.7
1980-84	2.6	15.1
1985-89	2.4	14.4
1990-94		

a)Excludes products based on coffee  
b) 1950, 1953 and 1954 only

Source: Junguito and Pizano 1991pp43-44

Of course, this diversification happened within the strategy of inward-looking development current at that time. A full evaluation of the developmental significance of the role of the Coffee Fund would require an evaluation of its diverse investments. From the perspective of the 1990s, some were clearly not viable in the longer run, but how far this was a product of too rapid an imposition of an open economy model is a question to be researched. (Certainly the Federation opposed *apertura* in the 1990s.) For our argument here, we wish simply to describe. Its wide role in the economy

made the Federation valuable and gave elements of authority and power, even while coffee as such appeared to be losing its central role.

In fact, the Federation *extended* its influence, by contributing to and participating in *new* organs of government – notably the *Consejo de Política Económica y Social* (CONPES), created in 1967. It is remarkable that of all of civil society, *only* the Federation participates in this crucial Council of Ministers. Its other particularly crucial presence is in the Junta of the *Banco de la Republica*; it has been present here since the creation of the bank. Other private sector bodies are also present, but the Federation's voice is typically considered to be the crucial one.

Thus through the post-war decades the voice of coffee continued to be significant in crucial organs of government. As a result, the Federation was able to ensure that the exchange rate was managed in its own interests. When coffee prices fluctuated, instead of the typical Dutch Disease type problems experienced by other primary product producers, Colombia achieved relative stability, and a steady management through boom and bust, that in turn contributed to Colombia's relative stability in macroeconomic terms.<sup>30</sup>

For the Federation to have this kind of weight at the level of macro-economic policy, continued development of the role of the Federation at the micro level was crucial. Above all, the Federation needed to be a major and effective player on the national and international coffee scene. It therefore needed loyal producers committed to selling to it, and selling a substantial part of their coffee crop. One obvious route to create loyalty would have been through a substantial margin in the price paid to members. But the Federation knew that the resulting undue stimulus to production would have undermined the working of the international quota system. So an alternative solution had to be found. This took the form of investments in developing a support structure and a culture of loyalty. The same micro-level strategy also served to political support, to sustain and strengthen the framework of the Federation's contract for the administration of coffee taxes.

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<sup>30</sup> Montenegro, 1996, 1999, Thorp 1991.

The micro level role of the Federation developed slowly, though it was there incipiently even in the 1930s. It was seen as important even by the early leaders that to achieve its macro role the organisation needed to be a credible mass organisation, and further that incorporating more producers would gradually facilitate the solution of collective action problems of monitoring and control. For mass membership to develop, individual producers, small and large, had to learn to trust the Federation and see it as ‘their’ organisation. Services had to be offered so that goodwill and loyalty could be built up. Departmental and Municipal Committees had been created in the original design so that producers might develop a sense of ownership. In the 1960s ownership was made explicit in the acquisition of a *Cedula Cafetera*, or membership card, and certain services were only made available to those with cedulas. This included technical services and some credit. Arturo Gómez, General Manager of the Federation from 1957, extended the practice of electing Committee members and gave local committees the responsibility for managing the public works carried out by the Federation, which he considers markedly improved the quality and appropriateness of the works carried out.<sup>31</sup> Early data are not available, but by the 1980s the Departmental Committees were spending 55 % of their funds on public works and services to the community (much of this through the Municipal committees), and about half of the resources of the Federation were being channelled through to these Committees.<sup>32</sup> An early event was a health campaign against malaria. This was a powerful public good in people’s perceptions.<sup>33</sup> It was important in this that in coffee areas, the fate of the whole community was so tightly tied to coffee, and coffee was so dominant in economic activity, that local expenditure on public works by a coffee committee was seen as expenditure on coffee.

The developing culture was strongly hierarchical, in a P/C mode. This applied to the position of the General Manager, since the 1930s always a person of considerable influence and power both within and (increasingly) without the Federation. It applied to the National Coffee Committee, comprising the most notable regional coffee figures – skilfully managed by the General Manager but wielding the undeniable power of their regions. It applied to the relations down the line between national,

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<sup>31</sup> Arturo Gomez, interview, Buenos Aires August 1999. He sees the resulting confidence in central management as a great strength in the international negotiations they were extending in the 1960s.

