

**“RURAL ELITE AND PEASANT STRATEGIES IN THE RESTRUCTURING  
OF THE COFFEE MARKET IN VERACRUZ, MEXICO, 1989-1996”**

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## TITLE OF THESIS

“RURAL ELITE AND PEASANT STRATEGIES IN THE RESTRUCTURING OF  
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## ABSTRACT

This thesis is based on two main arguments. First, the coffee market is strongly regulated and embedded because of its natural setting and social make up. Coffee is a perennial cash crop mainly cultivated in tropical and semi-tropical mountains, where small producers have played an important role. Issues of labour intensity, land access and property rights, massive investments in infrastructure and credit, and cyclical behaviour of markets have shaped the emergence of coffee sector institutions. Countries, in which complex institutional arrangements were made to face these convergent factors, have succeeded in overcoming many “coffee crises”. I present the case of Atzalan, Veracruz, in Mexico, as a case of institutional failure and loss of a privileged opportunity for rural development in poverty-stricken areas.

Second, elites have commonly been neglected in analyses of how peasant practices and identities change in the context of agricultural ‘modernisation’. This is particularly pertinent in the context of Mexico, where caciquismo has long been of extreme economic, social and political significance, both within and beyond state institutions.

Elites are important in rural societies because they establish a privileged link with peasants, both in the coffee market and in other areas of social interaction. Their strategies of accommodation *vis à vis* the state and powerful actors have created opportunities for regional development, specialisation and integration in national and international markets. I present a historical perspective of a coffee producing region in Central Veracruz, whose local elites channelled federal and state resources, mobilised peasants and challenged state intervention in key economic activities. Elites are interlocked with peasant communities in many different and complex ways. Elites’ knowledge of coffee markets has an effect on business making and market institutions (contracts and grading systems, price formation, value creation incentives). In turn, peasant organisations and their economic strategies are strongly influenced by this elite framework.

## GLOSSARY OF ACHRONYMS AND ABBREVIATIONS

<b>ARIC</b>	Collective Interest Rural Associations (include both ejidos and small landholders)
<b>ASA</b>	Asociaciones Serranas Agroindustriales (Barreda's holding firm)
<b>Banamex</b>	National Bank of Mexico
<b>Banrual</b>	Rural Credit Bank
<b>Bancomext</b>	Exports Promotion Bank
<b>CAM</b>	Agrarian Mexican Confederation
<b>CAP</b>	Permanent Agrarian Congress (umbrella organisation)
<b>CCI</b>	Independent Peasant Central
<b>CEIMSA</b>	Export-Import Mexican Company (forerunner of CONASUPO, state marketing company for basic staples)
<b>CLC</b>	Local Credit Committees, community organisations integrated to the CRC
<b>CLS</b>	Solidarity Local Committees
<b>CMC</b>	Coffee Mexican Council, advisory board that replaced the IMC
<b>CNC</b>	Peasant National Confederation, parachute organisation affiliated to the ruling party (PRI), which centralised regional Agrarian Communities Leagues, and Producers National Unions (sugar cane, tobacco, coffee, etc).
<b>CNCf</b>	Coffee National Commission (1949), became IMC in 1959
<b>CNCo</b>	Coffee National Council (created in 1993 after the IMC disappearance)
<b>CNOC</b>	National Coordination of Coffee Producing Organisations, a network of independent regional organisations created in 1989.
<b>CONASUPO</b>	Food Staples Marketing Board (regulated prices in destitute areas through a network of warehouses and retail shops)
<b>COPLAMAR</b>	Marginal Zones Developing Program
<b>CRC</b>	Regional Peasant Committee, a regional branch of the CNC's structure.
<b>CRS</b>	Solidarity Regional Savings (set up by the PNS to encourage the repayment of income support. In 1994-95 they became civil associations)
<b>CRS-A</b>	CRS of Azotal
<b>Fidecafe</b>	Coffee Trust, created in 1989 after the restructuring of FREC, retention fund
<b>Ejido</b>	"Social property", combining commons governance with individual property rights (since 1992 constitutional reform)
<b>FNC</b>	National Federation of Coffee Growers of Colombia
<b>FRC</b>	Solidarity Regional Funds (for Coffee), funds given by the Solidarity Program to social organisations in order to run 'productive projects'. In the coffee producing regions they focused on processing and marketing coffee
<b>FRC-A</b>	Solidarity Regional Coffee Fund of Azotal
<b>FRC-PA</b>	Solidarity Regional Coffee Fund of Plan de Arroyos
<b>FRC-T</b>	Solidarity Regional Coffee Fund of Tlapacoyan
<b>FREC</b>	Coffee Stocks Retention Fund, created through an export tax in order to count the Mexican coffee stocks and administer the export quota
<b>FRS-A</b>	Solidarity Regional Fund of Azotal
<b>FRS-T</b>	Solidarity Regional Fund of Tlapacoyan
<b>FRS-PA</b>	Solidarity Regional Fund of Plan de Arroyos
<b>HYV</b>	High Yield Variety (usually dwarf hybrids with resistant and quality traits)
<b>ICA</b>	International Coffee Agreement (1963-89 with intervals)
<b>ICO</b>	International Coffee Organisation, based in London

<b>IMC</b>	Coffee Mexican Institute (also known as Inmecafé, 1959-1993)
<b>INI</b>	National Institute for Indigenous Peoples (involved with Solidarity coffee programmes)
<b>JW</b>	Jehovah Witnesses (Millenarian Christian sect which reject the supremacy of the state and religious institutions over personal faith on God or Jehovah)
<b>LIFFE</b>	London International Financial Futures Exchange
<b>LCA</b>	Agrarian Communities' League, state level organisations of the CNC
<b>m.o.s.l.</b>	Meters over sea level
<b>MECAFE</b>	Coffee Improvement Programme. This program was first sponsored by the USAID in Central America (mid-1970s). Introduced in Mexico by the IMC in the 1980s to improve coffee technology
<b>NAFTA</b>	North American Free-Trade Agreement
<b>NYCSCSE</b>	New York Cocoa, Sugar and Coffee Exchange, the most important stock and futures markets for washed arabica coffees (Contract 'C').
<b>NCPE</b>	New Ejido Population Center
<b>NYBOT</b>	New York Board of Trade
<b>PCM</b>	Mexican Communist Party
<b>PIDER</b>	Integrated Rural Development Program, financed by the World Bank in Latin America during the 1970s and 1980s
<b>PNS</b>	Solidarity National Program (1989-1994), a set of income support programs to compensate for the impact of structural adjustment
<b>PRD</b>	Democratic Revolution Party, main left wing opposition party
<b>PRI</b>	Institutional Revolution Party (ruling party 1929-200)
<b>PROCAMPO</b>	Income support and production subsidy programme, set up in 1993 to compensate NAFTA
<b>PROCEDE</b>	Agrarian Entitlements and Urban Courtyards Titling Certification Program (brought about by the 1992 agrarian law reform)
<b>Qq</b>	Spanish quintal = 46 kg (green coffee) = 100 Lb. American (green coffee)
<b>ROYA</b>	Program designed to combat the spread of the 'leaf rust' (roya) in Mexico (late 1970s/ early 1980s), sponsoring resistant strains and agrochemicals.
<b>SARH</b>	Ministry of Agriculture
<b>SB</b>	Solidarity Brigade (PNS), a regional group of PNS promoters
<b>SPA</b>	San Pedro Altepepa, Ejido and congregation community
<b>SPP</b>	Planning Ministry
<b>SPR</b>	Rural Production Societies, local organisations of small landholders
<b>SRA</b>	Land Reform Ministry
<b>SSS</b>	Solidarity Associations, local organisations promoted to facilitate and update local organisations
<b>TNC</b>	Transnational Corporation
<b>UCI</b>	Independent Peasant Union
<b>UE</b>	Ejidos Union, 'second level' organisations based on ejidos
<b>UEPC</b>	Coffee marketing and production local groups (organized by the IMC to deliver credit and inputs)
<b>UGOCEP</b>	Popular, Student, Peasant and Worker General Union
<b>UNORCA</b>	Peasants' Organisations National Union
<b>UEPC</b>	Production and Marketing Economic Units (IMC's functional local organisations of small coffee producers promoted since 1973)
<b>UNPC</b>	Coffee Producers National Union, with branches in coffee producing states, and affiliated to the CNC-PRI
<b>USAID</b>	United State of America international aid for development agency

## CHAPTER 1

### A FRAMEWORK FOR ANALYSING CONTEMPORARY PEASANTS

*"In dealing with the multiple and complex problems of development we have learnt that we must fashion generalizations at all kinds of ranges and be deaf, like Ulysses, to the seductive chant of the unique paradigm"*  
Albert Hirschman (1995)

#### 1.1 Introduction

Two overlapping lines of inquiry cut across this thesis. The first line addresses a question regarding the social embeddedness of the coffee market, in particular: Why is the presence of peasant producers in the coffee sector so widespread and why do small producers survive in a market so tightly integrated and internationalised? The second line of inquiry, closely linked with the first, addresses the following question: What type of economic, social and political strategies account for the survival of small producers in the market and how do these strategies transform the coffee sector's institutions? It is my contention that peasant and rural elites' strategies influence one another in a permanent process of interaction and accommodation, which, in conjunction with the strategies followed by the state and international actors, shape the coffee market.

In this chapter I first discuss prevailing views on peasant and rural societies and different academic efforts aimed at challenging old convictions in order to underscore the need to build an interdisciplinary framework. The following sections outline different approaches which have tried to account for the various ways in which peasants interact with markets. On this basis I suggest a more dynamic approach, which acknowledges, on one hand, the peasant capabilities to adapt to changing international, regional and local environments, and on the other hand, the historical, regional and social complexities of peasants as a social group. Section 6 discusses, first, the concept of peasant in the light of structural and agency perspectives and how peasant abilities to act collectively depend on their strategies and, particularly, on the role of rural elites. Section 7 examines the contributions and shortcomings of both the rationality and the relativist theses and how they can illuminate my case study. Section 8 revises some of the concepts drawn from New Institutional Economics as one of the main sources inspiring the theoretical framework, which stresses the complexity of coffee producers,



which is in turn discussed in section 9. The main arguments and the research strategy are outlined in the last two sections of the chapter.

## ***1.2 Towards an interdisciplinary framework***

More than in other fields, peasant and development studies in general have questioned old convictions. This has happened for two reasons. Positivist and evolutionist certainties have been systematically criticised and deconstructed in many areas of the social sciences.<sup>1</sup> The successful transition models –such as the American farmer path (Friedmann, 1978) and the junker path in England (Byres 1996 and Bernstein 1996)- have been reassessed as historically unique and atypical. Even the Western European stories about peasants' backwardness, for example the 'immobility of rural France' in early times, have been re-examined by modern economic history. Peasants, along with the global restructuring of agriculture, have been transformed by capitalist markets.

Theoretical discussions on peasants and social change in rural societies tend to be polarised around two views. On one hand, the Marxist perspective, whose starting point is the 'death of the peasantry', to use Hobsbawm's (1994, p. 289) expression, has been considered a theoretical framework and historical trend derived from the logic of capital accumulation, as well as a concrete development since the Second World War. On the other hand, we find all those perspectives influenced by theories such as Chayanov's peasant economy (1966 [1925]), Scott's moral economy (1976, 1985 and 1990) and new social movements' perspectives on resistance and identities, which stress the endurance of *peasantness* despite penetration of agribusiness and financial capital (Alvarez, Dagnino and Escobar 1998).

In Mexico, the debate confronting 'depeasantists versus peasantists' took place in the 1970s deepening rivalries between Marxist versus non-Marxist perspectives.<sup>2</sup> From the former point of view, Bartra (1993) argued that a 'permanent primitive capital accumulation' has been historically related to a small peasant economy, which is

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<sup>1</sup> Elguea's (1989) work on Latin America's theories of development examines the debate between modernization and dependency theories, in the light of Lakatos research methodology. See also, Mouzelis (1988) Roxborough (1979) and Harrison (1988).

<sup>2</sup> The label depeasantists refers to scholars alleging that the proletarianisation of peasants is a one-way inevitable process, whereas peasantists argue that peasants can resist proletarianisation in different ways and that capitalism cannot destroy all forms of non-capitalist production. Paré (1991b) argues that this debate was extremely ideological and was rarely based on ethnographic fieldwork. From the 1980s onwards, she argues, fieldwork findings reveal that peasants adopt diversified strategies where wage labour and migration are just as important as the preservation of traditional agriculture and social networks of solidarity.

destroyed and reconstituted. Peasant communities - overwhelmed by increasing population and demographic pressure on land, economic differentiation, rural unemployment and outward-migration - have become commodity producers and semiproletarians. According to this 'proletarianist' view, these findings are conclusive evidence of a general depeasantisation process (Foladori 1981 and Hobsbawm 1994).

The peasantists approach turns this 'functionalist' interpretation upside-down, to point at the resilience and reproduction of the family economy in the capitalist economy (Palerm 1980).<sup>3</sup> The 'peasant resistance' view, for example, highlights household coping strategies, risk-bearing diversified activities, moral economic behaviour and collective reciprocity. According to this 'peasantist' view (Esteva 1983 and Warman 1980), even if peasant families rely to some extent on wage labour and off-farm activities, full proletarianisation does not take place because of complementarities of commercial and subsistence production.

The Marxist structuralist perspectives tend to overshadow concrete analysis and fieldwork, as Mouzelis (1990) and Paré (1991b) argued. That is, they underestimate the historically-rich analysis of the peasant to proletarian transition, endorsing at the end reductionist and evolutionary models. The stress on economic determination and class analysis hinders identification of other complex factors of social change and expressions of agency, such as culture, ethnic identity, and hidden forms of resistance (Scott 1990, 1985 and Gledhill 1996).

On the peasantist side, attention given to agricultural diversity may end up in cultural particularism that makes comparative analysis difficult. Ahistorical views of an isolated family peasant economy and, in general "peasantness", deny the impact of colonialism, capitalist markets and nation-states on rural societies (Durrenberger 1984). Arguments about 'everyday resistance' may underestimate the complexity of "hegemony",<sup>4</sup>

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<sup>3</sup> In the orthodox Marxist view the peasantry's proletarianisation was instrumental to domestic market and free labour formation. Although this particular transition was fully accomplished only in early industrial capitalism (Bernstein 1996 and Harriss 1982), many leftist parties worldwide undermined the agrarian agenda of the peasantry. In this sense, neo-Marxist accounts of the proletarianisation path shared a functionalist view.

<sup>4</sup> The concept is used in the Gramscian sense of dominance of ruling classes not only by violent means but essentially through constructing social consent and consensus, that is, maintaining the allegiance of the mass of the population. In modern societies the nature of politics, mass organisation, information and education, the national culture as political project and multiclass alliances, as well as a set of welfare reforms and concessions are important aspects of this process of hegemonic ruling (Sassoon, 1999; Gramsci 1995).

particularly if the context of domination is not thoroughly taken into account (Roseberry 1994 and Gledhill 1996).

An example of the structuralist and economist reductionism of Marxist analysis of peasants is the attempt at understanding peasant societies from their theoretical class location only, i.e. *petit-bourgeoisie* (labourers as well as owners of means of production). Wolf's research program (1956 and 1957), represents a much richer effort. It takes into account the historical configuration of *types* of peasantries, which emerged under the influence of concrete historical conditions, including colonialism and capitalism, the formation of new nation-states, and the consolidation of regional agrarian structures and regimes of labour, all of which were influenced by diverse ecological environments, as well as resistance and adaptation of communities' culture and social structures.

The 'middle ground' position (Arce 1993, Long 1994 and Kearney 1996), which advances a general theory for understanding a variety of phenomena -like interface analysis or identity differentiation- can be equally insufficient. Several authors have already pointed to the limits of stereotyped discussions about capitalist agrarian transitions and, in general, of dichotomous characterisations of rural groups as either peasants or proletarians (Shanin 1990, Gates 1993 and Byres 1996). Thus, on one hand, reciprocity, collective consumption, and prestige economy have been opposed to a rational, self-interested peasant, integrated in markets and stratified by economic differentiation. On the other hand, elements of coping, survival, 'risk averse' strategies of generally poor peasants, have been opposed, in turn, to risk-managing, profit-seeking, entrepreneurial strategies of farmers. Some have adopted the form of academic discussions, as in the case of Popkin (1979) versus Scott (1976), while others have developed within the political debate between state agencies, NGOs and political parties (in Mexico, the debate between peasantists and depeasantists was more a political debate on the 'revolutionary' role of peasants, than a theoretically minded discussion, as argued by Paré (1991b).

The viewpoint defended here is that peasant forms of organisation can only be understood as a concrete set of social relations and livelihood strategies in continuous change and strain, in line with Thompson's (1980) reluctance to use class categories to fit in living processes of social groups. There is a dynamic link between structure and agency processes that determines the reproduction of 'peasant' groups (politics is a

pervasive factor in structuring social relations of rural groups, value formation and deployment). Size/productivity, tenancy/productivity cannot be understood outside power relations (Herring 1984). I argue that Mexican peasants are the outcome of specific social relations and historical processes, as well as strategies of reproduction and resistance, which can only be properly explained with the help of an interdisciplinary approach provided by the embeddedness hypothesis and livelihoods framework.

Another theoretical tension in the debate on peasantries confronts the views of rational choice and neo-Marxism. Without trying to undertake a thorough review, some common problems and limitations, from which my later proposals will draw, will be briefly mentioned. Rational choice – basically sharing the methodological individualist assumptions characteristic of mainstream economics - would make the following contentions about small commodity producers:

- Producers are *rational maximisers*; choices about crop scale, the level of specialisation and technology change are related to optimisation of returns. Constraints refer to scarcity of resources, a household's demographic cycle and drudgery balance (Chayanov 1966), climate and other external risk factors (Popkin 1979).
- Primary producers have been induced to overproduce because of the distorted performance of markets: domestic price controls and imperfect information. Strictly speaking, peasant production (nil labour and land value) could no longer be representative among the vast majority of coffee producers world-wide, as Geer (1971, pp. 52-53) contends.
- Given open market conditions, producers will eventually move out of the coffee business and find comparatively better uses for labour and land.

Neo-Marxist analyses, in turn, focus on the nature of social relations and mechanisms of surplus extraction. Some propositions of this wide-ranging theory would read:

- The peasant household is a consumption-production unit, which plays an important role in capitalist markets: to provide a cheap labour force and commodities (Palerm 1981, de Janvry 1981).
- The transitional nature of peasant forms of production is revealed in the commoditisation process, which leads to differentiation. Peasant forms of

production are reproduced by capitalist social relations through economic and non-economic means (Bernstein 1996).

- Small coffee producers still remain in the market because of both, their functional roles in certain high-risk, low-profitability activities in which capital is not interested or not able to invest, and the simple reproduction squeeze (Bernstein 1977 and 1996).

### ***1.3 Peasant forms of production and capitalist markets***

According to some 'over-optimistic' accounts (Netting 1993), characteristics of family farms, peasant economy and culture allow producers to successfully resist capitalist subordination, through food self-sufficiency, reciprocity, collective consumption, coping strategies and resistance tactics. Class formation is therefore not always the corollary of differentiation.

In the articulation-type variant (Palerm 1981), even in the case of producing commodities, peasants can achieve relative autonomy from the market, selecting 'spheres of exchange' between the family economy and the regional market. In this way, peasants create, if not more advantageous, at least less adverse 'patterns of articulation' to the market, achieving an always unstable balance between cash-crops, seasonal wage labour and self-provisioning activities (Meillassoux 1972). They function in this way with two different systems of value, which means not only two ways of mobilising resources, but of setting priorities to the physical movement of labour and production, defining norms about effort and interest. One sphere is linked to the market, and specialises in generating short-term, but year-round monetary incomes. In the market sphere, producers draw income that they transfer, consume and invest in the domestic economy. In the second sphere, the links to the market are far weaker. At the centre of the domestic economy is traditional agriculture, based on rain-fed maize and bean cropping, which still provide the basic diet of *mestizo* highlanders. Apart from basic staples, the diversified household economy seasonally produces some fruit, which occasionally generate additional monetary income.

Instead of seeing traditional societies passively articulated to capitalist markets and bourgeois national states, I argue that modern peasants are the combined result of an unparalleled domination of capital and markets in rural societies, as well as of the new

opportunities emerging from flexible labour markets and the emergence of new patterns of consumption, linked to environment, health and equity concerns.

These two value systems are regulated by 'cultural controls', which sanction the benefits from both sets of activities and have been the object of several theoretical propositions: beginning with Weberian-type methodological individualism, according to which aggregated behaviour creates social structures, like the peasant economy (Chayanov 1966 and Scott, 1976) and rational peasant approaches (Popkin 1981).

In neo-Marxist theories (Herring 1984) the important question to address is not "just" how much land do peasants devote to commodity and self-consumption crops, or how many days a year do they hire themselves as workers, but the whole pattern of relations that explain their reproduction. The problem of *quality* is the conclusive point: effective control over means of production (including land) and autonomy from the market; sufficiency of food production and surplus holding and deployment capacity; dependency on wage labour income to reproduce the family economy; collective control of demographic pressures and external threats over land and political systems; and economic differentiation and private accumulation.

Marxist scholars question the existence of *peasants* as such, and have suggested that today the vast majority of contemporary rural producers are petty commodity producing farmers (including part-time farmers) or semi-proletarian agricultural workers (Hobsbawm 1994; Calva 1988; Paré 1991b and Bernstein 1982), due to the family's income dependency on off-farm wage labour and self-exploitation, or on 'squeezed' petty commodity production. Land ownership no longer means control over productive choices and access to the created surplus.

Labour use has been tested as the more relevant factor in class formation (Patnaik 1980). Occupational differentiation (an almost universal trend in rural societies) provides valuable criteria, which challenge the existence of fixed borders in class location and the suitable units to analyse stratification (individual, nuclear family, household, community). Class formation has been sustained not merely on economic grounds; symbolic capital (status, authority, power and knowledge) accumulation also has to be taken into account (Bourdieu, 1986; Giddens 1978 and Weber 1992). Finally, it has been argued that agent "structuration" depends more on strategic behaviour (Giddens, 1995), rather than a direct translation of economic trends to the social

structure (Harriss 1982a). Social location is not such a straightforward issue. It is supposed, for example, that either increased wage labour, or commodity production (and the productive use of surpluses to accumulate), leads towards class formation. But it has been widely argued that this trend is counter-balanced by smallholders' demographic and socio-economic mobility (Chayanov 1966; Shanin 1990 and Netting 1993). There is general agreement about unequal terms of trade and surplus transfers from peasant producers to rural elites and urban groups, but there is not consensus in defining the scope of these trends (i.e. the deployment of surplus is more important than its extraction, Herring 1984).