<sup>32</sup> Data from pp41,47 of Junguito and Pizano 1997.

regional and local committees, and to the relations of small producers to their local committees. At the local level cooperatives were gradually formed.<sup>34</sup> It is however apparent that these never included many elements of ‘ideal’ COOP as defined in this project: small producers could attend meetings and propose Committee members, but decision-making processes were never notable for their degree of consultation.

As Table 2 shows, by the early 1960s the Federation’s purchases represented over 40% of production. The share of exports was around 25%. With the creation of a central warehousing facility, *Almacafe*, in 1965, purchases and export sales rose, to an average of over 60% of production purchased and over 40% of exports by the end of the decade.<sup>35</sup> The figures fluctuate greatly with price variations and the growing role of private exporters, who could offer a better price in good years, but stayed on average around the same level as a share of harvest and rose as a share of exports, into the 1980s.

By all these means, and little by little, a culture was built up, cementing on the part of important sections of the population the sense that the Federation was ‘their’ creature. What we now know – namely that government spending on education and health was reduced in coffee areas compared with the rest – was not perceived.<sup>36</sup> The culture was never in practice participatory as this is understood today, but the Federation effectively developed a local presence as ‘our’ organisation, spending ‘our’ money for ‘our’ good. The sense of ownership resulted in effective monitoring of local committees by the grassroots.<sup>37</sup>

Producers thus related to the Federation in a range of ways, which we can summarize as M modified and underpinned by COOP and P/C. The principal relationship was the sale of coffee, a monetary transaction in which a below-free-market price is accepted

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<sup>33</sup> Interview, German Uribe, deputy manager of the Federation, Bogota March 1999

<sup>34</sup> Junguito and Pizano, 1997 pp58-59. By the 1990s 59 cooperatives existed, with 120,850 members managing 609 purchasing sites

<sup>35</sup> Almacafe developed also into the branding and grading service of the Federation.

<sup>36</sup> Crece 1998. The fact seems to have come as a surprise to many at all levels of the Federation and the general public. The reduction in state spending did not fully compensate for the extra spending by the Federation, but was quite significant.

<sup>37</sup> This was emphasized in interview with Gilberto Arango Londono, Bogota September 1999. He could not recall a committee member being taken to court: the monitoring was effective at an earlier stage.

in good times because of the perceived benefits arising from the wide range of other relationships with the Federation, namely price support in bad times, access to technical help and credit, and the value perceived by the more aware members in the Federation's macro claims functions, both nationally and internationally). These elements of reciprocity supported the acceptability of the underlying P/C mode (peasants were more content with their impoverished lot, there were lesser levels of violence and less penetration of guerrillas).

**Table 2**

<b>The Federation's Share of Coffee Purchases and of Exports (a)</b>		
	<b>% purchased by the Federation</b>	<b>Federation as % of Total Coffee Exports</b>
1930-34 (b)	6.0	1.1 (b)
1935-39	10.6	2.4
1940-44	21.0	5.1
1945-49	19.5	3.7
1950-54	12.8	6.7 (c)
1955-59	11.5 (d)	14.0
1960-64	...	28.2
-----Almacafe created-----		
1965-69	58.8	35.5
1970-74	48.7	40.4
1975-79	40.0	49.9
1980-84	57.6	65.6
1985-89	48.0	56.2
1990-94	46.6	44.5
1995-99		

a) 1932-57: data for 'coffee years'. 1940 is the 1939-40 harvest.  
b) Data 1933-34 only.  
c) No data for 1951  
d) Data for 1955-57 only

Source Junguito and Pizano 1997 pp 328-331.

The recent research finding on the extent to which the Federation was substituting for the state in social spending gives us an important clue to the value of the Federation to the government: if the Federation was indeed using tax money for public purposes, in schools, roads, health and so on, then this was a useful delegation. As the Federation built up its professional skills and ethos, it performed many roles useful to the state, given the stake of Colombia in coffee – not least the successful positioning of Colombia in the international market and in international negotiations.<sup>38</sup>

The most serious threat to the whole system over the postwar period was the private exporters' ability to purchase at a better price in good times, and effectively free ride on the Federation's provision of marketing, brand development and publicity. The finances of the Federation depended crucially on the management of the internal price in such a way that it was not only stabilised, but at a level that allowed a margin which represented a useful income for the Coffee Fund, in addition to the coffee tax. By the 1980s the amount raised by this means was roughly equivalent to the value of services to the producer members.<sup>39</sup> Had private exporters taken too much of the market during boom periods, then the equilibrium of the system could have been undermined. That this did not happen, owes much to the fact that by the 1960s the culture of the Federation was well developed, though the membership of the Federation never exceeded 70% of producers. Loyalty to the Federation and trust of the management of the local co-operative, and the structure above it, was an important asset for the Federation, and a principal institutional characteristic. Trust and loyalty were built up slowly but were clearly in evidence by the fourth decade of the Federation's existence. One bad experience of being cheated by a non-Federation

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<sup>38</sup> Interviews in the early 1980s, in the course of a previous project, with a number of members of the national Committee, past and present, confirmed how far continuity, and professionalism led to the Colombian delegation outshining all others over the years in the coffee negotiations of the postwar period.

<sup>39</sup> Data for 1986-94 show a total income from this source of US\$1092 million, calculating the difference between the producer price paid in Colombia and in other exporting countries. (DOC 012-93, Asesores Nacionales en Asuntos Cafeteros, Bogota June 1993 ) The value of services to the producer was calculated to be about the same.

purchaser was usually enough to confirm producers in a culture that ‘they could trust their Federation’.<sup>40</sup>

Membership was not the original source of coffee’s power, or of the Federation’s political weight. It became important with time, because it provided a defence against free riding. This importance was always in a sense indirect, as a component of the Federation’s legitimacy and authority at the national level, rather than the direct delivery of votes or dominance among coffee producers. But it partly explains why many observers agree that the Federation’s influence has not contracted as table 1 would suggest it should have done, as the weight of the sector both in GDP and exports has fallen.<sup>41</sup> As concern about rural violence and drugs has grown, so the mass base of the Federation and the relative peace of coffee areas have become more valued by successive governments. So too has the Coffee Fund’s ability and willingness to collaborate in diversification – though of the use of the coffee surplus, for investment elsewhere rather than direct stimulus to producers to collaborate in diversification away from coffee production, where the results so far have not been good.<sup>42</sup>

#### **IV. The Changing Role of the Federation: the 1980s and 1990s.**

From the middle of the 1980s and the ending of the most recent period of coffee bonanza, the role of the Federation has changed. With low coffee prices and the collapse of the International Coffee Agreement in 1988, the Federation has continued to play its role at macro and micro levels only at the expense of the assets of the Fund.<sup>43</sup> At the same time the potential for influence at the grassroots level has grown, as a result of the direct election of mayors starting in 1988 and increased transfers of state funds to the municipal level. The lack of adequate institutions to help with channelling increased funds results in the coffee committees being able to play an increased role, where they exist. The way this influence is exerted in practice varies,

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<sup>40</sup> Based on interviews with peasant producers in Caldas. The trust expressed by some had its counterweight in vociferous criticisms on other sides. Groups such as the Unidad Cafetera have been fierce critics, and with cause on their side.

<sup>41</sup> The other reason being the continued wider role the Federation has played.

<sup>42</sup> A classic failure has been citrus fruits. The problem is that the Federation is not well placed to develop markets for non-coffee products.

<sup>43</sup> This is the conclusion of a document prepared for the government representatives in the Comité Nacional de Cafeteros by their assessors, Bogota June 3<sup>rd</sup> 1993.

since the Municipal Coffee Committees of the Coffee Federation relate in varying ways to the municipality, given that the departmental Committees have autonomy to set up what rules they like. In Caldas, for example, the Federation's Departmental Committee requires 50-50 funding for public works, and requires the municipal coffee committee to go out and seek this. This gives them leverage with the municipality. If the local mayor does not want to collaborate, local producers are encouraged to lobby the mayor. The Federation enforces strict controls on contracting and spending in such joint projects, and monitoring is carried out, largely spontaneously, by local groups such as *Grupos de Amistad* and *Clubes de Madres*.<sup>44</sup> Even the severest critics of the Federation (see below) consider that at this level it has on balance improved the effectiveness of the use of resources.<sup>45</sup>

These collective roles, of lobbying and monitoring, depend on a whole culture, developed over decades, which gives the Federation legitimacy, effectiveness and convocatory power at the local level. The same legitimacy enables it to work alongside peasant producers to control *broca* and introduce '*café tecnificada*' and the associated new culture of production.<sup>46</sup>