#### ***1.4 Social forms and peasant petty commodity production***

Rural societies have developed *different* social forms to urban, "civilised" societies, which have attracted attention from analysts for centuries. Evolutionist theories (Redfield 1953) saw in 'tribal' (hence rural) societies the paradigm of past social forms, already overtaken by western societies. The Redfieldian rural-urban continuum - despite being academically outmoded - is quite alive in social scientists' common sense. Without maintaining the evolutionist baggage, discussions on rural development institutions (North 1995, Bardhan 1989), still use this powerful metaphor (Which institutions would facilitate capital accumulation, higher savings and productive investment, and the reallocation of rural population in more profitable activities?).

While peasant communities historically emerged under the influence of state-cities - 'there were no peasants before the first cities' (Redfield 1978) -, it was the development of the bourgeois cities that mark the demise of self-sufficient peasant communities (Kautsky 1988). Although attention by the end of the 20<sup>th</sup> Century shifted to sustainable livelihoods, poverty reduction and relief programs, the political agenda of economic restructuring has not invalidated peasant studies. On the contrary, peasant studies and rural livelihoods remain crucial background to understand many particularities of agrarian and political systems, agribusiness structures, labour migration patterns and, agroecology and biodiversity in most developing countries.

From the neo-Marxist point of view, the agrarian question has been revisited in numerous debates that have tried to assess the process of destruction of the peasants' *natural economy* (another metaphor), imposed by the penetration of capital. After a primitive process of accumulation, there have been several paths towards the final

outcome of proletarianisation or one of several historical forms of capitalist producers (farmer, junker, kulak, etc.). While introducing the historical perspective of peasant dissolution, Marxist writers have relied heavily on the *transition* metaphor - with an evolutionist bias - and on *articulation*, with the more ethnographic account of neo-Marxist French Anthropology (Meillassoux 1972). There have been several variations in Marxist analysis of the agrarian question, from the orthodox brand of *proletarianists* or *depeasantists*, in favour of rising agricultural productivity and expansion of agribusiness as historical necessity - to populist versions, or *peasantists*, against capital penetration and in favour of preserving *tradition*, contained in peasant social forms (the moral economy, reciprocity, political democracy, etc.) (Paré 1991b; Calva 1988 and Byres 1982). An attempt at 'solving' the peasant question was the Peasant Mode of Production theory (Meillassoux, 1972 and Palerm 1981), simplistically derived from Marx's discussion of precapitalist modes of production (*das formen* and his Introduction to the critique of political economy, 1857), and its transitions to capitalism, particularly his proposal for differentiating an Asiatic Mode of Production.

Marxists have analysed peasants and their subordinated integration to the capitalist economy, trying to establish the general trends of their demise and final absorption (as proletarians or petite bourgeoisie). With the exception of Bernstein's far-reaching comparative and theoretical analysis on transitions (cf. 1996), a frequent problem of transition-cum analysis is the lack of historical evidence of an actual process of convergent change, more or less predictable under general categories (from peasant to proletarian, from rural communities to cities, from diversified producers to specialised workers). Alternative views - what Marxists would label 'populist' variants - (Netting 1993, Foladori, 1981) have counter-argued that the complete extinction of peasants is not taking place. Rather a 'refunctionalisation' is occurring because of the weakness of internal markets (in the case of underdeveloped countries), political action on state agrarian policies (particularly land reform), and the flexibility of the family economy to adapt commodity production to capitalist markets, which has allowed communities and households to preserve control to some extent over the labour force, land and natural resources.

What such accounts have failed to explain is why capitalist markets have continuously penetrated and transformed rural societies, while preserving and reproducing peasant-like, 'backward' social forms, different from large-scale capitalist agriculture. Some Marxist-orientated theorists argue that non-capitalist forms of production persist for the



sake of capitalist accumulation needs, as long as they are a good source of cheap commodities and labour (Palerm 1981). However, this rather “functionalist” explanation neglects the agency process and the set of contradictions among different types of units of production and producer countries, which has to be addressed in relation to concrete evidence. With respect to the coffee market, there appears to be such a functional role for small producers (surplus transfers through cheap commodities).

One of the first problems confronted by peasant studies specialists is the difficulty of arriving at comprehensive theories of the nature of peasants across time and space.<sup>5</sup> If peasants are understood as a subsidiary social form, not static but emerging from specific social contexts, rather than across social formations, one can understand that peasants are the result of specific social relations and socio-cultural formations. As systems of domination have changed, so too do the social structures in which peasants organise and reproduce, though the same could be said for all ‘classes’. The more fruitful analyses of peasants have come from middle-range (Merton 1996) or substantive (Waters 1994) theories or typologies, which considered historical context, regional level of analysis and a theory that could account for social complexity (gender, kinship and social stratification systems, rule and legitimisation of power, embedded institutions and markets, etc.). In this category the livelihoods framework is one body of literature that has addressed creatively many of the structuralist and functionalist shortcomings already discussed.

### **From class change to livelihood transitions and trajectories**

During the 1990s valuable research work using the livelihoods framework was undertaken under the auspices of different projects, for example by the Institute of Development Studies (Sussex), the Overseas Development Institute (London), the African Studies Centre (Leiden University), and the Department for International Development (London), when it was officially adopted by the British Government.

Much of the influential writing using the terminology of livelihoods came from development professionals concerned with the impact of modernity on rural livelihoods, particularly on the rural poor (Chambers 1989, Chambers and Conway, 1992; Scoones, 1998).<sup>6</sup> Their approaches aimed at analysing poverty from the point of view of the poor,

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<sup>5</sup> Some discussions from the mid-1960s onwards focused on the social nature of peasants and their specific modes of production (Shanin 1990 and Patnaik 1980).

<sup>6</sup> As one of its proponents pointed out “Sustainable livelihoods was embodied in the title of a conference

arguing that poverty is as much a subjective experience as it is an objective condition, and that participatory research methods offer the best means for assessing poverty, and for capturing what people identify themselves as its principal dimensions and indicators (cfr. Bebbington 1999:29-30).

The livelihoods framework of analysis has to do with the observation of diversity of modes of livelihoods synchronically and the diversification of livelihoods in a historical perspective, or what Murray (2002: 152-153) calls circumspective and retrospective approaches, in that order. Overcoming the Marxist-type generalisations on peasants' proletarianization and viability, the livelihoods framework pays attention to "the myriad transitions that have occurred in the ways through which people make a living, and the diverse assets they draw upon in the process" Bebbington (1999:43). According to Bebbington's research carried out in Ecuadorian Andes, neither postmodern sceptical critique nor neoclassical economics interpretations of development capture the complexity of these transformations. They both fail to understand two interconnected phenomena. First, human agency: people's ability to build livelihood strategies, nor necessarily based on agriculture or even on economic activities in rural areas, and to find market spaces in which they are "economically viable", while sustaining an important link with rural places. Second, they also misinterpreted the enabling or constraining role of institutions, particularly those of the state. Post-modern and neoclassical economics narratives fail to account for the increased role of the state and other important agents, whose policies and interventions can foster rural livelihoods or facilitate their break down (getting caught in poverty traps).

In a multiregional work from a Marxist-oriented standpoint, Bernstein et al (1992) studied how particular patterns of agricultural development (commercialization of land and labour; formation of markets with social and institutional biases and inequalities; technical change; and government policies that favour some rural groups) were disrupting the livelihood opportunities of different types of people and social groups, intensifying processes of social differentiation in rural areas. They based the analysis of rural livelihoods on the grounds of agrarian structures and change, agricultural and non-agricultural resources and incomes, dismissing hidden assumptions on farming as a

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(Conroy and Litvinoff 1988), caught on as a phrase, and then was progressively explored and elaborated for meanings of sustainable, of livelihood, and of the two words taken together (e.g. Chambers and Conway 1992; Bernstein et al. 1992)." Chambers 2004:5. The main research programme where the sustainable livelihoods framework was developed was based in the Institute of Development Studies at Sussex, involving work in Bangladesh, Ethiopia and Mali, in particular (cfr. Murray 2002).

means of livelihoods, survival or a distinct way of life. Instead, they distinguished different types of farming, which in turn have different environmental and technical conditions, types and levels of resources, market linkages and government policies.

They found that patterns of commoditization and “development” are frequently conducive to poverty and environmental degradation, instead of acceptable livelihoods and sustainability. In such scenarios the rural poor engage in coping short term responses and resistance as well as long term livelihood strategies. These responses involve the reproduction on knowledge and cultural norms (Johnson 1992:283), and also manifold ways of disguised resistance and protest. Paradoxically, while they may individually or cumulatively bring about political change, they may also reinforce conditions of oppression they seek to resist (ibid p.283).

The livelihoods framework put forward a more sophisticated understanding of the process of impoverishment and deprivation distinguishing between underlying causes and immediate triggers, and stressing the relevance of social relationships rather than a ‘state’ of poverty. As Rakodi (1999) argues, the livelihoods framework implies that the poor are not passive and that their responses have typically been based on ‘household strategies’.

Bebbington (1999:4) argues that to understand how people create their complex livelihoods, especially in a context of livelihoods based on a range of assets, income sources and product and labour markets, we need to consider peoples’ access to five types of “capital” asset: produced, human, natural, social and cultural capital.<sup>7</sup> Access to these assets has three different enabling implications:

- A vehicle for instrumental action (making a living);
- Objects of reflexion, meaning and hermeneutic action (peoples’ livelihood strategies for making living meaningful); and,
- Means for emancipatory action (peoples’ capabilities and power to act challenging the structures in which one makes a living).

According to Bebbington “most livelihood decisions involve a choice to over-consume a particular capital asset at a given moment”, and in this sense “livelihood strategies are attempts at continuous management and modification of these substitutions, trade-offs and draw downs on different capital assets.” (ibid. p.30)

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<sup>7</sup> These 5 types of capital asset were also taken on board in DfID’s framework for sustainable livelihoods.

## **Some shortcomings and contributions**

Most of the literature on livelihoods has a normative drive and at times tend to take an uncritical approach to “ways of life”, neglecting social complexity – particularly at macro level of analysis –as well as power structures, the role of elites and the multiple ways they influence actors’ decision making.

The very focus on livelihoods seems to capture the complex outcome of making a living, achieving adaptive survival and somehow playing a role or fitting within society. This functional focus is usually made out of rich description of individual, family, group and community level strategies. This creates a risk of losing national and global dimensions.

The concept of access to assets neglects deeper problems of social relations and also simplifies complex issues of identity, networking and entitlements as “access to” or not access to, rather than explaining complex historical processes of transformation. Access does not ensure development or transformation of social relations.

Although the world becomes one global society in many ways, there are many areas – even in developed societies – which are not totally dominated by monetary exchange and capital maximizing institutions. In this way, the use of the concept “capital” to analyze culture, social relations or skilled labour, may lead to inadequate theoretical characterizations. The idea of “lacking - social, cultural, human - capital” may simplify what is resistance to market relations, complex social sanctions to exchange and accumulation, unequal social relations, and specific forms of embedded rationality in disintegrating societies (peasant, ethnic, post-colonised communities). Equating all social “assets” to physical, cumulative, exchangeable “capital”, looses the main features of non-capitalist sources of livelihoods, non-market spheres of social action and different spheres of value.

An excessive emphasis on family survival strategies, mainly individual agency, may neglect a wider view on market trends, agrarian structures and collective action, as well as environmental issues and sustainable development.

Nonetheless, the use of the concept livelihood<sup>8</sup> (rural livelihoods, sustainable livelihoods) opened up a flexible framework to study rural trajectories (or transitions) without the straightjackets of deterministic theories. It offered a comprehensive narrative of rural change and diversified transitions, and the way rural families, communities and organisations devised strategies to cope with change. Along with a broader view on human development, gender and ethnic perspectives, or rights-based development, sustainable livelihoods and access to assets perspectives have challenged narrow poverty alleviation policies in rural areas, and have shifted policy making priorities towards complex social capital formation and bottom up participation.

Participatory rural appraisal (PRA) and other participatory methodologies and research tools for local development, have allowed rural actors' worldviews to be known. Insights and research agenda within the livelihoods framework, particularly in the case of PRA, comprise a set of approaches, methods and values which seek to enable local and marginalised people to share, enhance and analyse their knowledge of life and to plan, act, monitor and evaluate development initiatives (cfr. Chambers 2004:13).

An important contribution of livelihoods analysis is the rights based international development agenda. Within the development agenda it has come to the fore that poverty alleviation policies have to enhance people's sustainable livelihoods, rather than delivering food or other assets.

In this thesis I intend to follow the social forms argument based on the embeddedness theory and livelihoods approach, taking on board critical perspectives on peasants as malleable social form and identity, rather than a fixed category. A dynamic view of peasants is adopted, where they are seen as a "social form" with extraordinary flexibility for adapting to changing scenarios. Contemporary peasants - paraphrasing Granovetter (1985) - are less socially embedded than peasantists think, but also less self-interested than rational choice analysts would accept.

Key to a more dynamic understanding of rural groups is to overcome, as much as possible, essentialist, evolutionist, economist and dichotomous characterisations. In this sense, I introduce three lines of analysis: historical, regional and "social complexities". Table 1 summarises the three levels of analysis based on characteristics of the

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<sup>8</sup> "A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can COPE with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base" (DfID, 1999: Section 1.1, cit. in Murria 2002:154).

Mesoamerican peasantry. An important starting point is *historical analysis* of the concrete processes of colonisation and primitive accumulation of capital, which contemporary peasants have faced at some point. Based on such a diachronic perspective it is possible to evaluate the unfolding of social categories within rural societies (wage labour and labour regimes, capital and agrarian property rights). A second component are *regional processes*, the formation of commodity, labour and capital markets, the interactions between agro-ecological formation and the rise of capital markets and economies of scale. The third line of enquiry is the focus on *social complexity*, the emergence of social structures that influence markets and peasant social forms. In the next three sections I explain the main propositions of these three lines of inquiry.

TABLE No. 1

ANALYTICAL COMPONENTS OF PEASANT STUDIES		
<i>Historical analysis</i>	<i>Regional analysis and livelihoods</i>	<i>Complex social forms and embeddedness</i>
<p>Disruption of old social formations (colonisation of indigenous peoples; total destruction or restructuration of peasant <i>complex</i> forms)</p> <p><i>Note:</i> peasants were not peasants <i>always</i></p>	<p>Introduction of a new division of labour on a regional scale</p> <p><i>Note:</i> exploitation of resources and labour defined new community networks and new systems of rule</p>	<p>Reduction of complex non-capitalist social forms to functional units; destruction or refunctionalisation of old social forms and imposition of systems of rule</p> <p><i>Note:</i> absorption of elites, restriction to smaller local units (loss of regional complexity)</p>
<p>Constitution of specific <i>types</i> of subordinated peasantry (junction of <i>fractionated</i> peasant forms and colonial state system of rule)</p> <p><i>Note:</i> modern peasant social forms are the result of the junction between colonial rule and peasant exploitation, resistance and in some cases isolation</p>	<p>Integration to markets (commoditisation and new labour regimes), where structure and social function are defined by regional processes</p> <p><i>Note:</i> depending on the nature of resources, productive processes and economies of scales, markets penetrated peasant regions and adopted specific forms of integration</p>	<p>Emergence of social differentiation and <i>local</i> elites, new forms of mediated rule and legitimisation of new property rights</p> <p><i>Note:</i> capitalism continually erodes peasant social forms, but also reconstitutes some elements of 'traditional' organisation, along with the market spaces it has provided them with</p>
<p>Emergence of new peasantries under the development of capitalism (appearance of commodity production)</p> <p><i>Note:</i> markets met specific types of peasants in particular socio-economic contexts; these peasants interact, learn and react to capitalist markets.</p>	<p>Interrelation of peasant societies and markets: not creation and destruction of 'marginal spaces' in the capitalist economy, but creating conditions for new rural livelihoods</p> <p><i>Note:</i> according to constraints on capital accumulation (ecological, technological, social, scale), particular spaces for petty commodity producers are created</p>	<p>Elites' business strategies influence interrelations with peasants (price formation, market structure, social expectations)</p> <p><i>Note:</i> historically there has been a social group of intermediaries above peasants - in part recruited from them - and below regional elites. These intermediaries can play many different roles depending on historical conjunctures</p>

### 1.5 Historical analysis and the problem of peasant modes

There is no specific peasant mode of production – i.e. commodity and Asiatic modes of production (Meillassoux 1972 and Palerm 1981) - but an unstable balance of rural social structures in underdeveloped capitalism. General theories that could explain the general dynamics of *the* peasant economy and its transitions towards capitalist forms have led to short-lived generalisations. Peasantries have been transforming and these explanations proposed an endless *functional* reproduction of peasants, either because of a lacking underdeveloped capitalism or long-enduring cultural and political formations (patriarchal structures, despotic states). Despite valuable insights derived from the family economy resilience *vis à vis* the capitalist market, these explanations fail to address several issues: first, the historical account of why *particular* markets profited from peasant forms of production while others destroyed them; second, relations between markets and peasants also affected capitalist forms of integration; and finally, these particular interrelations changed over time given different economic and political conditions (economies of scale, technology, land tenancy regimes).

On the other hand, advances in understanding different historical paths or transitions, though overcoming the shortcomings of the peasant *modes* of production, generated as many transitions as countries researched - the Russian, American, German and other paths (Moore, 1966; Goodman 1982 and Calva 1988) - adding little to our understanding of what type of historical problems were being *solved* in each transition and why.

This thesis tries to develop a more flexible approach to historical transitions along three lines of enquiry: 1) by tracing the adaptive roles of peasant family forms of production and their comparative advantage; 2) by assessing the scope of peasant agency and strategies (agendas, ideologies, livelihoods, elites); and 3) by assessing the extent to which politics, institutions and culture enforce capitalist accumulation (i.e. extra-economic means of integration). That is, taking coffee as a case I explain how the dominant capitalist mode of production integrates and transforms peasant livelihoods depending on available labour and land regimes, market structures and the technological horizon of capital.<sup>9</sup>

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<sup>9</sup> Given available technologies to exploit particular agroecological landscapes until the late 19th Century, costs of transport were very influential and somehow they are still important in shaping economies of scale and capitalist integration in different areas (Palacios 1983).



## *1.6 Social structuration of peasants: strategies and elites*

Small coffee producers can develop “peasant” livelihoods and strategies for three reasons: 1) family forms of production efficiently use resources (land and natural resources, labour and social networks), based on traditional agriculture and flexible integration to markets; 2) the rural space (land and other entitlements, community social networks) allows a comparatively desirable livelihood; and 3) the ability of rural elites to elaborate, rationalise and plan complex strategies and social bargaining.

Contemporary peasants are shaped by capitalist markets, nation state policies and their own livelihoods and strategies. Capitalist markets push them to become free workers and consumers, but at the same time *create* spaces for peasants in some agricultural activities and particular regions when natural and technological barriers make capital expansion difficult, creating diseconomies of scale, high transaction costs and insufficient incentives for capital investors. Peasants and agrarian elites shape rural markets because they are a competitive force in the market. New spaces appear for small producers not only because of capital weaknesses characteristic of underdeveloped countries (Frank 1967; Amin 1976; Bartra 1993 and Díaz Polanco 1977), but due to the ‘comparative advantage’ of small-scale units of production in those spaces. Furthermore, small producers have bargained for their position in cash-crop markets in many different ways: not only accepting marginal returns and stretching the use of family labour, but also negotiating state subsidies and access to land and natural resources, setting up co-operative organisations and even using social mobilisation. The way these forms of action affect the structure of rural markets has not been properly researched. Apart from the insights of neoinstitutional economics about market imperfections (ill-defined property rights, segmented land markets, lack of information and so on), we have to reincorporate *politics* in the analysis of concrete realities (i.e. the dynamic interrelation of business strategies - elaborated by elites - and market structures in plantation agriculture).

On the level of agency, the difficulties of small coffee producers to organise collective action will be analysed. Collective action depends on rational calculation of gains and structures of incentives (Olson, 1971), as much as on the ability to structure social action and political agendas at different levels. Awareness about socio-economic structures has been identified with *political* action. Many Studies on rural development

have enthusiastically applied the concept of social capital to capture the complexity that was missing somewhere in the social and cultural realms, but in fact mislead and neglect the social complexity and political dimension of rural societies (see Harriss 2001 and Bebbington 1998). Capitalism has not expanded to many rural regions and niches because peasants can resist or shape such expansion even in the absence of political organisation and action. To do so, they deploy many resources for survival, what Scott (1985) calls 'the weapons of the weak'. The recognition of the hidden resourcefulness of peasant resistance, their coping strategies and rationality – albeit bounded rationality (March and Olsen, 1989) - was a step forward. However, it still seems short-sighted to neglect "hegemony"<sup>10</sup> and see the *economic* - the productive capabilities displayed by peasants - as mere survivalist efforts, made by static and closed societies. In this thesis I build upon this framework to evaluate the 'autonomous movement' of coffee producers, which pursued without much success the *appropriation of the productive process*, after the state withdrew direct interventions in the coffee sector (see chapter 3).

The ability to engage selectively in labour and commodity markets as well as to undertake co-operative organisations, have formed an important part of such economic agency. Trust and representation are two problematic categories in peasant communities. Social obligations and interpersonal ties are still very influential in people's lives. I advance the concept of 'pre-emptive strategies' to explain the interlocking of peasants, intermediaries and growers, the embeddedness of envy and distrust, and its effects on coffee market structures, business strategies and small producers' detachment and social distance from elites and market incentives (see particularly Chapters 3 and 4). I build upon the insights of structuration theory (Giddens, 1995), which contends that structures *both* constrain and enable actors. According to this theory, knowledge allows actors not only to reproduce, but to transform social structures. This point draws attention to an important role of rural elites. Elites embody any framework for collective action and therefore concentrate to some extent social and cultural capital. Aside from ruling and class status, what it is important for our analytical framework are elite's role and capabilities for market exchange coordination, knowledge development and bargaining with the state and other powerful actors; and their functions of social representation and collective action. If elites are enabling of other groups' advancement, do solve problems of collective action, widen the sphere of public domain and are pluralistic, while their power face checks and

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<sup>10</sup> See footnote 4 in this chapter.

balances; chances are these elites may play a developmental role and will be conducive to higher social complexity. On the contrary, if communities lack the means to control elites' predatory behaviour, if they are weak and simplistically exploitative, exclusive, it is likely that we will find negative developmental effects in rural societies. Instead of elusive egalitarian and simplistic assumptions about homogeneous rural livelihoods, it is important to assess the contradictory and rich functions that rural elites play in rural societies in terms of social change, political representation and human knowledge (see Bottomore 1964).

Capitalism imposes an extended social division of labour on peasant societies, far beyond its borders, simplifying in this way its societal structures. Social relations do not rest on abstract structures. They require not only what Moore (1966) called *co-ordinating* mechanisms -forms of state - but societal coherence and continuity (a set of common norms and a moral of general application). While markets destroy rural livelihoods, they also create conditions for the emergence of new ones, which are not entirely *functional* to capitalist markets.

It is surprising how the analysis of contemporary peasants has overlooked the problem of societal complexity and elites.<sup>11</sup> How could *rural* groups develop religion, knowledge, technology, productive organisation and livelihoods, if not through *elites*? A sound analytical framework to creatively integrate the understanding of social differentiation and political dynamics of particular rural regions, where markets and capitalist elites have not *fully* formed, is still missing. Development theories could enrich the analysis of deprived rural areas and their long term transformations, if the problem of elite formation is considered, not only in relation to the short-term, economic role of merchants and intermediaries, but from a historical and social perspective.

### ***1.7 Rationality debate***

The classical debate about the moral economy of peasants (Scott 1976 and Popkin 1976) played an important role in furthering a long-standing debate in Anthropology about the embeddedness of economic life in traditional societies (Polanyi 1944, 1957; Granovetter, 1980).

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<sup>11</sup> This view draws on different attempts to comprehend peasant society as a whole (Linck, 1996; Wolf, 1957).

Discussions about rural development also highlighted the extent to which peasants reacted to market incentives (Olson 1971; Popkin 1976 and Bates, 1981).

In this respect, several authors argue for the relevance of different approaches: rationality of peasants under specific constraints should be, according to Popkin (1979) the main focus; the moral economy and its survival principles (Scott, 1976) or the inherent strategic dimensions of everyday practices (de Certeau, 1996); transitions to capitalism, social differentiation and class struggle according to Marxist-led scholars such as Bernstein and Byres (1982).

The debate on the rationality of peasants, and in general of people in different societies, roles and institutions, has resulted in the recognition of different systems of knowledge and cultural values (Long 1995). The relativist thesis<sup>12</sup> has gained acceptance, demanding empirical evidence about the particular behaviour and the rational systems that shed light on particular actions and decisions.

My research engages primarily with how economic rationality, used in a wide sense – the ability to interpret and act upon economic structures to maximise returns - develops *unevenly* among different rural actors, depending on how they become engaged with markets and on market institutions (see next section). Rural social groups do not line up from less to more rational, according to wealth or status. Peasants still practicing cycles of traditional agriculture have a framework for complex calculations, planning and making decisions, though protestant believers have revised tradition, developed formal education and adopted modernisation strategies. Some coffee traders – without formal training - can out-perform bigger buyers in manipulating social networks, devising margin-taking strategies and achieving faster turnover. Learning the workings of concrete markets involves generations-long engagement and rationalisation of experience, personal initiative and exposure with different forms of capital and its concomitant disciplines (working out cost structures and the cost of money, producers' prices and the real yield of coffee lots, not to mention price movement risks). However, these processes are not entirely subjective and individual, for they depend on daily interactions, or interfaces,<sup>13</sup> as well as on the influence of market structures and

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<sup>12</sup> See the debate between Bates (1997b) and Johnson (1997). The former defends rational choice theory as a grand theory, which only uses area studies to illustrate, while the latter defends the theoretical potential of area studies.

<sup>13</sup> The interrelationships of peasants and other actors are not only physical encounters but exchanges of meanings and battles of knowledge (Long and Long 1992; Long and Villarreal, 1994).

institutions; all play a significant part in developing the *functional* knowledge of markets among peasants and rural elites, as will be seen in Chapters 4 and 5.

### ***1.8 Institutionalism and embeddedness***

New institutionalism has drawn on different and quite heterogeneous theoretical approaches, particularly in economics, sociology and political science. Even though this school never abandons the main assumptions of mainstream economics,<sup>14</sup> they draw on older institutionalist<sup>15</sup> contributions to understand the logic of collective action and how social and political institutions shape, constrain or enable markets and individual maximising behaviour. North, in particular, revived a profound insight of Marxist theory on the role of superstructure (institutions, property rights) on social change (Kalmanovitz 2001). These approaches have become increasingly formalised, refined and powerful, as they intensify the debate with, and identify the limits of, neoclassical economics. However, other theoretical perspectives have greatly contributed to define formal and informal institutions influencing economic behaviour and outcomes. Economic sociology and organization theory, have elaborated a set of concepts with great potential to understand the link between structure and agency. Among the most relevant for this study, we find bounded rationality (March and Olsen, 1989) social embeddedness (Granovetter, 1985) and social capital (Putnam, 1993). Within economics, the main contributions come from property rights theory (North, 1986), transaction cost economics (Coase, [1937]1988) and contractual theory (Williamson, 1991).

New institutionalism, rational choice and public choice analyses have influenced our perception of development, to such an extent that their concepts are now standard discourse in the international development organisations. Particularly, the role of institutions in shaping market performance and individual preferences has taken politics (and the state) back into the analysis of development problems.

Robert Bates (1980, 1981, 1983, 1989 and 1997) with his comparative analysis of African agricultural markets and institutions from the early 1980s to his book in 1997 on the era of 'open economy politics' signals a period of an influential brand of the

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<sup>14</sup> Neoclassical economics assumes individual rational behaviour, a social tendency towards equilibrium and perfect information.

<sup>15</sup> Williamson (1994) identifies the schools of thought that feed back into the discussion leading to New Institutional Economics. Harriss (2002) established key differences between old and new institutionalism, particularly how the latter disregards politics, culture and history.

‘political economy of institutions’ from a rational choice perspective. He sustains a healthy and fruitful debate with post-colonial Marxism and mainstream development economics, challenging the former on its mechanistic understanding of the state and class interests, and the latter on the weight given to ‘external’ constraints over domestic policies. He used to criticise rational choice for its lack of historical understanding of politics and institutions in shaping market performance, applying the insights of new institutionalism (Williamson, 1994; North, 1986) to develop a political economy perspective on the ‘urban bias’ in public choice study of rural economies. His criticisms of mainstream economics, nevertheless, have led to a robust understanding of the potential interactions of markets and other institutions given the ‘right structure of incentives’ (i.e., property rights, competitive price formation, etc). He recognised that politics must complement institutional economics’ analysis to account for the complex dynamics of power and state institutions (Bates 1997c).

There are two particularly fruitful ideas in neoinstitutional analysis that are followed in this thesis. The first one is the *general* idea of transaction costs. Markets function in a complex social context that constantly engenders different levels of restrictions to market contracts and transactions. The second one, is that institutions play a decisive role in the evolution of economic systems; individuals’ ability to make rational decisions is strongly constrained by institutional frameworks and incentives, as well as culture. Competition in the international coffee market has come to depend above all on the *quality* of institutions (and not only on production and transaction costs). I draw on these insights to analyze the institutional framework regulating the Mexican coffee sector (see Chapters 3 and 6).

### **The embeddedness hypothesis**

The concept of embeddedness has become widely used in the social sciences, particularly among scholars drawing on the debate between old and new institutionalism.<sup>16</sup> It can be traced to Polanyi’s (1944) seminal work *The great transformation: the political and economic origins of our time* which highlights the multiple and reinforcing interactions between social and economic patterns of behaviour from prehistoric to modern times. Polanyi’s main concern is to underscore that markets are deeply rooted in a set of social institutions which further this dynamic – though disruptive - form of economic transactions and, at the same time, contain the pace and

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<sup>16</sup> See: Harriss 2002 and Hollingsworth 1997.

scope at which it expands through double movement cycles of regulation and deregulation (or self-regulating markets).<sup>17</sup> This work has had a far-reaching influence in the old school of institutionalism, previously discussed, which is increasingly nurtured with insights from Sociology, Political Science and Anthropology. Thus, the concept of embeddedness helps to advance a longstanding intellectual and political struggle between classical and neoclassical economics, free marketers and protectionists, liberals and utilitarians, individualists and communitarians, neoliberals and neoKeynesians (Etzioni 1996 and 2002, Bellamy 1992).

Following Polanyi, Granovetter's article (1985) "Economic action and social structure: The problem of embeddedness" takes once more on board the deep-rooted entanglements between economic and social practices, making the neo-classical efforts of constructing abstract and formal analysis "a grievous misunderstanding" (p. 482); that is, he argues that economic behaviour is embedded in social networks, not conforming to the idealised markets of neoclassical economics nor to the atomised decision-making of Parsonian sociology whose actors behave according to prescribed roles. He proposes an embeddedness approach as a middle ground between under- and oversocialized perspectives because:

Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations. (p. 487).

Granovetter's social relations include a wide array of practices, conventions, rules, norms, morals, laws and even emotions which shape economic behaviour, promoting trust, opportunism or malfeasance in complex, dynamic and differentiated ways.

Evans's (1995) concept of embedded autonomy pursues a slightly different line which stresses the relationships between states and markets. In his view, successful developmental states shape in different ways business behaviour through a wide and changing gamut of interventions and incentives exhibiting a complex relationship between state and business. The former is autonomous enough to make long term

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<sup>17</sup> At the root of this theoretical insight is his concept of "fictitious commodities" and how the expansion of self-regulating markets through the collapse of regulations on land, labour and money (the three fictitious commodities) create socially destructive tendencies that sooner or later trigger the opposite movement for social protection and regulation. A free labour market destroys social bonding; a free land market leads to environmental destruction that undermines food provisioning; and a free money market destabilizes any social organization of production. See Polanyi 1944 and Talbot 2006:26-27.

economic plans that respond to the national interests and not to any specific societal interest (business or otherwise); but at the same time its links and levels of penetration of business activities allows it to supervise, follow up and, when necessary, rectify economic plans.

Progress in the construction of a socio-economic paradigm (Etzioni 2002, Hollingsworth and Boyer 1997; Hollingsworth et al 2002) reinforces how economic goals and social norms are intertwined in variegated ways across sectors and also at different levels of the social spectrum (global, regional, national and local). The concept of embeddedness is at centre of this paradigm which examines the multiple and subtle ways in which the social sphere interacts and shapes maximizing behaviour. The concept of complex embeddedness put forward by Müller (2002), one of the most important representatives of the socio-economic paradigm, distinguishes between embeddedness stemming from:

- Actors, i.e., an individual, an enterprise a multinational corporation, NGO, public entities or private associations;
- Environment, i.e., the influence of natural settings on productive processes, technologies and even social organisation;
- Institutions, i.e., continuity and cultural imprint on economic institutions,
- Or from a combination of all of these social conditions.

In his view, utility maximization is embedded in –and contained by– moral obligations, social bonds, organizational culture and knowledge of actors (see also Etzioni 2002, Platteau 1991); rational economic action is embedded in the environment, not only as the physical space in which transactions take place (the geographic distribution of the actors involved in transactions, the infrastructure linking the actors, market places), but also the religious and cultural environment sanctioning encouraging or inhibiting market interactions. In addition, rules, norms, regulations, conventions and other institutions mould and are moulded by individuals maximizing behaviour.

In the case of coffee producers studied in this thesis, the concept of embeddedness and social complexity is highly relevant, as shall be seen throughout the thesis, particularly in chapter two on the influence of natural factors on the organisation of the coffee sector, chapter three and four on the social construction of coffee markets, organisations and actors; and chapter five on the emergence of elites with particular business



strategies and economic interactions with coffee producers. The two main arguments of this thesis refer to the embeddedness hypothesis:

1. Real rural markets are deeply constrained by natural and social settings. The humid tropical mountains of Atzalan have been the place of historical, demographic and political phenomena that interacted with the emergence of a new market. At the same time, the predominant presence of smallholders in the coffee market has shaped the depth, structure and efficiency of the coffee chain. In particular, the coffee market has been constrained by social sanctions (perceptions of collective good and fairness, legitimacy of property), coping strategies and embedded rationality. Profoundly rooted ideas and feelings about land reform, social distrust among classes, food safety and kin security have shaped the way the coffee market emerged and still works at local and regional level;
2. Elites were instrumental in shaping the coffee market through business strategies that constantly reflect the relationships with producers, at times in exploitative ways, and in another cases in partnership and distributive ways. The social position of merchants and leaders have allowed them to play different roles that no other actors play. They led social movements against state capture; they accumulated knowledge about the international and national coffee market, processing technologies and complex transactions, state regulations and incentives; they have also competed and cut down transaction costs and convey as much information as they see fit to advance their business strategies. While local and regional elites have managed to reproduce the coffee business they also set constraints to more profitable value-added strategies, partnerships and innovation. In this way, elites are a condensed form of social capital: they are elected, promoted and legitimized as leaders to act on behalf of the community. Limited and corrupted leaders betray this delegation of power and destroy social capital, trust and collective action. Loyal and creative leaders advance the common good, increase trust and widen the scope for collective action and social innovation.

### *1.9 A framework for analysing peasants*

Where coffee is the key regional commodity, coffee growing can be seen as a “hegemonic cash crop,” which influences the regional economy.<sup>18</sup> This is an insight I used to understand the relevance of this crop, not only in terms of labour and capital markets, but the alignment of prices, average wages, land rentals, cost of services and inputs, and also in terms of the concentration of knowledge, expertise of rural elites and accumulated abilities for social and market bargaining. In short, a hegemonic cash crop saturates the economic and social structure and indeed the whole regional culture. Entire regional markets are thus shaped by hegemonic cash crops, such as sugar cane (Mintz 1986), tobacco (Diaz 1985) and coffee (Paige 1997; Palacios 1983 and Roseberry, 1983).

I argue that coffee producers must be thought of as *complex* social actors, structured in different social categories and identities (peasants, commodity producers, seasonal workers, rural elites). They have access to land and agricultural assets, but are temporarily wage workers, by both need and choice. Coffee growers also cultivate staples for household consumption and different cash crops. They are used to labour migration during the slack season, as well as exchanging labour to face the peak of the coffee harvests and maize sowing. They belong first of all to a community, in which access to land (*ejido* entitlements and organisations) and kinship (first immigrants are the root of new family structures), were fundamental in shaping local identity. At the same time, coffee growers have created different kinds of associational and corporatist structures (from local associations to regional co-operatives and political organisations).

Thus, peasants can be analysed with the help of a wide spectrum of theoretical approaches, social concepts and categories (class, ethnic identity, status, and others). Peasant communities have been changing according to external forces (markets, state) and internal ones (generational discontinuities, demographic imbalance), within integrative and disintegrative processes.

Even if, at the *macro* level of analysis, a rural population has been relatively declining, as has the contribution of agriculture to gross domestic product, this does not prove that rural livelihoods are unimportant. Small producers have upheld their participation in

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<sup>18</sup> Generally speaking, there are several secondary local, regional and national export markets. Where coffee production is the leading local and regional commodity, the market structure is strongly determined by its production-marketing chains and time-space needs (Villaseñor 1991 and Nolasco 1985).

some activities, including modern agribusinesses, and developed forms of adaptation and bargaining in new economic and political circumstances.

The problem of labour regimes and diversity of income-earning activities is paramount in building up an interpretation of small producers' livelihoods, as well as in discussing their social location. The combination of seasonal wage labour and intensive use of family labour in the domestic economy is fundamental to explaining the reproduction of the household.

In the 1990s, there was an important reflection on the nature and political scope of *new social movements*, including rural actors (Alvarez, Dagnino and Escobar, 1998; Kearney 1996; Foweraker 1995; Botey, Moguel and Hernández 1992). Although my analysis does not share the assumptions of approaches based on evolutionist transitions of peasants to proletarians or petty bourgeois, I do not neglect the social reproduction of rural households and communities based on commodity production, self-provisioning of food-stuffs and wage labour. If it is true that household income is derived from a variety of sources, neither agriculture, nor wage labour could explain the whole process of social reproduction. To ignore the structural level of analysis would lead to accepting more or less subjective perspectives.

Although these works on *new* rural actors, *new* identities and *new* social movements, have made important contributions to highlight changes in informal politics and cultural resistance, it seems difficult to prove what is new without providing enough evidence of why and how local groups have effectively built up new cultural and political constructions (identities, agendas, organisations).<sup>19</sup> Is there not historical continuity in new social movements? Are new identities embedded in organised groups' agendas as well as in peasant family strategies? Have new rural actors overcome socioeconomic differentiation across class, ethnic and gender lines? These are some of the questions that need to be addressed to understand the ways in which rural actors' agency develops.

Rural actors have no doubt developed multifaceted identities, and varied livelihoods. However, theoretical propositions have to explain heterogeneous empirical evidence at different levels - family, community, social groups, organisations - to demonstrate what is genuinely new, how tradition (continuity) was transformed and how the new

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<sup>19</sup> Knight (1994) criticised such approaches making the point that a disregard for history - when not due to sheer ignorance - has easily led to labelling social movements as new, even when they represent processes of continuity with the past.

(identities, agendas, organisations) help to face (old) problems of socioeconomic differentiation, political participation and bargaining with the state.

From Marxist's rural semi-proletarians (Paré 1991b and Bartra 1993), to postmodernist's multi-identity peasant-like 'polybians' (Kearney 1996), there have been many attempts to conceptualise the nature of modern peasants, and the field is far from experiencing academic closure (Shanin 1990).

### ***Summary of main arguments***

The theoretical and methodological framework I have outlined in this chapter suggests a revision of traditional approaches and concepts used to study peasants. I propose a wider use of the concept peasant and other social categories (worker, migrant, petty trader) in order to understand peasant *livelihoods*, not in the traditionally essentialist interpretations of the peasant, but rather in three distinctive ways: (1) the way in which small landholders use resources - labour, land and natural resources - based on an agrarian culture; (2) the way in which rural people engage and disengage from markets (labour, commodities), which allows them to recreate a rural space where they can preserve a relatively acceptable livelihood; and (3) the way in which being *peasants* - and identifying themselves with a peasant livelihood - is still meaningful for rural people.

Capitalist markets destroy and at the same time recreate spaces for peasants, usually explained in terms of ecological, technological and social barriers, which capital has not been able to overcome for several reasons. However, the presence of peasants and rural elites also reconstitutes such spaces and shapes commodity market institutions (in line ageing with Bebbington's place formation).

The ability of social actors to mobilise resources depends not only on political consciousness and co-operation, but also on the possibility to transform socio-economic structures through economic and cultural means: to *create* wealth and legitimise access to it, to extend the division of labour and to sustain a complex social organisation (networks, institutions, elites). Peasants' social disposition to support elites has not been sufficiently analysed in the processes of social bargaining, engagement and disengagement from real markets and in the recreation of rural livelihoods.

The formation of the coffee market in Atzalan was shaped by the process of land reform, described in Chapter 2. This process promoted a system of entitlements as well as constraints. It endowed poor people with land, but with limited access to other resources, such as infrastructure, technology and credit. More than intrinsic advantages, market incentives along with state promotion created the initial conditions for thousands of small producers to engage in coffee cropping.

Small producers have not only been resilient in producing coffee, but they have also influenced some of the regional structures and strategies of merchant and industrial capital through an efficient combination of traditional technologies, family labour and a diversified domestic economy. The complex strategies characteristic of small-scale coffee producers in the region can only be understood in the light of land reform, state intervention and the structure of the local coffee market, as is discussed in Chapter 2.

The characteristics of coffee producers' organisations are studied in Chapter 3. Peasant co-operatives survived the withdrawal of the *Instituto Mexicano del Café* (IMC, the Mexican coffee board), assuming some of its former functions. However, in most cases, these top-down organisations ended up trapped in an inefficient use of capital, lacking technical and marketing expertise, as well as funding. They have contributed to the concentration and centralisation of coffee production along an international commodity chain.

The way the land reform was accomplished and the way the coffee board functioned led coffee market actors to develop pre-emptive strategies. While each actor tried to maximise his own share, in the long-run he narrowed down the room for a more competitive coffee business. I found that a set of stereotypes amongst producers, intermediaries, buyers and processors has made it difficult to break the vicious circle of distrust, inefficiency and economic loss. For a new institutional framework to develop in the coffee sector, actors' mutual perceptions have to be redefined.

The factors explaining why *ejidatario* producers have survived in a marginal coffee producing area are examined in Chapter 4. The fact that coffee cropping is a labour intensive crop world-wide poses many interesting paradoxes regarding the tensions in labour regimes. The *nature* of coffee production has strong connections with labour regimes and the strategies of social actors. Some quality attributes are closely associated to the *rusticity* of coffee cropping and to the business strategies of the rural elite. Small

producers are the social base of the coffee market. They prevail in numbers, geographical dispersion and in terms of the overall production.

The advantages of peasants in coffee production imply at the same time constraints. A diversified economy does not allow high yields in one particular crop, setting limits to cash generating capacity and accumulation. Labour intensive crop patterns (coffee, maize-beans) put under great strain the flexible use of family labour across different activities during the agricultural cycle. Thus, the priority of simple reproduction sets a limit to the social division of labour.

The ecological, technological and social constraints on coffee production play an important part in creating room for small producers in this market. Concerns about ecology, quality, sustainable agriculture and fair trade add a competitive edge to small producers.

The crisis and the strategies peasants pursue to surmount economic hardship change the position of coffee producers in the regional market, intensifying the trend towards managing two different value spheres, one organised around traditional agriculture and food-staples - in which family labour is crucial - and the other around coffee cropping and wage labour, in which regional markets are decisive. The interrelation of both provides the basis of modern rural livelihoods.

Rural elites are the subject matter of Chapter 5. Rural elites have played a fundamental role in shaping the coffee market, integrating, relating and subordinating in different ways peasants to capital. At the same time they are an active influence on peasants' expectations and organisations.

Rural development policies set up a corporatist political system that has systematically co-opted local elites into limited political careers, as a means for legitimising and controlling rural areas. In the process, such elites are not only alienated from their original communities, but the potential developmental impact associated to their education and capabilities is seriously undercut, as is argued in Chapter 5.<sup>20</sup> The Mexican political system has made it difficult for peasant communities to develop complex structures of representation and exercise the leadership of rural elites

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<sup>20</sup> The impact of elites in development has been one of the most important tenets of modernization theory (Bottomore 1964, Germani 1971 and Harrison 1988).

supportive of their local interests.<sup>21</sup> As part of the structural adjustment, the Mexican state made a half-hearted attempt at displacing the old, corrupt rural PRI corporate clientele (mainly the Peasant National Confederation or CNC, by its initials in Spanish), but ended up accommodating new ones, not more democratic or economically efficient. However, new business strategies developed, showing stratified linkages with peasant producers and differential access to profitable market niches.

Chapter 6 examines coffee institutions in a comparative perspective and it also reflects on the Mexican experience and its possibilities to build a more efficient institutional framework in the light of the relatively successful story of Colombia. Chapter 7 offers some conclusions on the findings presented in previous chapters.

### ***Research strategy***

The main period analysed here covers the coffee price slump from the middle of 1989 - when no agreement was reached in the International Coffee Organisation (ICO) and international prices plummeted - up to the middle of 1995 - when signs of recovery became visible.

This thesis is the outcome of two stages of research and fieldwork:

- 5 months fieldwork in the harvest 1994-95 (December to April) to carry out in-depth interviews with producers and local leaders in several ejido communities of San Pedro Attepepan, Atzalan, with buyer-processors and exporters in Tlapacoyan, Xico and Mexico City, to accomplish a multi-level analysis, which would cover the local, regional and national settings.
- 2 months follow-up fieldwork at the end of the cycle 1995-96 (March and April) to apply specific research tools in Tlacolulan (family genealogies to analyse access to land; focus groups on fictitious kinship and social expectations; and a producers survey to study social networks and land markets).