At the same time, at the macro level the Federation has come increasingly under fire, as an irrelevance, and impediment, in a neo-liberal world. The fire has been intensified with the collapse of the ICA, which has deprived the Federation of a major and prestigious international role. Many would have the Fund abolished and the Federation reduced to a 'mere' professional association. Internationally, the World Bank has been a powerful lobbying force for such an outcome. Nationally, the focus of opposition has come from the private exporters, who view the Federation as unfair competition. In the new context of neo-liberal thinking, the Federation is seen as an impediment to the operation of the level playing field, since it both sets the rules and enters the market as a player. What were seen as important functions in the earlier phase – the collective action aspects we have emphasized – are now taken for granted. Producers will continue to cooperate because it is in their interests to do so. The

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<sup>44</sup> Based on interviews with members of the departmental Committee and a Municipal Committee in Caldas and on field visits, Caldas March 1999.

<sup>45</sup> Interview, Oscar Marulanda, Bogota March 1999.

<sup>46</sup> Trees are cut right back to a stump after four years and left to re-grow, with inter-planting of other crops meanwhile, rather than being left untouched for their natural life of 15-20 years.

macro roles we have described are ignored, disapproved of, or not fully understood, while the Federation's non-coffee interests are seen as part of a now-discredited ISI model.<sup>47</sup>

To reflect on this challenge, and to evaluate the present-day public good (or bad) role of the Federation, requires that we attempt a difficult exercise of counter-factual analysis, with all the arbitrariness inherent in this.<sup>48</sup> We need to imagine Colombia today without the Federation in the form in which it currently exists, as a product of its specific history.<sup>49</sup>

The first point to make is that the International Coffee Agreement would never have survived as an unusually successful commodity agreement, without Colombia's major role throughout its history, and Colombia would never have developed the web of international offices marketing coffee and the huge organisation monitoring and controlling quality. Colombian coffee today would not have its brand name and its consumer following. None of this would spontaneously develop today either, given the weakness of the coffee market and the propensity to free riding still inherent in small-scale coffee.

The counter-factual therefore needs to be one where coffee income has grown more slowly over the years, and the aggregate wealth of the coffee sector is far less, cumulatively over time. In distributional terms, Colombia would have lost vis-a-vis the world. It might be argued that more diversification would have happened and that with hindsight this would have been positive. This is doubtful, however, since we have argued that the elite of the coffee sector always had an interest in diversifying. It could even be argued that Colombia actually managed somewhat better than the average medium or large Latin American economy to finesse the relation between its main export crop and the rest of the economy, and that this has at least something to

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<sup>47</sup> Oscar Marulanda, interview, Bogota March 1999.

<sup>48</sup> A subsequent research effort which could make the counterfactual more solid would be a detailed historical comparison with Costa Rica, where coffee is also produced by small farmers and no entity with the authority of the Federation has developed with the years.

<sup>49</sup> To highlight what Colombia might lose today, by radically reducing the role of the Federation, it does not seem relevant to consider options which are based in a *stronger* interventionist mode, since the pressures for abolishing the Federation come from the opposite quarter. Thus we do not discuss the possibilities opened by for example the rather successful Kenyan Coffee Marketing Board.

do with the skill and interest of the coffee elite in collaborating in this diversification..<sup>50</sup> Within the sector, coffee wages and small producer incomes were always the outcome of the market. Over time the producer price was not internally artificially sustained, but coffee did benefit from the one outstandingly successful ICA over many years and in that the Federation played a huge role. Coffee incomes in general over the long run would have suffered in that sense from the absence of the Federation – and most importantly, would have fluctuated more. If stability is a good - and we would hypothesize that it is, for the poor – then this is a genuine gain. The reality of very low incomes and great poverty at the bottom of the pile in the coffee sector is a fact, however - although it would have been even worse without what has been achieved with coffee. It has also now been made clear, as mentioned above, that poverty was not in fact much reduced by above-average social expenditure in coffee regions, since government expenditure was actually reduced compared to other regions, in partial compensation for the spending of the Federation.