The methodology employed synchronic-diachronic and functional-structural perspectives of analysis.<sup>22</sup> I traced the evolution of social categories that explain

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<sup>21</sup> The Mexican state's political structures matter, not only the logic of collective action (dispersed and numerous small producers, high costs and low returns to collective action, etc.).

<sup>22</sup> The analysis of social functions need not be *functionalist*, conflict-free, organicistic, while the search for social structures can avoid *structuralist* over-determination. That is why it is useful to incorporate historical and dynamic perspectives into the functional and structural focuses, respectively. In taking advantage of Marxist social theory, I considered relevant criticisms and used more insightful analytical tools in managing

contemporary peasants. The *retrospective* analysis of the coffee market went back to the land reform period and the formation of the local coffee market in Atzalan, the origins of coffee sector institutions and the beginning of the coffee crisis (see Chapter 2). Synchronic analysis focused on the functioning of family units of production (social networks, access to land and livelihood strategies; see Chapter 4 second section).

In terms of the analysis of structures, I analysed the agroecological and technological conditions of the coffee production process, the coffee market cycles and its sectoral composition (Chapter 4, first section). The analysis of surplus formation was undertaken: looking at income-generating activities during the agricultural cycle; the ways in which coffee surplus is spent and invested; and the process of price formation in the coffee marketing chain (Chapter 4). Particular attention was devoted to the interlocking of rural elites with the state and power structures (Chapter 5). After long sessions in which peasants, technicians, scientists and marketing consultants -in Atzalan, Xalapa, Mexico City and London- explained to me the many fine points of the coffee business, I realised some of the constraints of academic research on coffee. Getting to know the practicalities of the coffee cycle, the measuring systems and conversion rates along different types of coffee, the refinements of yield calculations and blending, and price formation, takes time and openness from the interviewee, but it was a vital input for writing up the whole argument. I tried as much as possible to ease and limit technical details, and put many of them in footnotes and tables, apart from appendices.

One of the main contributions of my research is that it is based on considerable fieldwork among coffee producing *ejidatarios*. I tracked family strategies – particularly in Tlacolulan - to evaluate what I argue are the *peasant identity and strategies* of contemporary rural livelihoods: intensive use of labour and access to land based on social networks; the management of traditional cycles of agriculture (associated crops, chronic under-over consumption, build up and disinvestment of savings); a diversified economic strategy (basic food/cash crop association and diversified use of family labour); and reformulation of cultural and religious identities (see in particular Chapter 4). I carried out approximately 200 individual and group interviews with producers (see Appendix No. 8). Group interviews were mostly used at the beginning of my research in each community in the form of non-structured interviews and fieldtrips to coffee fincas,

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specific problems (Mouseliz, 1990, 1991, 1993; Stompka, 1993; Gledhill, 1994; Giddens, 1990; Harriss, 1992).



and focus grupos at a later stage on specific topics (religious groups interrelations with Loma de las Flores' Jeová Witnesses; godparenthood in El Jardin; coffee crisis in Tlacolulan monthly assembly; social expectations and family life stories with Tele-secondary graduate students). In-depth interviews were carried out with knowledgeable coffee growers, millers and regional leaders and with women on particularly sensitive issues. Although I only listed 7 formal interviews with women (see Appendix No. 8), there were many instances of informal talking which were particularly useful to understand community life. Two examples stand out in terms of valuable in-depth interviews with women. Raquel Arcos, a former administrative secretary of Fondo Regional de Solidaridad Azotal, niece of one of the most important leaders in the region (Jose Luis Arcos Lopez), became my key informant and also assistant in particular tasks (following the coffee "dollar" from producers prices to selling prices; mapping out leaders and delegates political connections and figuring out factional alignment, see Chapter 5). Albertina Rosas Flores, housewife and ejidataria in Tlacolulan, was very helpful during two weeks for reconstructing domestic consumption patterns and building up my case study around this SPA's satellite community in relation to demographic pressure, leaseholding markets and family livelihood strategies (which were finally cut down to what is now Chapter No. 4). Albertina introduced me to Tlacolulan's women with whom I figured out how this community founded by three brothers' families became populated in three generations with hundreds of Romeros and how initial grants of more than 10 hectareas became landholdings of less than half hectare. I did not attempt to construct a gendered perspective of my research subject but their insights were very valuable to arrange my argument.

<b>SCOPE AND STRUCTURE OF INTERVIEWS</b>		
<i>Actor / No. of individual interviews</i>	<i>Coffee chain link and role</i>	<i>Level of analysis</i>
Officials / 12	SERVICE. Current coffee programs (income support and credit) and former IMC's	National and regional
Technicians / 11	SERVICE. Current coffee programs and former IMC employees	Regional and local
Exporters (national buyers) / 4	BUYER. ESCARCESA and AMSA	International and national
Grower millers (also regional buyers) / 4	PRODUCER and MILLER.	Regional
Local buyers / 8	INTERMEDIARY. Local intermediary	Local
Regional leaders / 20	INTERMEDIARY. Regional coffee coops, and agrarian and savings organisations	Regional
Local leaders / 21	INTERMEDIARY. Local coffee coops, agrarian and savings	Local

	organisations, community representatives	
Landowners / 3	PRODUCER. Local grower	Local
Ejidatario small producers (also labour migrants) / 35	PRODUCER. Ejidatario producers (form SPA ejido and neighbouring ejidos and communities)	Local
Leaseholder small producers / 8	PRODUCER. Descendants of ejidatario producers	Local
Landless coffee pickers, mill workers and day labourers / 6	WORKER. Outside and local day workers	Local

I chose Atzalan for its rich agrarian history and for being a relatively neglected area in terms of coffee research (compared to Central Veracruz). After an initial fieldtrip to the region I started to build up my case study around San Pedro Altepépan ejido for its demographic and political centrality and its intense agrarian struggles (see Chapter No. 2). Most of them usually started as informal talks with groups of producers in their communities (around a dozen ejidos in Atzalan), complemented with field visits to their coffee *fincas* and pulping centres. Then I chose 4 communities of San Pedro Altepépan Ejido,<sup>23</sup> where I also did deep interviewing with key informants of four families in Tlacolulan, El Jardín and Equimite communities to go into details of agricultural calendars, costs of production, social networks and political issues.

The analysis of rural markets required an integral consideration of politics, which makes relevant the relationship between surplus and power (Bartra 1993; Herring 1986 and Bates 1981, 1997c) through patron/client relations, factional politics (*caciquismo*), and corporate control (Bartra 1993 and Gledhill, 1994). Asymmetric allocation of surpluses and control over means of production and strategic services (transport, trade) are the basis of differentiation processes. Apart from deep interviewing of rural leaders (intermediaries, ejido authorities, religious leaders, local bosses, ranchero buyer-processors), one of the contributions of this thesis is the analysis of rich material drawn from systematic interviews with coffee elites in the Tlapacoyan coffee producing region: leaders of producers' organisations and coffee businessmen along the whole coffee chain – from local intermediaries to big exporters. I tried to figure out the logic of their economic strategies and the way they were interlocked using life histories, genealogies, political mapping of factions and vertical integration charts (see Chapter 5 and Appendix 5).

<sup>23</sup> I chose SPA among dozens of ejidos in Atzalan because of their agrarian struggles, organisational initiatives and level of integration in the coffee market (see Chapter 2).

Producing coffee is also reproducing a livelihood. I addressed the problem of *agency* looking at the whole set of responses, from family economy adjustments to collective action, trying to understand the “logic” of the peasant attempts to overcome the coffee market crisis. I used extensively comparative perspectives to highlight the diversity of knowledge, values and social expectations. Peasants’ strategies were studied in relation to the structural trends of the international coffee market: price instability, competition based on quality and market niches and coffee institutions. This exercise allowed me to understand their weaknesses and comparative advantages. I also systematically compared peasants’ strategies with those of other key actors in the coffee sector such as regional organisations and rural elites.

The study of the strategy of a social actor, as Mouseliz (1991 and 1992) and Sztompka (1993) argue, looks at the intentional component of the agency/structure relationship, and its level of consciousness (see also Ellis 1998). In many cases I integrate my findings that report producers’ opinions on the crisis and working of the international coffee market, on production costs and economic calculations, as well as on agrarian, religious and political issues.

The main methodological challenge to existing approaches on peasants and to this research, in particular, consisted in the manifold analytical criteria needed to understand coffee producers’ livelihoods in their heterogeneity and complexity.

My main purpose is not to describe *circumstantial* changes in cropping and wage labour patterns, *degrees* of commoditisation of peasants, or every-day resistance practices *per se*, but to find the relationship of these changes to the overall transformation of contemporary rural livelihoods. The main constraints of this thesis are in the eclectic use of different approaches.

## CHAPTER 2

### COFFEE, LAND REFORM AND STATE INSTITUTIONS IN THE MAKING OF A REGION

In this chapter I start my case study by describing the historical background in which small coffee producers emerged: the *ejidatarios* of Atzalan, Veracruz. The chapter traces the origin of peasant coffee producers and the most influential factors shaping the coffee market in Atzalan. Special attention is given to the interaction between frontier colonisation, land reform and peasant movements, on one hand, and the efforts of state organisations to modernise the coffee sector, on the other.

Land reform in Mexico failed to transform poor peasants into progressive small landholders, and to promote democratic life in the countryside, just the opposite of what happened for instance in Costa Rica.<sup>24</sup> Why did the state efforts to organize peasants and modernize this sector fail? Why do merchants, processors and intermediaries still exercise a great influence despite several attempts to make small producers autonomous?

In some countries coffee producers managed to strengthen their position in the international market, with a strategy of capital accumulation and modernisation, whereby a transition from a system of peasant producers and/or big growers, led to another dominated by small and medium modern capitalist farmers (Costa Rica, Colombia). When this happened markets and social forces promoted the consolidation of private property, fractioning of big estates into *minifundia* (small properties), and a firm hand against agrarian movements, which limited land distribution under private property rights, and allowed some control over unionism among rural workers, a low-wage system and a flexible labour market in the countryside. Through strong lobbying, coffee producers managed to influence policy-making. In the case of Colombia, producers were able to set up price-compensation mechanisms to transfer surpluses from bonanzas to crisis periods, and to manage directly coffee tax revenue to promote development schemes. Based on a strong union (National Federation of Coffee Growers of Colombia, FNCC), Colombian coffee growers built up a wealth of economic

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<sup>24</sup> Gudmundson (1989, pp. 221-225) analysed how in the Costa Rican coffee-based society, a 'peasant to farmer' transition took place, consolidating a petty bourgeoisie by the early twenty century. This process involved both political mobilisation and social change (restrictions on inheritance).

organisations (warehouses, bank, shipping companies, etc.) and were able to get favourable policies (fiscal, monetary, commercial).<sup>25</sup>

I will argue in this chapter that these institutional arrangements never developed in Mexico due to, among other reasons, the path followed by agrarian reform and the land tenancy system it brought about, and to the corporatist intervention of the state, all of which generated divisions and clashes, seriously hampering the possibilities of cooperation and collaboration. Clashes between social groups in the coffee market, as among other sectors, are unavoidable when it comes to resource allocation and setting the domestic rules of a highly profitable market. However, in Mexico, even during times of crisis, the groups affected could hardly reach common positions and basic agreements.

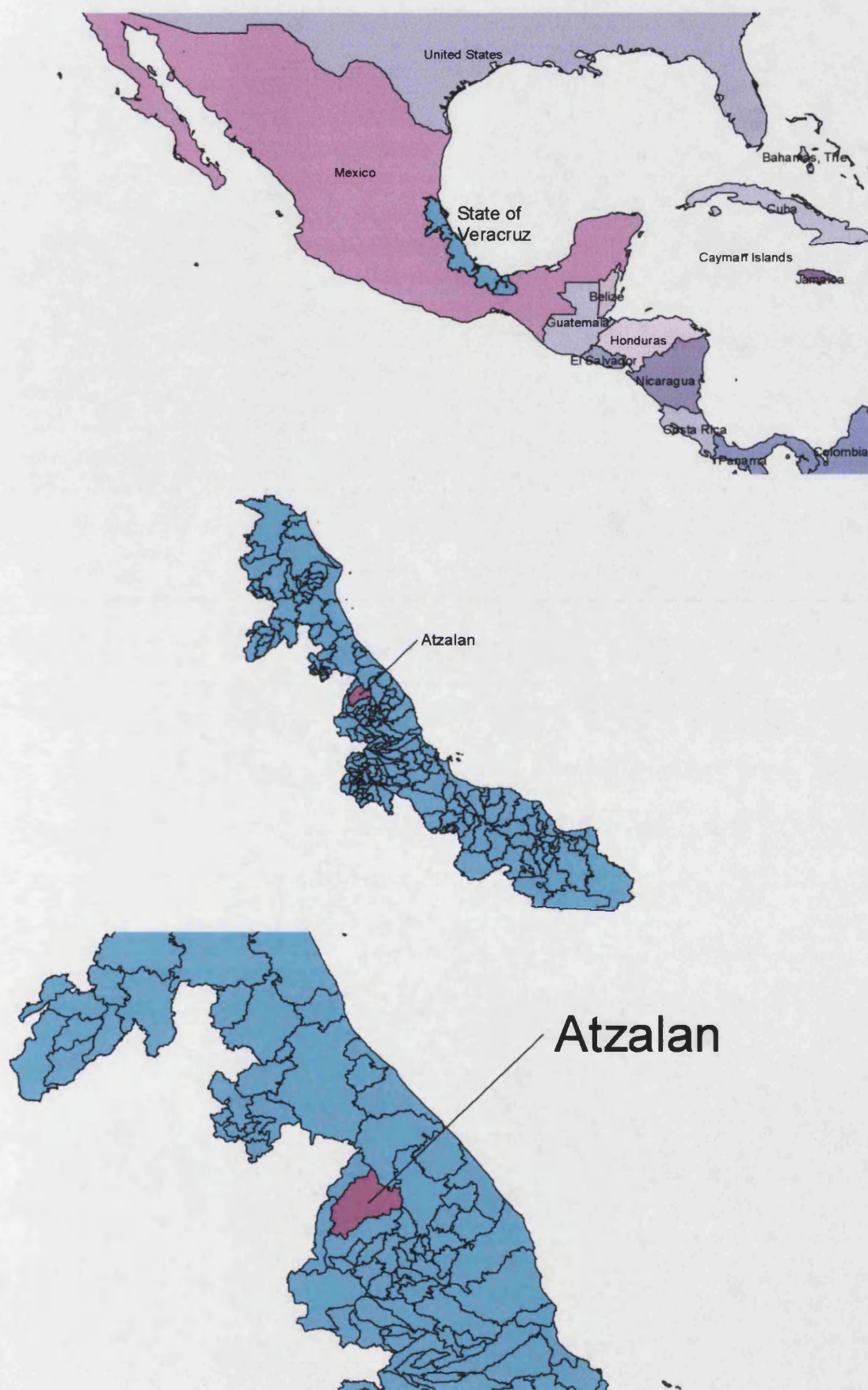
My historical reconstruction relies on three very different sources, all of which challenge the authenticity of the official narrative of land reform in the area. First, all my interviews represent a rich source of empirical historical data, since they convey rich accounts and interpretations of individual and collective efforts in the struggle for land. Second, social geographers (Hoffman 1994a, 1994b, 1994c and 1995; Marchal and Palma 1985) have carried out a research project of great scope in Veracruz, which highlights the complex elective affinity between coffee production and highlanders' culture. Coffee and peasants are closely and intricately intertwined with ecological niches. According to this account, Atzalan was populated quite late, in the context of the struggles for land reform. Consequently, the social tissue is constituted and reconstituted with violence as one of its most important components, though the range of violence varies from social-banditry to delinquency (and sometimes the line dividing the two is very thin). Finally, historians (Knight 1991, 1992, 1994a and 1994b; Skeritt 1996; Velázquez and Hoffman 1994) represent a third source in reconstructing the history of the region. Their interpretation recovers the influence of Veracruzian agrarian radicalism in the development of the region. Veracruz was, in their view, not only the point of entrance of goods and merchandise of different sorts to central Mexico, but of ideas and political currents of thought as well. Union Anarchism arrived at the port in Veracruz and constituted one of the most important ideological components of both agrarian and workers radicalism in the area.

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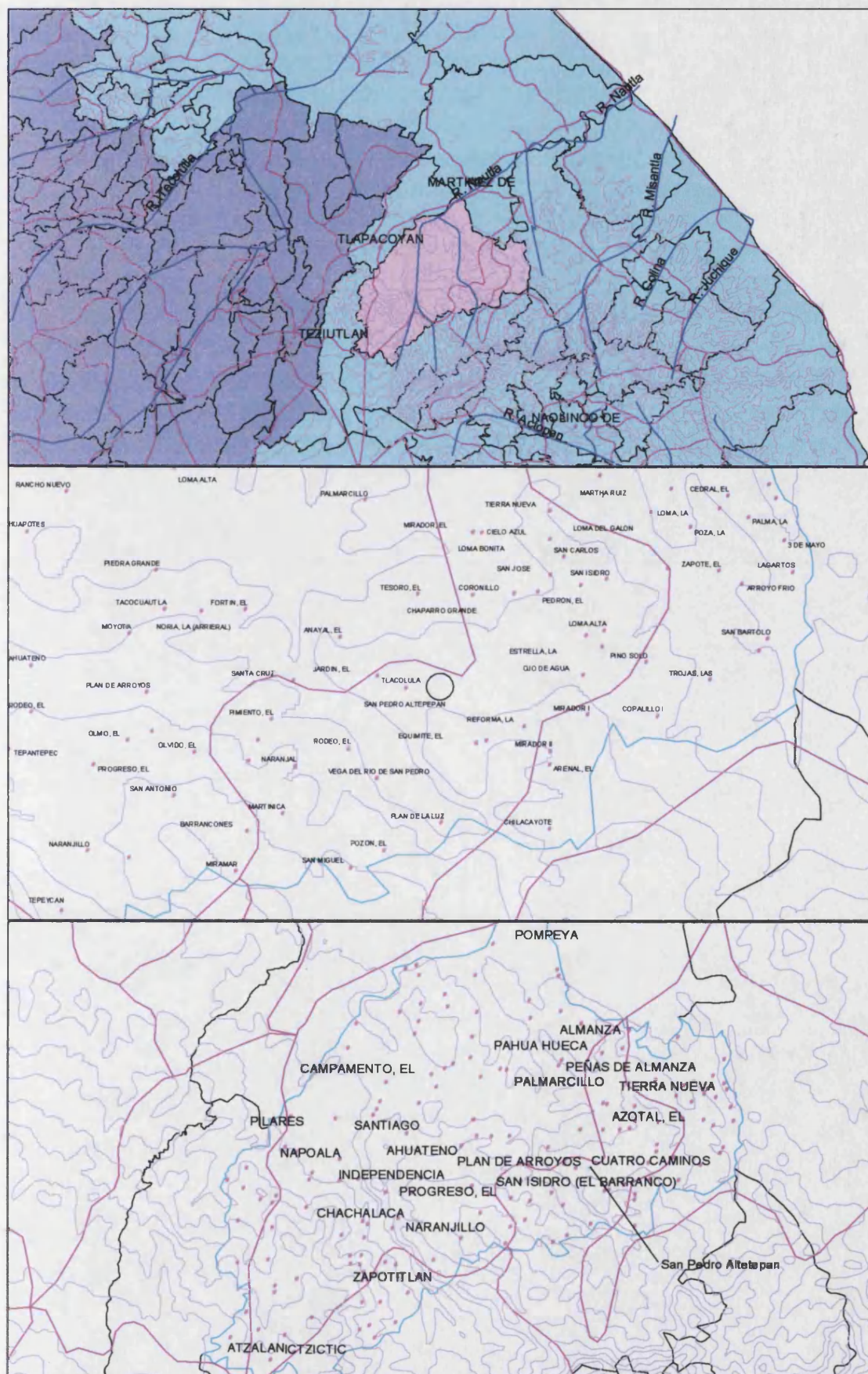
<sup>25</sup> See Chapter 6 for a comparative analysis of the coffee sector institutions and organisations in Mexico and Colombia.



**MAP No. 1 LOCALISATION OF VERACRUZ AND ATZALAN**



**MAP No. 2 REGIONAL LOCALISATION OF SAN PEDRO ALTEPEPAN EJIDO AND NEIGHBOUTING COMMUNITIES**





## 2.1. Migration, agrarian reform and demographic growth

Migration, agrarian reform and demographic growth were closely intertwined. They encouraged one another, gradually but decisively shaping the peasant economy in Atzalan. The agrarian reform was crucial in the relationships between peasants and rural elites, which, in turn, moulded coffee productive chains and the institutions in which they are embedded.

Big coffee plantations occupied most of the best coffee highlands in Latin America since the XIX century. But the chase after mountain slopes, rainforests and lands of marginal quality for coffee cropping is a more recent occurrence, linked to a process of frontier colonisation and land distribution.<sup>26</sup> The emergence of an *open peasant community* in the mountainous basins of the humid tropics was linked to the fast spread of coffee (Wolf 1955, p. 461).

The Atzalan region was never populated by indigenous communities; villages and towns were the result of multiple migrations, the main components of which were highlanders' search for land to make a better living. In order to guarantee labour, *haciendas* allowed the establishment of new *ranchos* in frontier lands in the early XX century. Immigration of peasant tenants grew within *rancherías* and around the *hacienda's* manor. In order to accelerate the productive use of lands, landless peasants attached to the *haciendas* were attracted and they settled permanently in the upper slopes.

Before the Revolution, families of highlander peasants left densely populated sierras in search of lands for maize cropping. The image of a land of promise, created in the lowlands to attract investors, also reached peasants (Hoffmann 1994a). Land reform was undertaken by the flow of landless people who first arrived in the *piemonte*. At the same time, land distribution further encouraged migrations, generating an unstable situation not only for landowners, but also for the first granted *ejidatarios*.

It is not the main concern of this work to analyse the results of the agrarian reform. However, in terms of later developments in the coffee sector, several issues are worth summarising. Landless peasants and *rancheros* pursued better conditions of living when, right after the revolution, they moved with their families to Atzalan. The wealth

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<sup>26</sup> Apart from Mexico, see the case of Costa Rica, Colombia and Venezuela (Roseberry et al. 1995; Price 1994).



of the forestlands for maize cropping was spread by word of mouth. Coffee cropping was just a minor activity at the time, as revolutionary armies and gangs targeted *haciendas*, *ranchos* and big *fincas*.

The promise of land reform boosted several migration flows, related to the pace of land distribution from the early thirties until the seventies. The main sources of out-migration were the populated south-western highlands of Altotonga and Atzalan, and to a lesser extent eastern Misantla's highlands. Since the twenties, the agrarian movement unleashed a profound social and class restructuring: groups of peasants started to claim the lands they rented; landlords prepared themselves against land expropriation, preemptively selling fractions of their estates; better-off merchants, former employees of the *haciendas*, corrupted officials and peasant leaders took advantage of the very low prices at which landlords had to sell.

### ***Radical agrarianism and land reform***

Veracruz – one of the richest states in the country, with oil extraction and plantation businesses - played an influential role in the revolution, but the agrarian movement proper, did not appear until rather late. The first years of the revolution in Veracruz (1911-13) seemed to be more about elite politics and elections, except for some mobilised groups and new demands. Only when Constitutionalism<sup>27</sup> gained a foothold in Veracruz territory and Cándido Aguilar<sup>28</sup> was appointed commander and provisional governor of the state (1914-17), did peasant movements and land reform gain significance.

While Zapatistas and Villistas were debating at the Aguascalientes Convention in October 1914, General Cándido Aguilar passed a local agrarian decree, setting up the *Comisiones Agrarias* in Veracruz. With this agrarian project, he attempted one of the first revolutionary land distributions, in Atzalan highlands, allocating just one-hectare *individual* parcels under private property tenancy (the decree did not refer to any right for reconstituting communal forms of landholding or *collective* grants). Only tenants, colonisers and wage workers of expropriated *haciendas*, whose lands surpassed the 200 hectares limit of the Agrarian Law No. 206, were considered eligible for land

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<sup>27</sup> This was a movement led by supporters of constitutionally elected President Francisco I. Madero (1911-13), against the coup d'état by Victoriano Huerta. It aimed at restoring the constitutional order (according to the liberal Constitution of 1857), as it was linked to the maderista movement in 1910-11.

<sup>28</sup> At the time Aguilar was an experienced military man and politician, according to Skerit (1996, pp. 33-34).

distribution. Although Aguilar's agrarian project was more of a political gesture, than an effective land reform, this initiative had national repercussions in the context of an imminent split between *carrancistas*<sup>29</sup> and *zapatistas*<sup>30</sup> (Fowler 1979:39-40; Skeritt 1996:35-37).

Later on, 6 January 1915, Venustiano Carranza passed a law in order to attract peasants to the constitutionalist army – against Zapata's peasant agrarian reform upheld in the Plan de Ayala - allowing not only for the distribution of lands, but also for the restitution of dispossessed indigenous communities from public and private property. As constitutionally elected Governor of Veracruz (1917-20), Cándido Aguilar went on distributing land, taking advantage of his privileged links with the federal government (he was a relative of President Venustiano Carranza).

Finally, after the Constitution of 1917, one of the first and most important federal agrarian regulations was the 'Untilled Lands Law', passed by President De la Huerta on 23 June 1920, to encourage land distribution of underused properties and to raise production in agriculture. This law laid out the obligation of landowners to cultivate all – or most - of the arable lands throughout the agricultural cycle, and made municipalities responsible for entitling local poor peasants<sup>31</sup> to occupy untitled fields through rent or sharecropping contracts on a yearly basis and under fair terms.

Radical senator Adalberto Tejeda took office as Veracruz Governor at the end of 1920, after Victoriano Huerta's rebellion – financed by conservative forces, oil companies and American interests - and he launched a radical land reform based on peasant organisations. Governor Tejeda strengthened worker unionism (tobacco and textiles industries, housing movement, etc.) and communist leadership within popular organisations, two factors that influenced the agrarian struggles, which were about to take off.<sup>32</sup>

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<sup>29</sup> Followers of Venustiano Carranza, a former *hacendado* with a *maderista* and constitutionalist background. As provisional President Carranza was rather moderate, particularly after the Aguascalientes Convention (1914), when Pancho Villa, Emiliano Zapata and other revolutionary forces pressed for radical reforms.

<sup>30</sup> Zapatistas were a peasant army led by Emiliano Zapata, but also a strong agrarian movement in Central Mexico, based on indigenous communities' land claims and influenced by magonism, a turn-of-the-century anarchist movement, who branded the "land and freedom" Zapatista flagship. (Katz 1981)

<sup>31</sup> Peasants were able to apply for the amount of land they felt prepared to cultivate before the municipal authorities – either verbally or by non-stamped letter. The 1920 law was an important complement to the agrarian law of 1915, benefiting not only landless peasants, but also all agricultural workers without access to ejido parcels, or with insufficient lands.

<sup>32</sup> In her pioneering work on radical agrarism in Veracruz (1920-38), Fowler (1979) stressed the influence

In 1922 communist leaders encouraged peasants in central Veracruz to – tactically - organise themselves within Agrarian Committees, in order to claim land under the umbrella of the 6 January 1915 Law, to fight for more advantageous tenant contracts and fairer wages, and to promote collectivism among peasants (production and consumption co-operatives). The Peasant League of Veracruz (Liga de Campesinos Veracruzanos, LCV) was organised in 1923 and its local Agrarian Committees mushroomed thereafter. Political conditions for a genuine land reform seemed rather favourable. Tejeda's administration supported the Peasant League and its Committees appointed agrarian-minded officers to the head of Municipal governments and Agrarian authorities, and communist leaders – allies to the radical government - took control of the main posts in the agrarian movement. From 1922 to 1923, the number of land grants in Veracruz jumped 2.8 times (to 58,617 ha) and beneficiaries 3.4 times, to 11,393 (Fowler 1979, p.61).<sup>33</sup>

In fact, radical agrarianism in Veracruz, from the early 1920s to the mid-1930s was one of the regional experiences that influenced most President Cardenas' (1934-40) land reform program at the national level (Fowler 1979). However, in Veracruz, cardenism meant the beginning of the decline of land distribution, as agrarian organisations were incorporated and subdued into the PNR (predecessor party of the PRI), and 'peasant guerrillas' were dismantled.

But, while Tejeda and his closest collaborators were radical and supportive of land distributive policies, bureaucratic structures, at the regional and local levels, slowed down the process and followed a different path. Thus, one of the landowners' most common tactics was to split up estates between relatives in order to conform to the legal limits (200 ha) on landownership. Another, even more effective, was to sell portions of land to *rancheros*, closely linked to *haciendas* as foremen, permanent workers and tenants, who formed a social belt around *ejidos* with better endowed lands and access to markets (credit and marketing channels).

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of the alliance of the peasantry with urban forces, first and foremost with Governor Tejeda and temporarily with the Mexican Communist Party -when Almanza and Galvan's pragmatic and moderate socialism led the influential Liga Campesina de Veracruz. She analysed how Federal forces and alliances clashed with this early agrarian movement in Veracruz, which finally set the pace for land reform at the national level (1934-40 cardenism), but paradoxically put an end to radical agrarianism in Veracruz.

<sup>33</sup> According to early agrarian laws State Governors had the powers to carry out agrarian *mandates* to distribute land. Although this procedure was provisional and had to be ratified by Presidential Resolution, decentralized distribution explains why in regions like Veracruz – where peasant pressures were stronger and political alliances propitiatory - land reform made considerable progress.

*Hacendados*, rich merchants and coffee growers were not seriously affected by the land distribution of 1914-20. Recovery of sugar prices in the international market convinced some of them to go back to their neglected plantations. By 1921, 683 *haciendas* in excess of 1,000 hectares each (1.3% of total rustic properties) still possessed more than 3 million hectares in Veracruz, 42% of them were owned by American and Spanish landlords.<sup>34</sup>

The slow and lasting official procedures put land claimants in a difficult position *vis a vis* local landowners. They had to remain working in *haciendas* and *ranchos*, or cultivating lands, while the agrarian procedures made progress. As the expropriation compensations were estimated on the basis of 10% of land value, proprietors were more interested in keeping tenancy arrangements as advantageous and as long as possible.<sup>35</sup>

The ravages of gangs and revolutionary armies caused additional damage. Communities with better access suffered the most. However limited, land reform promises, on one hand, and insecurity on the other, convinced many people to move towards safer fertile areas, making rural population mobile, open to external influences and prone to political manipulation (Fowler 1979, p. 35 and Hoffman 1994).

### ***Agrarian movements in Atzalan. The first wave: 1920s-1940s.***

There were in Atzalan two major episodes, or waves,<sup>36</sup> of agrarian movements that influenced all forms of collective action. From the early 1920s to the end of the 1940s, under the influence of radical agrarianism in Veracruz, a first wave of land struggles was, by and large, a grassroots movement. In contrast, a second wave of agrarian reform, triggered by the agricultural crisis of the 1960s, lasted throughout the 1970s and was predominantly a state-led process.

The first land claims were based on two converging processes. On the one hand, the colonising migration of hundreds of families to Atzalan sierras, and on the other hand,

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<sup>34</sup> See Tanenbaum (1930) cit. Fowler (1979:44). In 1920 an American oil speculator, Jones & Co. arrived in the Atzalan sierra and bought 1,207 ha. Although development works never took place beyond the exploration phase, the presence of this American firm proved to be of great significance for the fate of San Pedros' agrarian movement.

<sup>35</sup> In Atzalan piedmont there were constraints on rented land, high fixed rents for maize and higher for perennials, debt bondage practices, and forced evictions among other abuses. SPA's *ejido* archive and interviews with producers in several Atzalan towns (see Official Documents in Bibliography).

<sup>36</sup> I use this term in a descriptive way because land struggles were triggered by the conjunction of external and internal factors, and then receded for a while, until a new set of conditions allowed a new round of protest.

the promotion of land reform by radical peasant organisations (the Agrarian Communities League of Veracruz and the so-called Executive Agrarian Committees at the local level). This wave of peasant movements led by migrants who arrived from the cold highlands, in search of lands to rent and employment in the lowland plantations, ended up with land distribution through Presidential Resolutions, which formally granted land and constituted *ejidos*. Land distribution, in turn, encouraged new migration flows.

In the aftermath of the revolution, the winning elite put into practice land distribution to appease the peasant poor and to avoid new regional rebellions. Nevertheless, getting an *ejido* grant was not a straightforward process. On the contrary, peasants had to fight landowners and overcome a very powerful agrarian bureaucracy. While the social form of this process appeared to be social mobilisation and political struggle, micro-histories of immigration to Atzalan showed an underlying accommodation movement of hundreds of families running away from revolutionary mayhem and trying to get access to land as tenants and organised claimants. In their search for land, peasants moved from one Agrarian Committee to a more successful one. Others bought land from landlords who – in this way - tried to divide local movements and to prevent further claims on their lands.

The struggle for land was at the same time a process of frontier land colonisation based on a strategy of resistance and an economy of subsistence.<sup>37</sup> At the beginning (1920s and 1930s), the arrival of more tenants to the region added to the strengthened Agrarian Committees, and they were consequently welcomed and rapidly integrated to the new communities. The first wave of agrarian movements was therefore considered *inclusionary*.

In trying to overcome the violent resistance of landlords to land reform, peasants organised and built up community life. To push forward land distribution procedures, Agrarian Committees had to sustain co-operation among peasants in order to resist

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<sup>37</sup> There are several similarities among different coffee producing countries in Africa, Latin America and Asia in this respect. For instance, the relationship between the carrying capacity of the coffee mountainous regions and the self-sufficiency strategies of peasant producers; high demographic densities and a prevailing minifundista sector; the territorial role of coffee trees and agrarian claims; the presence of multiple intermediaries and an all-encompassing state intervention in the coffee chain;(see Toulet et al, 1994, pp. 26-36).

violent opposition from landlords, carry out collective works and finance long-lasting dealings in the state capital and Mexico City.<sup>38</sup>

### *Land struggles in San Pedro Attepepan<sup>39</sup> (1923-1941)*

Before the revolution had started, the first immigrants arrived in Iquimite (now Equimite) and its neighbouring *caseríos* (small set of scattered huts), one of them San Pedro Attepepa (SPA). Iquimite was the only important hamlet in the region; as it had a water spring and was a crossing point for muleteers in route to the highlands, southwards. It gathered tenants who arrived to clear forestlands and make a living out of cropping maize, beans and green chillies, as well as making charcoal that was sold at Veracruz port. The first records of SPA settlements come from as late as 1900, when the first two *rancheros*, Roberto Sánchez and Daniel Herrera, settled in the area to raise cattle and crop maize and coffee.

At 900 metres high, San Pedro is halfway from the main piedmont towns (where the sierra starts to elevate): Misantla in the east and Tlapacoyan in the west. According to family genealogies of San Pedro Attepepa, in the Municipality of Atzalan,<sup>40</sup> the first wave of migrants (1910s to 1930s) came mainly from the highlands. To the Southwest, some migrants came from as far as Altotonga and Perote (more than 2,000 m.o.s.l.), but most of them from villages across San Pedro river, like Zapotitlan, Barrancones, Vega de San Pedro and Plan de la Luz (around 1,000 m.o.s.l.). A few came from the southern side of the mountains (Comales, and La Victoria, at 900 and 1,100 m.o.s.l., respectively). This is a very important precedent, for most of them knew about coffee cropping, a well established crop in Plan de Arroyos and Altotonga since the turn of the century. On the other hand, most of them were landless peasants moving from much more densely populated areas. They were also attentive to new opportunities to claim lands across-the-river estates. With the exception of a few *rancheros* that fled from

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<sup>38</sup> New claimants had to be accepted by the local assembly, comply with a declaration of agrarian principles, share the responsibility over collective matters and pay an annual fee for the maintenance of Committee dealings.

<sup>39</sup> After a first survey trip to several communities in Atzalan I was very much interested in building up a case study in SPA for several reasons: its rich agrarian history; its privileged position in the coffee producing region of Atzalan (located within the high altitude strip); its pioneering wet processing mill; and the importance of its coffee cooperative.

<sup>40</sup> Drawing from tele-secondary school students' reports, and from interviews with key informants in San Pedro Attepepa, I collected several genealogies.

revolutionary violence (the case of José Luis Arcos' grandfather), most migrants arrived as landless *jornaleros* (day labourers) or tenants in the haciendas and *rancherías*.<sup>41</sup>

In 1923, around 99 tenants from Equimite and San Pedro Altepepa (SPA) formally claimed, before the State Governor of Veracruz, their right to an *ejido* grant from the lands they were working in. But San Pedro landless peasants were not rewarded with a prompt resolution to their land claim. On the contrary, a three-decade long struggle followed during which the number of SPA's land claimants more than doubled in the first ten years (1923-32), from 99 to 211 and then decreased to 179 in 1941, when the first *partial* grant was finally given to the SPA's Agrarian Committee.

During the first two decades, SPA's claimants sustained an intense bargaining with agrarian authorities in Xalapa and Mexico City, as well as with the agrarian corporate structure, particularly in the Altotonga Delegation of the Agrarian Communities' League (LCA), an influential mediator between the authorities in Xalapa and Atzalan and the agrarian committees.<sup>42</sup> As a consequence, SPA quickly developed a strong local leadership. Despite being isolated, local leaders became well connected to regional and state organizations.<sup>43</sup>

SPA's claimants were often caught in exhausting struggles, not as fruitful for them as for neighbouring *ejidos*. As pioneers in the struggle for land in the region, they paid the price of first confronting the landlords' power. Their organizational resources put them at great disadvantage. They did not have accurate information on the legal status of surrounding lands, within the legally binding 7 km ratio, owned by better organized *rancheros* and landlords.

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<sup>41</sup> *Rancherías* are medium size estates on the outskirts of haciendas, regularly owned by landlords' foremen or relatives.

<sup>42</sup> The Committee developed functions of local government and sustained a very active political life and connections with the Municipality and agrarian organizations at regional, state and even national levels. The Agrarian Committee was responsible for membership regulation (updating censuses and acceptance of newcomers); allocation of land tenants and collection of rents; administration of law and order in the community; appointment of the local Justice of the Peace and Municipal Agent; maintenance of local school and payment of teachers' wages; rural road construction and maintenance; overseeing forest use and other federal regulations.

<sup>43</sup> Among the first inhabitants was the Beltrán family, whose head had participated as a low-ranking official in the Revolution. One of his sons, David, became the foremost figure in the local agrarian movement. He promoted the 1923 application for *ejido* lands and led the local guerrilla in the late 1920s. He was a militant in the *Partido Estatal Socialista de Izquierda*, a *tejedista* political party in Veracruz during the years of radical agrarianism. Along with other 5 SPA leaders, Beltrán was detained by federal soldiers and then jailed in 1938. He was appointed to different local and regional positions, from Justice of the Peace, Municipal Agent and President of the local Agrarian Committee, to LCA Delegate in 1941, precisely when they finally were granted the land by Presidential Resolution. He was murdered shortly afterwards by the *mano negra* gang.

After a decade of resistance and lobbying at all possible levels, in 1941, SPA tenants were granted *ejido* lands by Presidential Resolution. But the execution of the decree had to wait until 1953, when the *Acta de Posesión y Deslinde* (Act of Possession and Measurement) was issued *on partial completion*, that is, it only delivered 564.6 ha from the lands of Guzmán Carriles, leaving out those of Jones & Co. It took another decade of paper work and lobbying (until 1963) to completely fulfil the 1941 decree through the expropriation of 400 ha from Jones & Co.<sup>44</sup> Altogether, SPA claimants had to wait four decades to get the land due to the corruption of the authorities and leaders, as well as to the power of landlords and an American oil company.

Rather than taking alternative courses of action, exchanging information and reaching agreements with regional organisations, Atzalan Committees frequently competed against one another to get the first alienable lands. Some leaders and better off migrants defected from the SPA's Agrarian Committee in order to buy the very same lands under appeal, at very cheap prices.

From the 1920s, landowners were very successful in avoiding expropriation through different means, which included violent dissuasion, coercion, devastation and robbery of peasant communities, until 1929, when the SPA's guerrilla was legally constituted and armed. Bribing civil servants and agrarian leaders was also quite common.

Additional difficulties were deliberately fashioned to hamper distribution. Committee members were often misinformed about the details of the agrarian proceedings and were victims of this and other forms of corruption. In 1925-28 agrarian officials and some of their own leaders, were bribed by landlords. In Atzalan, surveyors usually altered their fieldwork reports in order to protect lands subject to alienation.<sup>45</sup>

Leaders were often co-opted with concessions and privileges. Roberto Guzmán Carriles, for example, former peasant representative in Altotonga, became a landholder and coffee grower. At the end of the 1920s he was an Agrarian Delegate from Altotonga to the Agrarian Communities League of Veracruz and also member of the Peasant

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<sup>44</sup> Interview with Ranulfo Barreda, Equimite, 29-01-1996. Barreda was a very active local leader during the late 1950s and early 1960s. For seven years he was Justice of the Peace, commander of rural police (*columnas volantes*) during 1955-56, member of local and regional co-operatives and President of the SPA *Ejido* commissariat in 1960. He eagerly lobbied for the *ejido* grant completion of 1963, and figured out the network of complicity that had protected the American oil company.

<sup>45</sup> According to several accounts, Ing. Lino Rodríguez Osorio manipulated his expert field appraisal in favour of different landowners close to San Pedro Altepepa and La Palma ejidos. Interview with Ignacio Rodríguez, La Palma, 1-2-1996.



National League. He opportunistically bought lands from landowner Rosendo Villa and Jones & Co. and in 1928 was appointed representative of Jones & Co. Using his connections to the army and municipality, he played an important role in preventing, for more than two decades, the expropriation of his and other landlords' lands against the claims of San Pedro Attepepa's Agrarian Committee. He collected rents and sold lands to SPA's peasants. In the early 1930s -with the backing of Municipal officials and federal soldiers - Guzmán Carriles led a campaign of harassment, threatening SPA tenants with eviction and persecuting local leaders. By the early 1940s he was still promoting land purchases by instalments among the main leaders of the SPA's Committee (Faustino García and Ernesto Martínez) and other better off peasants (Rufino and Ladislao Ortiz).<sup>46</sup>

Other forces opposing land reform added bargaining power against *ejidatarios*, slowing or blocking in different ways land distribution. Once the revolution had weakened *hacendados*, many top ranking military men seized large properties. New landowners ran a very successful rural armed gang, first created at the end of the Revolution to stop crime and pillage along the sierra, with official backing (in fact the Mexican Army constituted and armed it). The 'mano negra' gang or *pistolerismo* – as it was known - became an efficient way of thwarting land reform, killing leaders and spreading fear among claimants. First organized by General Parra, the *mano negra* was a wide network of local groups that reached Atzalan sierra, up to the eastern coastal plains. After the initial distribution of land, *pistolerismo* continued fighting against land distribution and the state support to agrarian guerrillas.

In Atzalan sierra, *pistolerismo* reappeared in the 1940s under the leadership of José García – a local from Quilate village. At first, this rural guard tried to control bandit violence and robbery. When José García's son, Santiago, took over, the guard's allegiances changed, committing its services to defend landowners' interests. Landlords used to pay Santiago García for killing leaders and land claimants. In the mid-1940s, hearing complaints of recent murders, General Reyes – head of the garrison at Martínez de la Torre - captured Santiago and seven of his gunmen, and had them shot on the spot in Quilate.<sup>47</sup> As social violence, *pistolerismo* was not completely uprooted. On the

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<sup>46</sup> Interview with land struggle pioneers Benjamín Bautista and Benjamín García, Equimite 23-03-1995. They got more land than they thought, because purchases were based on improvised, inaccurate maps. Interview to Ranulfo Barreda, Equimite 29-01-1996.

<sup>47</sup> Interview with Ranulfo Barreda, Equimite 29-01-1996.

contrary, it became an endemic and mixed expression of social banditry, *caciquismo*<sup>48</sup> and organized crime in the Atzalan highlands to the present day.<sup>49</sup>

The aim of fair distribution of plots according to agrarian norms (20 ha of rain fed lands or the equivalent in other types of land) was difficult to meet under the prevailing conditions in Atzalan, where landlords had considerable bargaining power to avoid expropriation. Scattered grants for one single *ejido*, social pressure from *jornaleros* and the descendants of *jornaleros* and *ejidatarios*, led to excessive splitting up of the land.

SPA's neighbouring *ejidos* were more successful in getting their share of local estates, without that much resistance and violence. For half a century agrarian reform created expectations, sometimes unsatisfied, and a deep social conflict between *rancheros* and *ejidatarios* emerged. Endowment inequality created additional sources of discontent, especially among landless peasants. In some cases this conflict had been transformed through tolerance and co-operation, in others the potential for violence continued.

Small landowners took advantage of credit systems and markets, long before *ejidos*, because *ejidatarios* were entangled with agrarian movements, and time-consuming legal procedures, hoping for complementary land grants. In the 1940s coffee production doubled as tenants increased in numbers and credit was made available to *rancheros*. Those claimants who defected in order to buy land, later on became coffee growers and intermediaries – Adrián Castelán, Félix Ramírez, Gustavo Berner, Eberardo Arcos and

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<sup>48</sup> Broadly defined, *caciquismo* is the rule of local bosses, based on factional politics, religious status and economic power. One of the most important functions and sources of power of caciques is their role as intermediaries between the community and the outside society (the state organisations of modern society) to promote commercial agriculture among peasant farmers. (Skerrit 1996, pp. 157-60).

<sup>48</sup> Skerrit (1996, p. 29) suggested that in Central Veracruz – compared to the North and South where indigenous commons were more important - a more mestizo culture involved closer relationships and shared values between peasants and patrons. Peasants would mobilise on the basis of a common notion of property, shared by landowners, showing that peasants were more susceptible to 'modern' conceptions of politics, organisation and mobilisation.