The counter-factual might well contain a modest producer association, with no resources, no instruments for P/C, more based on COOP. Such an organisation would of course play none of the macro roles we have identified – and probably very few of the micro roles. The present loyalty given to the Federation by small producers, the access its extension workers have, the confidence they inspire, would all be lacking. The picture would be one of ‘regular’ coffee produced and poorly managed by large numbers of very poor peasant producers. Although we have argued that historically the Federation never solved the problem of low incomes in the coffee sector, it has increased productivity from tiny plots. This would be much reduced as an effect in our counter-factual, and the instruments would be absent for the future. This analysis provokes a wider reflection: violence and guerrilla penetration is less in coffee areas than in other departments of Colombia.<sup>51</sup> In our counter-factual reflection we must contemplate the possibility that the anarchy and violence characterising many Colombian departments today might be even worse – a sobering thought. Further, today the local coffee committees and their networks constitute instruments of access

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<sup>50</sup> See Thorp 1998 chapter 3.

<sup>51</sup> Interview, Emilio Echeverri, Coffee Federation, Bogota September 1999

to poor producers; even if they have not been used in a major way in the past to attack low incomes, they represent an institutionality available for the future.

A further level to the reflection is the role of local coffee committees relative to local government. Coffee committees do effectively channel pressures to make local government spending more effective – and to direct it to the public works the population sees as important.<sup>52</sup> Rural local government is nowhere very effective in Colombia – but it would almost certainly be worse in coffee departments in our counterfactual.

All of this adds up to saying that there are public goods to be attributed to the existence of the Federation in its present form today. Some of these goods depend heavily on a long slow process of institution building (particularly of authority, credibility, confidence etc.). The argument might be made that these elements would not disappear overnight were the Federation to be stripped of its wider roles and reduced to a ‘mere’ producer association. But it must be seriously questioned how long the institution would survive the consequences of loss of resources, prestige and authority. The micro role we have described is surely dependent on the culture of legitimacy, professionalism and authority built up over the years.<sup>53</sup> This is a matter both of political weight and of ethos. Young professionals today choose to work in the core management for the Federation precisely because they understand that it does play a significant social role at many levels, equivalent to a public service post but without the complications of a public sector career, where ethos, continuity and high standards are concerned.<sup>54</sup>

In Colombia as elsewhere in Latin America, but aggravated by decades of rural violence, there is a notable lack of effective rural development institutions. A culture which monitors and demands responses from the state is to be valued. So is an organisation such as the Federation which is well placed to deliver community participation in, say, education or public works, and thus improve the quality of state

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<sup>52</sup> Based on interviews in Manizales and in the Department of Caldas, but needing much more work.

<sup>53</sup> This requires research on the reasons why the Federation has influence with small producers. No such study has yet been done.

<sup>54</sup> This is the analysis of Diego Pizano, advisor to the Federation; the idea encountered much resonance in other interviews.

investment. What the Federation cannot itself deliver are adequate alternatives to coffee, because it does not manage their marketing, and the kind of investment in education that can eliminate poverty among small coffee producers.<sup>55</sup> Here it is the macro level influence of the Federation which is crucial, to lobby for and facilitate state action to provide marketing infrastructure and adequate expenditure on education.

## **V. Conclusion.**

We have argued that in terms of the importance of groups, it is impossible to understand the history or present-day functioning of the Colombian economy without taking into account the existence and modus operandi of the large and complex group – and groups within the group – that is the Federation. We have also argued that the Federation has performed extremely important efficiency and claims functions over time, and that both functions have had outcomes that have improved growth. The efficiency functions concern monitoring and control above all, and the building of an international reputation on that basis. They also concern the purveying of services to small producers. More intangibly, the efficiency function at a macro and meso level has involved a subtle finessing of intersectoral relations and adapting of a mono-export economy to a different international climate.

The claims function is clear in regard to Colombia's international position. In regard to other sectors, it is strongly qualified by our analysis of the intersectoral interests of the major actors. The claims function in relation to the mass of producers is complex: the international and national claims functions have given small producers more and more stable income than they would have received under the counterfactual of no Federation – but it is not the function that many would have wished, pressing for redistribution both within the sector and vis-à-vis other sectors. (However, redistribution would have been no greater on any other probable scenario.)

In relation to modes of operation, we have argued that P/C runs throughout the organisation, while M modified by COOP in members' long-run economic interests

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<sup>55</sup> The recent study by CRECE shows how productivity correlates with education, but not (generally)

constitutes the basis of day-to-day relations. The Wider project paper suggests a 'romantic' hypothesis – a relation between COOP and equity. This is not in evidence in this case. The elements of COOP that exist, do so despite and are embedded in a context of P/C and extreme inequality.<sup>56</sup>

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with size.

<sup>56</sup> Colombia has one of the above-average degrees of income inequality in Latin America. See Thorp 1991

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