<sup>48</sup> New Ejido Population Centers (NCPE) were a means to redistribute land to *ejidatarios*' descendants and *avecindados* (settlers without access to land), outside the 7 km ratio ruled by the agrarian legislation for new agrarian claims (Marchall 1985, p. 42.). *Caciquismo* has been associated with factional politics, corporate organizational structures of the formerly ruling state-party system (PRI and its sectoral corporations) and local control. In economic terms, *caciques* also can be middlemen (*coyotes*). See: Bartra (1993), Gledhill (1994) and Paré (1993).

<sup>49</sup> During the 1950s *pistolerismo* re-emerged as whole-sale organized crime, to the extent that *ejidatarios* asked for the establishment of rural police (*columnas volantes* operated in 1955-56). In mid-1960s drug traffickers made inroads in the upper highlands distributing poppy seeds among land claimants and even outlaws. All these expressions of local crime have been associated by *ejidatarios* themselves with *pistolerismo* (Interviews with producers in Equimite, SPA and El Avion).

Seferino León - and they received credit from the marketing parastatal CEIMSA,<sup>50</sup> while Banamex bank financed buyers in Tlapacoyan and Plan de Arroyos.

Once land was granted to the peasants of the newly established San Pedro Altepépan ejido (SPA), they agreed on a new allocation of ejido parcels, based on previous occupation of land. Since these arrangements were not certified, including access to the ejido's common lands (*tierras de uso común*), by the late 1960s concentration of land led to internal tensions and the need for a new redistribution.<sup>51</sup>

### ***Second agrarian wave: 1960s-1970s***

Martínez de la Torre's agribusiness expansion during the 1950s and 1960s (coffee, sugar cane) attracted rural unemployed by the thousands, who added to the fast natural growth of *ejido* communities. Agitated by the crisis of Mexican agriculture (state investment slowed down and reference prices for basic staples declined), social pressure exploded. Among the targets of the outbreak were not only *haciendas* and big properties, but also granted *ejidos*. *Rancheros* and big landlords reacted united and not surprisingly won *ejidatarios* and small landowners to their cause, whereas radical leaders confronted everybody, and finished up either defecting or victims of state repression (as in the case of the Unión Campesina Independiente, UCI). Nevertheless, some groups were relocated within existing *ejidos* or granted small plots of expropriated private and national lands.

Land distribution slowed down considerably during the Avila Camacho and Aleman administrations, and only revived with López Mateos in 1958. From 1962 onwards, all national and available private lands were to be allocated to the establishment of new *ejidos*, to their expansion, or for new population centres.<sup>52</sup>

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<sup>50</sup> Governor Miguel Alemán set up in the late 1940s the *Compañía Exportadora e Importadora Mexicana, S.A.* (CEIMSA, forerunner of CONASUPO) to commercialise agricultural production, mainly maize, but also tomatoes, coffee and other cash crops to supply the Mexico City market during the off season in the northern producer states. Along with the Banco Nacional de Crédito Ejidal (BNCE), CEIMSA tried to promote commercial agriculture among peasant farmers. (Skerrit 1996, pp. 157-60).

<sup>51</sup> Skerrit (1996, p. 29) suggested that in Central Veracruz – compared to the North and South where indigenous commons were more important - a more mestizo culture involved closer relationships and shared values between peasants and patrons. Peasants would mobilise on the basis of a common notion of property, shared by landowners, showing that peasants were more susceptible to 'modern' conceptions of politics, organisation and mobilisation.

<sup>52</sup> New Ejido Population Centers (NCPE) were a means to redistribute land to ejidatarios' descendants and *avecindados* (settlers without access to land), outside the 7 km ratio ruled by the agrarian legislation for new agrarian claims (Marchall 1985, p. 42.).

Decline in available lands for distribution, and in prices of traditional crops, led to a long lasting agricultural crisis. Agrarian movements entered a new phase from the early 1970s onwards, and they were met by increased state intervention in the countryside, and in particular in the coffee sector. Some authors (Alan Knight 1994b and Gustavo Gordillo 1988a) have differentiated agrarian reform as a result of direct popular actions claiming land - characteristic of the first phase of the agrarian movement - from a more state-led programme that absorbed the primary agrarian forces and converted peasants into potential allies, if not political clienteles, rather than social actors, as was increasingly the case during the second phase of the agrarian reform. The difference is not always obvious, and in the case Atzalan, just outlined, the main difference lies rather in the role of the state and local elites.

The second agrarian wave reached its heights at the beginning of the 1970s based on a renewed social pressure on land, triggered not only by demographic growth, but also by unfulfilled expectations of land distribution and development. New immigrants and the descendants of *ejidatarios* were restless because they had no access to land and decision-making within the *ejidos*. Differences in the size of land grants among neighbouring *ejidos* also played a role. In this context, and in contrast to the first wave, the second wave of agrarian movements can be considered exclusionary because landless peasants confronted *ejidatarios*.

Coffee expansion in this region (during the 1960s and 1970s) coincided with this second wave of agrarian movements emerging in Atzalan.<sup>53</sup> In comparison to the first wave of agrarian movements, in the second one a different group of peasants took part and their goals were also distinct. Although land was still at the centre (completion of overdue grants and first or second extensions of the *ejido*), the social base of the movement was a landless sector of *ejidos*, both day-workers and the descendants of *ejidatarios*. Immigrants had come this time from a wider range of regions and longer distances, attracted by employment in the sugar fields and coffee *fincas*, as well as livestock grazing and rural roads construction.

Another important difference between the two movements was the role of entitled *ejidatarios* and the regional corporate structures of the CNC and LCA of Veracruz. While in the first period (1920s and 1930s) the struggle for land clearly placed peasants

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<sup>53</sup> According to Hoffmann (1993) throughout the region the pace of the agrarian reform is strongly correlated with demographic growth, both exercising on one another a mutually strong influence.

of all sorts on one side against landlords, in the second period *ejidatarios* were put in opposition to landless peasants.

During four years (1970-74) landless peasants made requests before the Agrarian Reform Secretariat (SRA), both in Xalapa and Mexico City, without success. Dissatisfied with traditional organisations like Confederación Nacional Campesina (CNC) and Confederación Agrarista Mexicana (CAM), for the lack of support, these landless groups started to organise in 1970 under the leadership of the Central Campesina Independiente (CCI), then closely linked to the Partido Comunista Mexicano (PCM). This group became one of the most important organised movements in the central sierra of Veracruz at the beginning of the 1970s. Due to ideological differences with the CCI-PCM, these peasant groups created in 1974 the Union Campesina Independiente (UCI).<sup>54</sup> According to Ramos and Magnon (1984, pp. 11-15), they asked for solutions to the following problems:

- Delay and corruption in agrarian procedures;
- Eviction of tenants who used to clear forest lands for cattle grazing;
- Land grabbing by cattle ranchers and coffee growers;
- Demographic growth and pressure on insufficient ejido grants;
- Repression of independent agrarian movements – linked to leftist organisations - through armed gangs and official organisations;
- Independent efforts at organising peasants and *jornaleros*.

UCI groups put pressure on ejidos, invading lands in Palmarcillo, La Noria, Rancho Nuevo and Vega Chica. The CNC's "José Cardel" Ejido Union reacted strongly against the UCI movement, dividing ejidatarios from UCI's landless peasants. Involved with barbasco,<sup>55</sup> cattle and coffee in Atzalan and Tlapacoyan, the Ejido Union was created in 1974 in the context of the nationalization of the barbasco industry and the emergence of strong peasant movements independent from the official CNC.

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<sup>54</sup> Interviews with Tomás Navarrete, leader of the Quicempacayotl coffee cooperative, in Tlapacoyan, and former UCI activist (February 10, 1995); and with Ignacio Rodríguez, one of the most influential leaders in ejido La Palma and former UCI grass-roots leader, he was candidate of the current left wing party PRD (Partido de la Revolución Democrática) to the Municipality of Atzalan (February 1, 1996).

<sup>55</sup> Barbasco, *dioscorea composita*, is a wild climbing shrub. An active component – diosgenine – is extracted from its roots to synthesize steroids used in the pharmaceutical industry. After a boom in the 1950s and 1960s, the transnational industries in Mexico faced opposition from regional movements, until the Mexican government backed regional groups to nationalise the industry, setting up a national umbrella organisation to collect and undertake primary processing of barbasco. The CNC helped to integrate Ejido Unions in the producing regions. Pedro Ramírez, from Atzalan, led the "José Cardel" Ejido Union and also the National Union of Barbasco Producers (Díaz 1986).

In 1975, a demonstration in Martínez de la Torre's Municipal Hall was violently repressed, starting a period of persecution of its leaders that finally led to the dismantling of the UCI. This event put an end to the second wave of agrarian movements.

The UCI experience, although dismantled by the detention and prosecution of its main leaders, gave way to different projects, including the struggle for food-staples marketing cooperatives (during the early 1980s), and the struggle to have access to roads that was led by local leaders for sierra communities.

The ever-increasing pressure on land and the emergence of a strong corporate agrarian structure (under the CNC peasant umbrella organization, closely linked to the state) completely broke up the last big properties in the lowlands during the second wave of agrarian struggles, in the 1960s and 1970s.

### ***Land struggles and social differentiation***

The social divide that cut across classes, groups and economic strata and the social structure became increasingly complex and differentiated, comprising merchants, *rancheros*, *ejidatarios*, *jornaleros*, *hacendados*, and big and small landowners, although in certain cases two or more of these categories were combined and interacted in different ways, sometimes in clear opposition and others in collaboration and cooperation. *Rancheros* who raised cattle and cultivated crops were no doubt the most complex group, who could simultaneously play two or more roles such as merchants, intermediaries (*coyotes*), owners and, occasionally, even *ejidatarios*. *Ejidatarios* were often part time *jornaleros* and land tenants.

Land struggles explain the scope and intensity of coffee producers' engagement with politics and outward participation. At the same time, land distribution in this region is an important precedent to understand the pervasive social divide between a landlord-*ranchero* class (since *hacendados* had gradually disappeared) and *ejidatario* groups (which were not an homogenous stratum).

A very complex and tense relationship, of resentment and opposition, developed between *ejidatarios* and *rancheros* but, at the same time, they were doomed to depend on one another in many ways. If *ejidatarios* and *rancheros* had not been related by residence and kinship (they often came from the same background and sometimes they

were direct lineage relatives), trade and other economic relations between them were unavoidable, as *rancheros* controlled retailing and other important businesses, like coffee, maize and livestock. A few *rancheros* were able to have both, *ejido* and private lands (like Eberardo Arcos or Ebodio Santillán), and occasionally they traded with both, big landowners and *ejidatarios*. These new small landowners consequently represented a social buffer, which successfully absorbed pressures on landlords.

*Rancheros* benefited the most from their intermediate position. Some of them became agrarian leaders, who had to learn about politics and to establish outside connections.<sup>56</sup> During the 1930s and early 1940s, the most difficult years for SPA claimants, leaders had to know the contents of agrarian codes (federal and local ones); follow up agrarian proceedings in Xalapa and Mexico City; maintain vital communication with the LCA structure, through hundreds of letters to agrarian representatives in Atzalan, Altotonga and Xapala; update local censuses and register contributions and rent payments; answer official mail from Atzalan and Xapala; and fill in public service applications.<sup>57</sup>

As private landowners, *rancheros* were eligible for coffee and cattle credits (during the 1940s), long before *ejidatarios* knew about institutional credit and support programmes. Their privileged ties with other landowners and merchants made them natural intermediaries with *ejidatarios* in the main markets of the region. To neighbouring landowners, *ejidatarios* were a valuable source of cheap labour, locally available year-round; captive consumers; submissive business partners; also generous contributors to public works and utilities; and at the forefront in bargaining state resources and public services.

*Ranchero* grower-buyers took advantage of the coffee boom promoted by the IMC (a state organisation examined in the following pages). They ventured into buying processing facilities and competed with the IMC in buying coffee beans from producers. They usually located near the producing zones and benefited from close relationships

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<sup>56</sup> Faustino García, for instance, became one of the most able and respected leaders in San Pedro Altepapa (SPA). He arrived in Equimite in 1920 from Landaco, Mecacalco, “getting away from both, the slavery of a waged peon”; he was illiterate – like most leaders and claimant peasants – but soon learnt reading and writing – in night school – in order to deal with an inescapable mountain of paper work needed to fight isolation and defend claimants’ rights against landlords.

<sup>57</sup> Faustino García (see previous note) led the SPA Agrarian Committee in the key years of cardenismo (1936-40). Ironically, a year after the SPA *ejido* was formally granted (1941), Faustino gave up his *ejido* rights as he decided to buy 60 ha from Guzmán Carriles and forget about all the troubles. Faustino was one of the new landowners allowed to keep their lands. He continued in the coffee business, becoming one of the best growers and the only parchment producer, and went into livestock raising (Interview with Pablo García, Faustino’s son. Equimite, 8-04-1995).

with peasants, lending them money or merchandise in exchange for future coffee deliveries.

New small landowners succeeded in legalising their acquisitions, despite the fact that their landholdings were first claimed by Agrarian Committees, and that the law prohibited owners of claimed lands to enter any commercial transaction. At the end of the Cárdenas administration and even afterwards, cattle ranchers and agribusiness were granted certificates against land claims (*certificados de inafectabilidad agraria*). This provision helped landowners to avoid new expropriations in favour of land-hungry neighbouring *ejidatarios*. To first generation *ejidatarios*, those who fought for land and still remember how they were let down by bureaucracies and leaders, and overpowered by landowners, the land tenancy structure was considered illegitimate.

Inequality and insecurity of property rights permeated all social relations and fostered mistrust and envy.<sup>58</sup> Organization of small private property took place at the outskirts of *ejidos*, where *ranchero* families blossomed, taking advantage of both worlds: state support programmes, including institutional credit targeted to *ejidatarios*, and cheap labour from *ejidatarios*. Small landowners and/or *rancheros* benefited from the negotiations undertaken by *ejidatarios* with the Atzalan Municipality and the State government to promote basic infrastructure and public services, the long-lasting struggle they started even before land distribution. *Ejidos* built and refurbished a network of roadways almost with their bare hands. Rural schools and local clinics were likewise the result of *ejidatarios*' efforts to promote local development. After decades, the conflict to some extent subsided, and landowners played a positive role in some areas of social life, improving technologies and activities (cattle genetic stock, coffee varieties and practices, modern citrus cultivation).

Fictitious kinship (*compadrazgo*) became an important institution that helped to narrow down the social divide. However, envy and memory fed from time to time social conflicts between *rancheros*, landowners and *ejidatarios*, since the institutional framework developed to represent functional interests promoted divisions. Sectors, endowment systems and political traditions deepened old and new contradictions.

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<sup>58</sup> After I finished my last fieldwork follow up in 1996, ejido lands in this region were certified and individually titled under the Programa de Certificación de Derechos Ejidales y Titulación de Solares Urbanos (PROCEDE), but it made little difference in terms of the social and historical problems analysed here.



Cattlemen, big *finqueros* and *beneficiadores* (plantation growers and wet millers), have played off this set of contradictions to their advantage. They made alliances with agrarian bureaucracies and *ejidatario* leaders, some of whom had become landowners. Later, they claimed subsidies and even income support along with *ejidatarios*, without being eligible. However, *ejido* reform - land titling, fractioning and exchange - helped to narrow down a former social distance, allowing room for alliances.

***Agrarian reform, demographic growth and collective action problems of coffee producing ejidos in Atzalan***

Peasant families in Atzalan experienced very high demographic growth, strong pressures on land, and seasonal labour migration. Nearby agribusiness created a regional labour market, allowing peasants to work on a temporary basis without abandoning their crops. Expectations of land distribution and the need to overcome those pressures (not only political instability and economic hardship, but also violence), led producers to adopt different strategies of family integration within communities.

Demands for land increased up to a point at which landlords were overwhelmed and, under harsh economic depression and the risk of expropriation, the new landed elite changed tactics, and soon started to split property up until complying with the ruling on private property land ceiling.<sup>59</sup> *Hacendados* and *rancheros* took advantage of the weak enforcement and legal loopholes. Illegal means of resistance, such as bribing agrarian officials and leaders and even using organized violence to prevent expropriation, were also systematically used in central Veracruz. Struggle among armed political factions and rebel gangs - financed by oil companies - created a violent environment.

But, agrarian radicalism in Atzalan developed as an internal process of confrontation between landless peasants and landlords, more than from an external influence of leftist groups. It developed its own dynamics given the particularities of the region. Violent clashes lasted for more than three decades because of weak and discretionary implementation of the land reform, the relative isolation of the region, and the effectiveness of landlord's wide and strong networks of complicity with authorities and leaders.

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<sup>59</sup> The constitutional ceiling imposed on private property, according to the agrarian legislation of the 1920s was relaxed. From 1934 the first Agrarian Code stated a legal limit for rain fed lands and perennial crops - such as coffee - was 300 ha, while for irrigated lands was 150 ha (Montfort 2000). In the case of cattle grazing, the limit could be higher, depending on the rate of grazing in different regions.

According to Cambrezy (1993), in central Veracruz agrarian reform – compounded by an ever increasing demographic pressure - brought about a massive ‘race towards land’, complicating distribution and leading *ejidos* to fail as a redistributive programme. The main congregations experienced demographic ‘saturation’.<sup>60</sup> Agrarian Committees from these congregations participated in the land distribution process, and had to face the problem of limited land availability to accommodate numerous migrant families. As a result, hundreds of isolated *caseríos* (a set of scattered huts) mushroomed in Atzalan and many *ejidos* were established in small grants.<sup>61</sup> Most of newly established *ejidos* received grants from different plots of land. Family parcels were, consequently, scattered in several small lots. In the Atzalan region, the problem was particularly acute due to the successful resistance of landlords, *rancheros* and small landowners. Among other constraints emerging from this division, the inability of the agrarian movement to co-ordinate local initiatives and transform them into micro-regional projects was paramount.

In fact, various contradictions entangled the agrarian movement from the beginning: (1) Overlaps in committees, which were first meant to stop violence amongst peasants fighting over remaining lands that were sometimes from the same properties and often outside the boundaries of municipalities; (2) deceitful deals between peasant leaders and officials and landowners’ representatives at the regional level; and (3) the highly centralised structure of the *ejido* (Cambrezy 1993). However, the movement’s fate was not decided at the local level, but in government offices and banks.

Inequality of access to available land (extension, quality, geographical location) was unavoidable. Some communities performed exhausting battles to get their agrarian claims recognised. They suffered violence, and in the end achieved unfavourable distribution agreements. In contrast, latecomers to the agrarian process (active as well as passive beneficiaries of the second agrarian wave), took advantage of the room previously made and struck better deals without major efforts. In general, first granted *ejidos* were allocated good-quality and compact lands, while the following grants were stony, poor-quality lands in different patches. That is why timing was an important factor in terms of land grants. However, San Pedro Altepepan was an exceptional case.

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<sup>60</sup> Cambrezy found that by 1980, in central Veracruz, one out of two localities newer than 60 years was an *ejido*, and that the older the *ejido* the higher the proportion of non-*ejidatario* inhabitants on it (Cambrezy 1993: 94).

<sup>61</sup> There were 3,500 *ejidos* in Veracruz with an average size of 851 ha, compared to the national average of 3,389 ha. Cambrezy, *ibid.*

Even if it was a pioneer peasant movement, it ended up with the worse part, surrounded by landowners and better-endowed *ejidos* due to the strategies pursued by powerful landowners.

More than half a century of *ejido* life radically transformed collective arrangements. Since land distribution begun in the 1940s, it was exchanged in different ways, although not under a completely developed market. Political, legal and religious *ejido* life changed especially after the coffee crisis (1989-93), despite constitutional provisions, since amended, and the political corporatist system in which *ejidatarios* were subject to a clientelistic relationship within so called peasant organisations.

In short, it was not the peasant poor who benefited the most from land distribution, but a middle peasantry. Those with bargaining skills, and resources to actually appropriate more land than initially allocated; and those always ready to take advantage of others' misfortunes (which frequently meant purchases of land at very cheap prices), as well as from profitable businesses (retailing, money lending, cattle grazing, etc.).

## ***2.2. The emergence of small coffee producers and a rural bourgeoisie***

During the second half of the 19th Century, changes in international markets led to the crisis of sugar cane plantations and to the boom of coffee in Mexico and, particularly, in central Veracruz, where coffee used to be traded by merchants and *hacendados*. Coffee was not important in Mexico until after the United States imposed restrictive measures in favour of sugar cane cultivation in Cuba, deteriorating the Cuban coffee sector (1845-50). The sugar policies of the USA forced Cuba to give up coffee production (1845-50), encouraging coffee business in Mexico, mainly in Veracruz. Millions of coffee trees were planted and processing plants established in central Veracruz and in the Pacific coast, most of them of German, Spanish, American and Lebanese origin.

After the civil war in the United States, coffee consumption grew fast, accounting for a third of the world's demand. In 1888 a coffee plague in Brazil, the world's major producer at the time, drove world prices to record highs. Expecting foreign revenue, President Porfirio Díaz promoted foreign investment by providing land grants for the establishment of new coffee plantations and allowing tax-free imports of fixed capital oriented to this activity. This promotion lasted until the early 1890s when coffee prices dropped again.

Additionally, the modernisation of the Cuban sugar industry brought about a recession in sugar cane crops and refineries in Mexico (1890-1915). Some *haciendas* overcame the sugar crisis by undertaking coffee cropping and cattle grazing. This change affected the patterns of *hacienda* labour demand, which was no longer permanent, and encouraged tenants and *rancheros* to undertake coffee cropping on their own, to pursue a complementary source of cash income.

During the 1880s coffee cropping took off on a large scale in Veracruz's sub-sierra areas (from Coatepec and Xalapa through Huatusco to Misantla). The railway line to Teziutlán (1890) linked the warmer mountain slopes and planes with new agribusinesses like sugar cane, coffee, tobacco and vanilla, in great demand both in Mexico City and export markets. The trade boom between the coastal planes and Teziutlán, crossing Misantla, Chiconquiaco and Atzalan sierras (today Atzalan is on the south-eastern part), allowed the creation of intermediate *rancherías*<sup>62</sup> along muleteer routes and next to sources of water.<sup>63</sup> By 1889 coffee was already the main export crop in Veracruz and a few years later (1896), the first drying machine was introduced displacing the huge sun-drying *patios*.

Teziutlán was one of the most important cities, the major trading and financial centre in the sierra, where rich families profited from long distance trade from the coastal planes and the sierra to central Mexico. It was the only regional loading point to Mexico City (tobacco, cattle), and also a place of export transactions (precious woods and vanilla). Only *aguardiente*<sup>64</sup> and maize trade were based on regional networks, hauling cargoes up and down the sierra (Hoffmann and Velazquez 1993:125).

Elites in this region - big merchants and landlords in Teziutlán, Plan de Arroyos, Tlapacoyan and Martínez de la Torre - competed for priority access to state resources and control of the most profitable regional markets (coffee, citrus, cattle raising and

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<sup>62</sup> There was no clear-cut difference between *haciendas*, *fincas*, *ranchos* and *rancherías* in revolutionary Mexico. *Haciendas*, *fincas* and *ranchos* could mean big properties, as well as medium size estates. Considering local historical data, *ranchos* were small to medium size private properties with a diversified economy and linked to peasant families, which provided labour. *Rancherías* were housing areas that did not achieve the status of *pueblo* (town), inhabited by one or several *rancheros* (owners of *ranchos*) and their tenants and *jornalero* workers. These *rancherías* were also called congregations when the agrarian reform started (Guerra 1988:480-90 T-II).

<sup>63</sup> Lowlands were depopulated shortly after the conquest by relocation of *pueblos*, cattle raising, western diseases, and exploitation (Estrada García 1982, García Martínez 1987), but it is believed that something different happened in the piedmont (Hoffmann 1994). Whatever the case, until the turn of the XIX century an important repopulation started to take place in this region.

<sup>64</sup> Alcohol distilled either directly from sugar cane juices or from residual juices after the production of *panela*.

trade). One of the most important areas of competition was the highlands' harvests, which drove merchants to knit together trading and social networks. Along the well-established routes from the coast to the highland central towns (Teziutlán and Misantla), *muleteers'* trade crossed this region exchanging products back and forth, including *morteado* coffee.<sup>65</sup>

While the highlands were already densely inhabited, the *piedmont* was much of a forest belt with scattered *ranchos*, under the influence of lowland *haciendas*, to which the lands originally belonged.

At the end of the XIX Century a new boost was given to private property under the long Porfirian term, particularly when the 1883 decree on colonization and the 1894 law on untitled lands were passed. These regulations allowed colonists and *compañías deslindadoras* to claim ownership of either national or untitled lands (informal, 'empty', 'under-utilised'), opening up access to the indigenous peoples' commons.<sup>66</sup>

New allowances to claim 'untitled lands' and incentives for agribusinesses, like those in sugar cane and coffee, facilitated land concentration involving the most favourable lands for modern agriculture. In Veracruz alone, the number of *haciendas* more than doubled between 1890 and 1907, from 252 to 530 haciendas (García 1989, pp. 131-179 quoted in Skerit 1996 pp. 11-13), particularly in the coffee producing cantons. Jalacingo canton – where we find Atzalan today – had, in 1907, some of the largest *haciendas*, as in the case of Rafael Martínez de la Torre and the Zorrilla family. Martínez de la Torre (after whom one of the main towns was named) acquired huge amounts of land in the coastal lowlands and sold off parts of them to colonists. In the case of the Zorrilla family, they bought out almost all of former Jobo's estate in successive purchases, one of them (the Almanza estate) in the sub-sierra slopes. In this region, the Zorrilla family's expansion was not contested. Zorrilla *hacienda* did not change substantially the pattern of land use, allowing *rancheros* to settle in small plots of land for cropping food staples or the more regulated tobacco, cattle, and exceptionally perennial crops, such as coffee. There were also extensive areas where

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<sup>65</sup> *Morteado* coffee are green beans dry processed and husked.

<sup>66</sup> Mid-nineteen Century liberal laws (especially the well-known *Ley de Desamortización de bienes de manos muertas*, of 1857) promoted private property rights as a model upon which development and democracy could make progress, as was the case of small private property in France or in the USA. In Veracruz, there were equivalent bills as early as 1826, right after independence, although with little impact. *Porfirista* land laws were more successful in breaking up corporate land-holdings and, as a consequence, indigenous lands, many of which were successfully preserved since Spanish colonial times, were then expropriated by colonising companies.

peasants could gain access to plots of land under differing contractual conditions, for instance share-cropping and tenancy arrangements. Such peasants were usually vital to the *hacienda* as providers of basic produce and labour at harvest time, either in exchange for land or for monetary payment.<sup>67</sup>

The pattern of dispersed agro-industrial development in Central Veracruz had important implications for the social structure of rural society in the following years. In the first place, demographic growth and pressure on land was much higher than in previous periods. Secondly, close links were established between urban and industrial workers and peasants during the revolution. Thirdly, peasants were also closely linked (geographically) to labour markets and urban centres. All of these factors influenced the subsequent struggle for land under the agrarian reform (Skerrit 1996:16-17 and Fowler 1979).

The 1910 Revolution put a halt to these trends, first by disturbing agribusiness expansion and the land concentration process, through land reform. As was mentioned, new landlords were forced to divide up their *haciendas* in several estates. Secondly, violence drove out communities, frequently towards the safer highlands where indigenous settlements had been pushed since colonial times. Piedmont lands in Atzalan - over 300 to 400 meters above sea level (m.a.s.l) - were still hardly inhabited, despite being inside the property of big estates. By the time the revolution broke out, mainly the better connected lowlands were exploited.

### ***The development of the regional coffee market***

At the end of the XIX Century increased communications, trade and investments created conditions for new agribusiness in central Veracruz (tobacco and sugar cane production, alcohol distilleries, cattle raising and coffee cropping and processing). The growth of *ranchos* and *haciendas* drove colonisation of the rich *piedmont* forward, restructuring property relations and elite power. Recovery of sugar prices and a coffee bonanza by the second half of the 1910s, encouraged *hacendados* and *rancheros* to give *peons* – landless peasants, mainly from the highlands - plots of forest land in exchange

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<sup>67</sup> Skerrit contends that in Central Veracruz economic opportunities (markets and infrastructure) had the greatest effect upon land prices, militating against the formation of very large holdings, giving place to rather medium size haciendas. Notwithstanding the diversity of landholdings, a process of deepening capitalist relations was taking place (Skerrit 1996:14-16).

for labour. The first revolutionary agrarian laws (1915-1920) further encouraged colonisation of the *piedmont*.

At the beginning of the 20<sup>th</sup> century, however, the main towns were rather small. Martínez de la Torre was still a *pueblo*, compared to Tlapacoyan and Teziutlán Villages, and Plan de Arroyos was a *rancheria*, though influential as an intermediary merchant point right in the middle of the sierra. In the following decades Martínez de la Torre expanded because of the political will of the wealthiest families, the so-called 'divine caste' (Aramburo, Zorrilla, Legiga, Lapuente), who controlled trade to Teziutlán.<sup>68</sup>

Members of the Avila Castillo family - from which president Avila Camacho's family hailed - were important muleteers. When the 1910 revolution started they supported the winning constitutionalist forces. Manuel Avila Camacho (born in Teziutlán and President of México after Cárdenas, from 1940 to 1946) displaced the 'divine caste', bought properties from them, beginning with the *finca* Las Margaritas, and carried out in the mid-1940s an old project: the development of modern communications, connecting the lowlands with the coastal planes and the sierra. Between 1944 and 1946 important federal highways were built, connecting the region to the center (Puebla and Mexico cities) and to the sea (Veracruz and Nautla ports): (Veracruz) -Perote-Teziutlán, (Mexico City-Puebla)-Zacatepec-Teziutlán, and Teziutlán-Tlapacoyan-Martínez de la Torre - Nautla. After the national motorway to Nautla reached the foothills of this region, merchants developed new ties with the main lowland markets (in Martínez and Tlapacoyan) northwards, following parallel paths between the main rivers (San Pedro and Quilate).

At the same time, the construction of the Independencia sugar mill in the town of Martínez de la Torre (mid-1940s), attracted hundreds of workers and integrated piemont communities within sugar cane cultivation. Contract agriculture and merchant capitalists emerged along the main rural roads of Atzalan mountains. Before the roads were built, rows of mules with maize, *panela*<sup>69</sup> and parchment coffee gathered in Tierra Nueva on their way to Plan de Arroyos, westwards through San Pedro river.

The monopoly enjoyed by big coffee merchant-processors of Misantla and Plan de Arroyos, and the debt bondage relations they established, were finally broken with the entry of new capital and competitors. Peasants no longer had to travel long distances to

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<sup>68</sup> Skerit, David, personal communication, 23-Jan-1996.

<sup>69</sup> Unrefined sugar loaf produced in small, artisan units of production (*trapiches*).

trade their coffee. Forty years of Plan de Arroyos hegemony in the highlands came to an end with the development of Martínez, and the former village of Tlapacoyan benefited greatly. Plan de Arroyos-Tlapacoyan road responded to the predominance of Martínez de la Torre's over the sierra, but this was not enough to compensate for the new sources of capital and trade.

As post-war prices of coffee increased, buyers extended intermediary networks up to the highlands. In Tlapacoyan, CEIMSA and Banamex<sup>70</sup> started to provide coffee merchants with credit during the 1950s. CEIMSA - a wet processing factory - recruited better-off coffee growers in Atzalan, including ejidatarios and rancheros from Almanza, Tierra Nueva and San Pedro Altepépan (SPA). From the early 1960s wet-curing factory in San Carlos also started to buy important amounts of coffee from small producers.

From then on, sugar industrialisation and citrus exports consolidated the hegemony of Martínez de la Torre over the sierra, overtaking Tlapacoyan and Plan de Arroyos. The coffee business remained mainly in the hands of the old rich families of Tlapacoyan and Plan de Arroyos, because of their privileged links, on one hand, to exporters in Xalapa, Coatepec, and Mexico City and, on the other hand, to highlander peasants. They welcomed and even promoted state intervention in their localities; and profited from technical assistance to establish the first modern plantations in the region (coffee *fincas* of around 100 hectares). The coffee bonanza during the 1960s and 1970s, as well as the expansion of state infrastructure benefited the marginal lowlands of Tlapacoyan to a greater extent, compared to other coffee producing regions that had a much older tradition.<sup>71</sup>

### ***The fractioning of Santa Rosa hacienda<sup>72</sup> and the early stages of the local coffee market***

Manuel Zorrilla was a Spaniard who settled in Teziutlán and accumulated vast *latifundia* in the late XIX Century, where he pursued several agribusinesses like cattle grazing, sugar cane, tobacco, vanilla and other crops. Nonetheless, Zorrilla opened up

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<sup>70</sup> Banamex stands for Banco Nacional de México, a private firm founded with French capital in the XIX century.

<sup>71</sup> For example, the highlands of Altotonga or Misantla, despite privileged links and closeness to Xalapa City, entered a long process of marginalization, after the development of direct links between Teziutlán and the coast through Tlapacoyan and Martínez de la Torre.

<sup>72</sup> I use this case to illustrate the process of land fractioning and coffee market formation, because it was a very influential *hacienda* in the region I studied and because the data for Santa Rosa was more readily available to me.



opportunities for other *haciendas* - owned mainly by Spanish residents in Teziutlán - and *ranchos* of more than 100 ha each to undertake extensive livestock raising and plantation cropping, such as sugar cane and tobacco, increasing deforestation of the mountain slopes (Hoffmann and Velázquez 1993:125).

One of Zorrilla's estates was the Hacienda of Santa Rosa, at the mouth of the sierra, where the Almanza village is located today (320 m.o.s.l.). Santa Rosa was a well integrated *hacienda*, with a sugar cane plantation, a sugar mill and alcohol distillery, tobacco cultivation, drying store and bulk packaging facility and cattle grazing. A rural road was opened from Teziutlán up to Santa Rosa. In the surroundings of the estate, Zorrilla allowed small *rancherías* to grow; they were populated by administrators, sharecroppers and wage-workers linked to the *hacienda*.

When the Revolution broke out, peasants had already started to arrive in Santa Rosa, attracted by the expansion of regional businesses and allowances to cultivate land. Under land tenancy contracts, they were permitted usufruct patches of land (usually ½ to 1 hectare of maize, enough for a family to live on), in exchange for clearing the forest and working in the *hacienda* fields. They lived uphill in hamlets (*caseríos*) and travelled to Santa Rosa *hacienda* by a donkey track. Tenants cropped maize, beans and green chillies; a family economy of self-sufficiency with small surpluses. Tenants' surpluses (mainly maize) were marketed only through the *hacienda*. Almanza manor was a booming weekly market during the 1930s (and remained so until the 1960s, before its decline). Tenants went there to sell maize and a bit of coffee, buy sugar cane spirit (*aguardiente*) and *panela* (solid molasses), produced by the *hacienda*, and other manufactured products. Money lending and terms of trade were generally unfavourable until the coffee market developed (not before the 1950s).

Because of the isolation and distance to the main markets, in Teziutlán and Tlapacoyan, there were no big coffee plantations, only farms of 5-6 hectares. Zorrilla's *hacienda* had other main ventures to take care of, like sugar cane and tobacco, best suited to the warm lowlands.

Coffee trade was still small and sporadic, and prices were rather low, but the crop slowly grew, based mainly on increasing numbers of tenanted small plots.<sup>73</sup> Apart from maize and chilli, La Esperanza specialised in producing tobacco and *jonoteras*, used to

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<sup>73</sup> According to Downing (1988: 180), "Prevailing international market prices of coffee and national interest rates have only a remote relationship to the terms of these transactions."

make cordage to tie tobacco leaves and dry them in the sun. Arriza and Pañera were the only merchants who bought *bola* coffee, in exchange for salt, blankets, metal tools, panela and *aguardiente*.

One of the Spanish landowners, Pañeras, took over the coffee trade using money-lending mechanisms and paying for peasants' coffee in kind. In this way, Pañeras could make a three-fold profit: he charged high interest rates on credits; purchased coffee beans at prices below market levels; and overcharged coffee producers for the groceries they took in advance from his stores.

Santa Rosa hacienda resisted the first wave of agrarian movements (from the 1920s to the 1940s) with a heavy-handed response to peasant claimants, dividing up its landholdings and promoting *certificados de inafectabilidad*<sup>74</sup> on agricultural and cattle grazing lands (1940s and 1950s). Nevertheless Zorrilla had sold around 3,000 ha to Channell Niermann, a Russian émigré, and associates. Another portion of the Zorrilla's estate - to the southeast of Almanza - was sold to Ignacio Olmedo, who by the mid-1950s sold again to Agustin Bello.<sup>75</sup>

But social pressure mounted and big estates started to fall under the second wave of agrarian struggles (from the mid-1940s to the 1970s). A commercial association of 72 small investors (Sociedad Agropecuaria Santa Rosa, SA de RL) bought the biggest part of the former hacienda, 1,753 ha. Other fractions went to the Niembro family and to *ejido* grants for two new settlements of landless peasants.

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<sup>74</sup> Since 1940 Presidential decrees were issued to protect cattle raising farms, which in this way were able to own up to 50,000 ha. The decrees were given constitutional status to allow landowners to get protection against land expropriation (fraction XV of Article 27).

<sup>75</sup> In Chapter 5 there is a short life history of this grower-processor and his business strategy. We are using this example, which also highlights the connection of national and local levels of analysis.

Table No. 2

FRACTIONING OF SANTA ROSA HACIENDA, 1961-68			
Buyers	Individual purchases		
	Surface (ha)	Land Register*	Date
Soc. Agropec. Santa Rosa	1,753.00	12	11-I-1961
Micaela Prieto	201.40	405	6-VI-1964
Elena V. de Niembro	207.90	406	6-VI-1964
Ricardo Pérez Ramírez	200.00	586	10-VIII-1964
Fernando González N.	196.00	618	21-VIII-1964
Ma. del Carmen M. de Niembro	194.40	619	21-VIII-1964
Granted Ejidos	Ejido grants		
Cerro de San Francisco	180.00	764	23-X-1967
Peñas de Almanza and Tierra Nueva	679.00	509	3-VII-1968
Total	3,711.70		

Source: La Loma Ejido's archive.

\* Public Property Register (RPP) of Veracruz State.

### *Coffee and systems of production in Atzalan*

Although profitable, coffee was a new and uncertain business, and a very demanding crop. It had to be harvested, pulped, dried and husked, before it could be sold in distant markets (Plan de Arroyos, Tlapacoyan or even Altotonga). If we take into account that newcomer families were small and that they had to manage with poor roadways, crop maize and coffee, as well as a backyard economy (minor livestock and orchards), labour capacity was always under stress. In contrast, maize was well known to all, it could always be marketed locally and was much easier to harvest than in the cold lands, where most of them came from.<sup>76</sup> Rent payments represented an additional burden when weather hazards spoiled harvests.

From the late 1920s to the early 1940s, San Pedro Altepepa's *ejido* archive<sup>77</sup> registered a constant increase in land tenants cropping coffee. In 1923 only a handful among the

<sup>76</sup> According to genealogies of 30 families of San Pedro Altepepan *ejido*, most of the landless peasants who immigrated to this basin came from the highly populated Chiconquiaco and Misantla highlands, from the south and southeast.

<sup>77</sup> San Pedro Altepepan Agrarian Executive Committee. Documents, official mail and register of tenants and rents, 1923-1941.

99 claimants had coffee *fincas*. In 1929 there were 20 coffee producers and by 1930 as many as 86 out of 114 tenants were cropping coffee, but 46 of them had newly established groves, without production yet.<sup>78</sup>

The agrarian movement reached its peak in the early 1930s and saw an avalanche of new-comers taking a double bet, that is, enrolling with an *ejido* claim group and establishing a coffee *finca*. Although 28 families were cropping only maize, most of SPA tenants had already adopted maize and coffee as the main associated cropping pattern.<sup>79</sup>

The 1920 law of *ejidos* in Veracruz regulated land contracts between owners of underused lands and tenants that tilled and made claims on them, providing a framework for fair arrangements while the agrarian procedure was in progress. Once landowners granted permission, tenant families cleared patches of land and started cultivation, free of charge during the first couple of years. As soon as rents came into force, smaller amounts of land were used for maize and coffee crops. Landlords gave access to land under restricted conditions because they were aware of the risks of land claims. The only way out – at least temporarily - was driving away tenants, but that was not a conflict-free expedient.

It is clear that coffee contributed to settling families in the region, because *fincas* increased steadily there. Despite record low prices for coffee during the depression years, they were still advantageous for producers. While maize rents remained stable during the 1930s (at \$1.2/ha), coffee rents were shifting but also much higher:

**Table No. 3**

COFFEE PRODUCTION, VALUE AND LAND RENTS IN SPA *			
Year	Value (\$/Qq**)	Value (\$/ha)	Rent (\$/ha)
1935	55.00	220.00	11.00
1937	13.50	54.00	2.70
1939	35.00	140.00	7.00

\* Estimates based on registered rents and a tariff of 5% out of annual harvests' value and an average yield of 4 Qq/ha. Source: SPA ejido archive.

\*\* Qq = Spanish quintal = 100 lb of green coffee (see Appendix 6)

<sup>78</sup> Although international prices had relative effect in remote communities, the 1929-30 jump in coffee lands rented out in Atzalan might have been linked to the short recovery in the international market, even if merchants in Almanza, Tlapacoyan or Misantla did not transfer price increases to peasants.

<sup>79</sup> The Agrarian Committee of San Pedro Altepepa (then Iquimite) was asking for more than 1,000 ha of land, 5 ha each. Land claimants census counted 195 family heads in 1931 and 211 in 1932. From then on, numbers started to fall as troubles mounted for SPA's Committee and neighbouring organisations were getting land first. The SPA's family heads census went down to 109 persons in 1936 and again recovered to 173 in 1940, right before a favourable Presidential Resolution granted *ejido* lands to San Pedro.

Maize production expanded sharply in the region and yields were very high during the first years after deforestation, based on “slash and burn” methods, while coffee was still attractive to small producers.

During four decades, up to the beginning of the 1970s, except for local elite –leaders and local intermediaries and merchants - most small producers cultivated mainly the Typica variety of coffee, applying traditional technology. The isolation of this region – located between rivers - violence and land distribution played an important part in explaining why this coffee producer region lagged behind in terms of technology and infrastructure, compared to the neighbouring Misantla region, for instance. Violence and the uncertainty generated by the agrarian movements slowed down new investments in coffee plantations. Even after the 1930s and 1940s, when most land distribution took place in the region, market transactions between producers and buyers were eroded by distrust.<sup>80</sup>

As one can see in Table No. 3, in next page, the main differences between the coffee plantations of *hacendados* and *rancheros*, on the one hand, and the *fincas* of peasants, on the other, were land extension, the degree of specialisation, wage-labour applied to weeding and harvesting, and the level of vertical integration. Variations in productivity were due more to patterns of association, natural characteristics of soils (depth and richness), plot orientation, and of course maintenance. The overriding constraints were distance to markets and transport costs. At another level, developing knowledge of the vagaries of local weather and the subtleties of coffee cropping and processing were also important factors for economic success. Despite those differences, the overall cultivation technology was very similar in terms of density, planting patterns, pruning and weeding practices, as well as the coffee varieties used. Peasants were always catching up with *rancheros*’ improvements, while the latter copied *hacendados*’ technology. Under the prevailing conditions in Atzalan, from the turn of the century until the mid-1940s, few changes took place in the way coffee was grown and beans processed.

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<sup>80</sup> I will make the point - in chapter 5 - about why agrarian reform in Mexico prevented trust to spread among producers, merchants, processors and exporters; a crucial factor in the development of the coffee market in Colombia.



**Table No. 4 Coffee systems of production in Atzalan, Veracruz (1900s –1940s)**

	Peasants' coffee plots (Atzalan highlander communities)	Rancheros' coffee fincas (Plan de Arroyos and Almanza)
<i>Typical landholding</i>	Mainly 2-5 ha of rented lands (a few 10 ha ejidatario parcels)	20-30 ha, private property
<i>Typical coffee finca</i>	Most tenants of ½ to ¾ ha (ejidatarios had 1-2 ha fincas)	Most of 4 to 5 ha (few up to 30 ha with pulping centres and drying patios)
<i>Location</i>	Partially cleared forest patches (rented)	Flat lands with access to rural roads
<i>Density and alignment</i>	Irregular pattern of around 600 plants/ha (squared 4.0 x 4.0 m)	Regular patterns of 625 to 833 plants/ha (4.0 x 4.0 m or 4.0 x 3.0 m)
<i>Variety</i>	Arabica Typica ((known as <i>criollo</i> or <i>nacional</i> ) only)	Mainly arabica Typica and some bourbon
<i>Yield</i>	4.0 to 5.0 Qq/ha (around 1 kg/plant)	5.0 to 8.0 Qq/ha (1 to 1½ kg/plant)
<i>Scale of production</i>	From 2 to 4 Qq of coffee, mainly natural husked (bola morteadado)	20-40 Qq of coffee, mainly <i>seco de agua</i> (up to 180 Qq with pulping centres)
<i>Plants management</i>	Selective weeding and pruning of "dried" branches; free growth; no fertilisation at all	Regular weeding; pruning of "dried" branches and shade; semi-free growth; some fertilisation with manure
<i>Canopy</i>	Productive 'indian garden': forest species and some pepper and fruit trees	Unproductive shade (forest species and <i>jiniquil</i> and <i>chalahuite</i> )
<i>Labour</i>	Labour exchange among kin at harvest time ( <i>prestamo de botes</i> )	Use of wage labour for harvest and from tenants off-season
<i>Credit</i>	From local money lenders (cash and kind), forcing purchases in advanced	From processors and big merchants in Tlapacoyan and Teziutlán
<i>Processing of berries</i>	<i>Highlanders</i> : hand pulping and sun-drying in soil patios; some left to dry in the cherry, then husked using wood-mortar (bola morteadada). <i>Lowlanders</i> : sold directly cherry coffee	Rancheros: pulped, soaked and partially dried beans ( <i>seco de agua*</i> ); Hacendados: processed parchment in their own beneficios (wet curing factories)
<i>Market place</i>	For cherry coffee: merchant money-lenders in Almanza or La Noria (lowlands); For husked beans: and Tlapacoyan highland markets: Plan de Arroyos, Las Truchas, Zapotitlán (one-day travel)	For <i>seco de agua</i> : hacendados wet curing factories in Almanza and Plan de Arroyos; For parchment: Plan de Arroyos, Tlapacoyan and Teziutlán processors / exporters
<i>Exchange</i>	Husked beans: Barter for metal tools, sugar, vegetable oil, spirit, paraffin, medicines; Cherry coffee: debt bondage (groceries delivered in the slack season)	Rancheros: Monetary, with advance purchases (credit and inputs in the slack season); Hacendados: Monetary, with advance credit before harvest
<i>Crop patterns</i>	Associated coffee within "indian gardens" and maize, beans, chillies besides	Monocropping: tobacco, maize and coffee (and livestock)
<i>Transport</i>	Mules and human	Mule drove

**Sources:** SPA-CEEA archive, particularly 'Manifestación de productos agrícolas' of the General Treasury of Veracruz State, and interviews with producers, mainly Lauro Hernández, from San Pedro Altepapa, whose family moved in from Barrancones (1931), where there were medium-sized coffee fincas; Porfirio Andrade, from Tierra Nueva, who worked as muleteer for the first coffee fincas in the hacienda of Almanza and La Esperanza ranch (early 1940s); Ernesto Maldonado (JLAL's brother-in-law), whose father owned a 30 ha finca in the highlands and also bought coffee from peasants (1940s).

\* One-day sun dried beans. See Appendix No. 6

*Qq* (Spanish Quintal) = 245 kg cherry or berry coffee, 57.5 kg of parchment or 46 kg of green beans.

In traditional *fincas*, coffee plants were left to grow freely; with heights of 2 to 5 metres, they looked like trees rather than bushes. Typical coffee plants had a productive life of 30 years, or even longer. Common densities were of around 625 trees per hectare (4 x 4 metres, symmetric alignment), sometimes higher. An important feature of traditional coffee cultivation was the survival of primary vegetation, providing shade for coffee. Under such conditions, soils were still rich and well protected from erosion, making fertilisation unnecessary. To the extent that inputs were hardly used, the management of natural processes, that is the biological cycle of coffee plants, was the defining characteristic of available cropping technology. While *ranchero* fincas were fully integrated in regional markets and monetised, peasant coffee was partially exchanged with local money-lenders and merchants.

### ***The first modern coffee business in Atzalan: the Topete's plantation (1950s)***

After the main *haciendas* in Atzalan region had been divided through continuous purchases and to some extent distribution to peasants through agrarian reform, in the mid-1950s the first two large coffee plantations were created in this region, with technical assistance from the National Coffee Council (CNCf by its initials in Spanish), created in 1949 to develop and spread modern cropping technology. One of these plantations was established by the retired Senator Rosendo Topete – a prominent politician in Veracruz -<sup>81</sup> and shortly afterwards, a second was created by Agustín Bello, another member of an affluent family in Tlapacoyan.

Topete first bought 350 ha of private property, free of agrarian claims. He met Justo Fernández in Veracruz, the 'Mexican coffee baron',<sup>82</sup> who suggested that Topete get

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<sup>81</sup> He had a rich political career during the 1950s as he was senator and then federal deputy for Veracruz. Later on he was appointed President's Private Secretary and ran for the Governorship of Veracruz. Interview with Rolando Topete, grandson of Rosendo Topete, and coffee grower and buyer himself. Loma Bonita, 2-2-1996.

<sup>82</sup> An Austrian immigrant in the early XX century who became – after establishing a coffee business in

into the coffee business. Around 500 people were hired to build several roadways to connect Loma Bonita ranch to Tlapacoyan and to establish a 50 ha coffee plantation, using the coffee Typica variety.<sup>83</sup>

Both planters first used the Typica, but very soon introduced Bourbon, and later on Mundo Novo and other improved coffee varieties. At a very slow pace, by trial and error, these wealthy growers spread the new plants, without a major breakthrough in coffee cropping technology. Densities remained almost the same, and new varieties did not overtake Typica yields.

Again, as had been the case with the federal motorway from Teziutlán to Nautla port, and Martínez de la Torre sugar refinery, Senator Topete had the bargaining power to channel public resources for building the vital access roadways up to their new plantations. The old rural road (*rodada*) of Santa Rosa *hacienda*, stretching from today's Almanza to Tlapacoyan, was improved and extended up to Loma Bonita's ranch (Topetes' plantation), close to San Carlos' ranch (Bello's finca).

Once the new plantations started to supply coffee, new communities emerged in the lower slopes and the local coffee market opened up. Topete and especially Bello, who built a small processing plant with sun-drying patios, also traded coffee from highlander *ejidatarios*, leaving debt-bondage arrangements behind and creating market-led institutional alternatives further away (Plan de Arroyos and Misantla).

At the beginning of the 1960s greater state intervention improved conditions for further modernisation of coffee production. Changes during the Echeverría administration (1970-76) and a new emphasis on land reform and peasant agriculture (Grindle 1990, pp. 190-94), expanded coffee modernisation programmes. In order to overcome the tight control of intermediaries over small coffee producers, massive investment was undertaken from the mid-1970s onwards based on local UEPCs.

### ***Market engagement and changes in commodity production***

For the most part, small producers in Atzalan did not engage in coffee cropping on a specialised basis, as compared to Misantla, Huatusco or Coatepec producers. Since the beginning of the XX Century, they combined small plots of coffee with bigger maize

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Las Animas, Veracruz - the main "coffee baron" in Mexico.

<sup>83</sup> *Ibid.*



fields, which was the *leitmotif* of migration flows to the soil-rich sierra. Before most of them engaged in coffee production, small producers relied on marketing maize surpluses. Based on slash and burn of forestlands, peasants had for several years a very good soil for maize cultivation. They usually paid rents with maize and still had surpluses to sell to lowland *ranchos*, already involved with profitable crops, such as sugar cane, tobacco and cattle.

Allocation of land and labour responded to maize cropping needs, while coffee occupied tiny patches. But in two decades (1960s and 1970s) coffee expanded rapidly in peasant regions. What were the incentives for small producers? From the peasant perspective, four advantages of coffee cropping stand out:

1. Manageability and resistance. Coffee is a labor intensive crop that allows flexible management year-round, except for harvest. Coffee is also a resilient perennial, well adapted to mountain slopes, where no other crops easily prosper without major investments.
2. Complementarity within the peasant economy. Coffee's seasonal regime adapts well to maize/beans traditional agriculture, both in terms of the agricultural annual cycle and the timing of harvest and coffee incomes, just before the main *tonamile*<sup>84</sup> maize crop. However, labour, land and to a lesser extent market connections are important constraints.
3. Territoriality. As a perennial crop, coffee bushes were used for strengthening possession rights and boundaries, and eventually a land claim. Coffee producers were first tenants, but on 'empty' spaces, so they could rent as much land as they could afford to cultivate and pay for.
4. Profitability and terms of trade. Coffee cropping expanded within the limits of exchange needs, land and labour availability. During the period of greater state regulation, thousands of producers found a *secure* source of income (despite surplus appropriation and administrative mismanagement, inefficient cost structures, corruption and political corporatism).

Coffee markets were controlled locally by merchants, who practised debt bondage and advance purchases at cheap prices. There were no roads through which coffee loads could be easily mobilised. To overcome this problem, some producers had to process their own coffee *bola morteadado* (dried beans in the cherry and husked). Then they had

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<sup>84</sup> *Tonamile* means in Nahuatl, "sun's maize crop", and is a winter crop.

to undergo 6hr-12 hr journeys, carrying coffee bags on mule backs to the nearest towns where the coffee markets were more developed, and where they could strike a better deal. Nevertheless coffee was sold in exchange for merchandise and cash, most of the time.

As markets developed, bigger producers invested in local facilities and expanded coffee cropping and modernized *beneficios*, which were still small-plots of no more than 5-6 ha at the end of the 1940s.

Land distribution also boosted food staples during the 1930s and 1940s, but production and cultivated land declined from the early 1960s onwards. Coffee production grew slowly, but consistently, based on a continuous increase in the number of growers and surface, right from the late 1920s to the beginning of the 1970s when federal investment multiplied considerably. Traditional export crops entered a decline as land reform advanced. Thus, the vanilla market sunk after the early 1920s; tobacco and to a lesser extent bananas were severely hit by the 1930s depression. Sugarcane saw a huge expansion with the Independencia sugar refinery, from the mid-1940s up to the 1980s (Hoffmann and Velazquez 1993, p. 120).

A complex interaction with labour markets created conditions for upholding coffee associated cropping. The *Independencia* sugar mill and the citrus and fruit exporting agribusiness in Martínez de la Torre provided seasonal employment to small coffee producers in Atzalan sierra, with the advantage of being close to their households and coffee lands.

Almost at the same time, federal infrastructure programmes linked the Tlapacoyan region to the centre of the country (Mexico City) and to Nautla seaport, on the eastern side. The expansion of the Nautla federal motorway allowed export agribusiness to rapidly develop. Citrus and coffee, as well as the sugar industry (parastatal) grew in Tlapacoyan, Martínez de la Torre and Misantla.

In sum, the development of the coffee market in the region was a slow and cumbersome process due to several problems: labour was scarce from a very early stage forcing *hacendados* and *rancheros* to design mechanisms (such as debt bondage and tenancy arrangements) to attract and attach landless peasants; a very fragmented and inefficient network of communication made transportation of goods, labour and investments extremely expensive and difficult; credit emerged very slowly and was very expensive;

and last, property fractioning and demographic growth proved the predominance of micro land holdings which did not allowed economies of scale, the introduction of modern technologies and more efficient forms of cooperation.

### ***2.3. State intervention in the coffee sector***

The small coffee producers' sector was to some extent an outcome of the land reform, particularly in Veracruz, but state policies complemented the project, for they encouraged small producers to enrol in a 'coffee welfare system'. The logic of a regulated international market added to a national strategy of state-promoted rural development, feeding back into one another and allowing diversion of funds and accumulation of inefficiencies, both of which together conspired against the development of a vigorous, well integrated coffee sector. The IMC, in particular, altered in many ways the functioning of the market, the expectations of small producers and the strategies of merchants and processors.

The coffee boom of the 1950s led to price increases and consequently to an expansion of production units, overcapacity and overproduction, ultimately precipitating a fall in coffee prices. The US promoted the first agreements in Latin America to manage supply and demand and maintain prices between 120 and 140 dollars per 100 pounds. Coffee prices, it was believed, would improve economic conditions and would help, thereby, prevent a social revolution like the one Cuba was experiencing.

The efforts to regulate the coffee markets first crystallized in several agreements of regional scope (starting in Latin America), which attempted to control exports and regulate prices. Later on, as a greater number of countries realised the benefits derived from a regulated framework, an International Coffee Agreement (ICA) was reached in 1963. The main arrangement of this agreement was a quota system, which was to be annually revised. However, ICA entailed not only a set of rules, but a local organisation that was to administer the quota assigned to each country. The local counterpart – which in Mexico started as the CNCf - was responsible for financing production according to international prices, retaining and administering surplus production - in excess of the agreed quota- regulating productive capacity to stick to the quota and undertaking research and development, as well as training, in order to diversify production and inhibit growth of productive capacity.

### *A new intermediary, the IMC, and a new bureaucratic elite*

The National Coffee Council (CNCf) was originally founded to profit from the coffee boom of the 1950s, but it easily accommodated later on to the new regulated market, based on an international quota system. Stimulated to get tax revenues from coffee exports in order to finance his ambitious import-substitution industrialisation program, President Alemán created in 1949 the National Commission of Coffee (CNCf) (Downing 1988, p. 181).<sup>85</sup> The CNCf would promote modern coffee production through distribution of new varieties and technical assistance to producers. The USA created strong incentives to increase production after the Korean War. Large planters, processors and exporters directly benefited from CNCf's technical assistance, new varieties and market information. According to government statistics, at the end of WWII total coffee production and average yield had been stationary for almost a decade, at the level of 100 thousand sacks, coffee surface increased only marginally and productivity was declining. With a world deficit of more than two million sacks, coffee prices rose to their pre-depression levels. As new varieties came into production and the coffee frontier expanded, exports more than doubled between 1948 and 1953, from 31,241 to 69,038 tons (*ibid*).

A Colombian specialist<sup>86</sup> trained a group of 20 agronomists in 1949-50. They distributed the first plants to *ejidatario* producers at the beginning of the 1950s. A small office was established in Tlapacoyan, which functioned with a small team of two 'empirical technicians' and an agronomist in charge. The CNCf agronomists learnt the new cropping practices, like seedling production in nurseries, the shaping of plant structure through pruning, drainage and shade control. With very simple tools and a one-to-one approach, the CNCf's technicians spread - at the beginning of the 1950s - the new coffee technology through practical demonstrations.

Since the mid-1950s and throughout the 1960s, incentives like the establishment of nurseries and technical assistance were monopolised by a small elite of leaders and producers, ready to experiment, assimilate modernising ideas and try the new varieties and coffee technologies. CNCf extensionists could mainly reach communities next to existing rural roads. They were commonly attracted with favours (food, tips and even

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<sup>85</sup> Advisors to the government optimistically believed there was potential for trebling production in less than six years. Alemán created several Commissions, including Maize, Coffee and Fruit (interview with Ing. Cecilio Villarreal, pioneering CNCf technician, 20/11/1997).

<sup>86</sup> Hired by Bancomext, Juan Pablo Duque – experienced technician of the FNC - first came to run confiscated German fincas in Soconusco, Chiapas (Interview to Cecilio Villarreal, *ibid.*).

bribery). In SPA no more than a group of about 10 people had constant relationships with CNCf technicians, particularly better off *ejidatarios*, peasant leaders, *rancheros* and the owner of the first beneficio in SPA, which was later bought by a local cooperative. (Interview with SQT 16/3/95 ).

Gradually, some of the practices recommended were adopted and yields improved. Before the CNCf started its programmes, average productivity was about 4-5 Qq/ha. By the end of the 1960s, some *finca* yields increased to 12 Qq/ha. Nevertheless, exports grew modestly and wide modernisation did not develop as planned. The expansion of the coffee market along with land distribution in piedmont lands (1930s and 1940s) incorporated marginal producers. Coffee cropping had already expanded from the highlands down to piedmont slopes, but the creation of *ejidos* furthered this process and shaped the regional coffee market. Peasants adopted coffee since the very beginning as an important petty cash-crop (Downing 1988:179). Therefore, increased production of coffee depended on the extension of surface cropped, as illustrated in next Table.

**Table No. 5**

<b>COFFEE SURFACE IN PRODUCTION, MEXICO. 1930-1960</b>					
	<i>1930 (ha)</i>	<i>% in total</i>	<i>1960 (ha)</i>	<i>% in total</i>	<i>Increase %</i>
Private property	144,000	93.50	269,000	70.60	86.81
Ejido lands	10,000	6.50	112,000	29.40	1,020.00
Total	154,000	100.00	381,000	100.00	147.40

*Source:* Hoffman (1994b, p. 352).

While the coffee frontier in private lands did not even double in three decades, the *ejido* sector expanded geometrically, more than ten times. The key to this phenomenon was state promotion of coffee in the so-called social sector, that is, one decade of intensive agricultural extension and applied research. The CNCf introduced high yield varieties (HYV) in 36,000 hectares (only 12% of the total coffee lands in 1959) and trained 3,000 producers, expanding the coffee frontier 140,000 hectares during the decade 1949-1959 (Beaumont 1985, pp. 162-68). This was a much faster growth of coffee production than in the two previous decades without state involvement.

Good post-war prices and an expanding international coffee market – Africa emerged as an increasingly more important exporter - soon overtook demand. The 1956 crisis facilitated a new cooperative framework, the so-called Mexico Agreement, a first

continental retention scheme that started in 1957. From this mandate a more powerful regulatory scheme emerged, based on national coffee boards. In 1958 the former CNCf was transformed into the Mexican Coffee Institute (IMC, commonly known as Inmecafé, the Spanish acronym) integrating to it a processing plant (confiscated from German businessmen). The new coffee institute started to intervene directly in the market, buying small amounts of coffee, and promoting for the first time technical and organisational conditions for a modern coffee market: experimentation, training and technical assistance to producers.

From the mid-1950s the IMC created experimentation sites, one of them in Ixtacuaco, near Tlapacoyan city, Veracruz, with the purpose of adapting and improving coffee and other crops.<sup>87</sup> The IMC commissioned a research project from social anthropologists to assess its limited price regulatory power in the field. They identified a private network that linked intermediaries to small producers and relied on money-lending and debt-bondage. The consultants recommended strategies similar to those of the intermediaries, particularly regarding collecting sites and forward credit (Downing 1988 and Nolasco 1985).

Peasant mobilisation and unrest in rural areas during the 1960s and early 1970s met with government direct participation in agriculture through parastatals and commodity boards (for instance in coffee, tobacco, sisal and *barbasco*), trust funds, commissions and programmes aimed at regulating relations between TNCs/private industries and producer organisations. From the mid-1960s onwards, the state decided to intervene in key agricultural sectors to regulate and promote their development. Particularly from the early 1970s – during the Echeverría administration - state agencies became deeply involved in the agricultural and semi-industrial stages of many processing chains.<sup>88</sup>

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<sup>87</sup> As part of the new International Coffee Agreement, during the 1960s a share was retained from each coffee sack actually exported in order to finance diversification projects, which in the end benefited big landowners and better off *ejidatarios* in the lowlands, where little coffee was in fact planted (Villaseñor 1987, p. 401, and interviews to Andrés Villaseñor 2/2/98 and a former IMC Delegate in Tlapacoyan 2/7/96).

<sup>88</sup> At the peak of this process, in the early 1980s, the Mexican state had consolidated in two decades at least 20 agribusiness chains (such as sugar cane, cotton, henequen, strawberry, barley, coffee, dairy, tobacco, coconut, barbasco and others) (Díaz P. et al 1985). State agencies acted as business facilitator, market intermediary, regulator and arbitrator of the relationships between producers and TNCs. Especially after the agricultural sector started to decline in the early 1970s, the state deepened its direct intervention through diverse agencies and policies. The government reactivated land reform, promoted *second* and *third* level producer organisations (UEs, ARICs); and tried to soften social conflicts and to assert national sovereignty over primary resources (Labastida 1976).

In the case of coffee, generous budgets were allocated to the IMC during the 1970s and the first half of the 1980s, almost without supervision by a higher authority, although the Ministry of Agricultural and Water Resources (SARH) was charged with overseeing IMC's performance, while the SPP (Planning Ministry) scrutinised its spending practices. IMC infrastructure grew at an impressive pace, with involvement in substantial areas of research, technical assistance and marketing.<sup>89</sup>

High international coffee prices (from 1976 up to the early 1980s) and the following oil bonanza, gave the IMC room for manoeuvre. Resources were channelled into coffee development, on a massive basis, without a clear strategy. Output increased approximately by a million coffee bags per decade, based on a continuous expansion of the coffee frontier. Particularly in the minifundista sector, coffee cropping grew considerably in *marginal* lands,<sup>90</sup> some of them newly distributed through land reform. Entire regions in the Pacific coast were opened to coffee cultivation with IMC technical assistance, funding and purchasing centres.

### ***Impact on merchant and processor strategies***

The CNCf – which was to become the IMC - did not displace former intermediaries and merchants. Buyers and exporters had strong positions in the coffee regions, and went on buying coffee from small producers. Some of them had direct political connections, and secured privileged access to export permits, and even technical assistance and subsidised inputs from the IMC. Many of the biggest plantations were established with IMC support.<sup>91</sup> Very few went on integrating vertically, acquiring modern processing infrastructure and expanding their access to export markets. Instead of competing, improving efficiency and building on the private sector's advantages over the IMC – cash payments to producers, quality controls and brand names - many either opted out or adapted, profiting as much as possible from the regulated sector (export permits,

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<sup>89</sup> By the end of the 1980s, the IMC employed almost 7,000 staff and temporary employees, mostly administrative.

<sup>90</sup> IMC (1991) estimated that 96,634 ha of coffee in Mexico (17.25% of total surface) were inapt, and identified marginal-quality lands according to 3 main criteria: 1) *Temperature*: lands below 600 m.a.s.l., with annual average temperatures of more than 22° C. 2) *Geographic location*: regions with high risks of frost in the Gulf of Mexico slope (Hidalgo, Puebla, San Luis Potosí, Querétaro and north Veracruz). 3) *Rainfall*: regions with long-lasting droughts (3-6 months) in central and north Pacific Ocean slope (Guerrero, Nayarit, Colima and Jalisco).

<sup>91</sup> The cases of the finca 'Las Lagrimas', Rebolledo Clemen's – former solicitor of the coffee baron Justo Fernandez, and first Director of the CNCf - and of Senator Rosendo Topete's Loma Bonita ranch, are but two early cases (1950s). There were perhaps hundreds of other private modern fincas set up with IMC resources (technical assistance, seedlings and equipment). Interviews with ex-IMC staff: Cecilio Villarreal (ibid) and Andrés Villaseñor (ibid), senior agronomists, and Nicolás Hernández, technician (2/7/96).

subsidized inputs and technical assistance). Big processors and exporters made huge margin profits during the IMC-quota system period.<sup>92</sup>

However, the IMC did affect merchants and processors in Tlapacoyan and Plan de Arroyos, as well as intermediaries and money-lenders at the local level, who benefited most from highlander coffee. At first, they were fiercely opposed to the new institution because they thought new varieties were useless, but after a while they proved to yield larger harvests.

From the 1940s and particularly in the early 1950s – thanks to good international prices and abundant credit for coffee - private investors established new wet processing facilities in Atzalan (Almanza and Plan de Arroyos). Copying what moneylenders used to do, private processors started to give peasants credit for consumption goods during the slack season (April and May) in exchange for cherry coffee.

As a result of the new conditions for selling cherry coffee, producers also expanded *fincas*, giving up the labour intensive production of *café bola* (husked pod coffee). Coffee growers in this region started to sell cherry coffee to nearby *beneficios*. Only producers from very remote areas sustained the intensive process (green coffee from naturally dried cherries) because carrying heavy loads on poor roads meant high costs.<sup>93</sup>

By the early 1970s, the IMC added new forms of intervention in the coffee market, hiring and creating new processing facilities in the region (as it did in the rest of Veracruz). The objective was to speed up supply capacity in order to achieve the quarterly export quota assigned to Mexico, and on the other hand, to prevent competition from private or co-operative organisations.

With this over-capacity, the IMC slowed down the formation of a private semi-industrial processing sector, and the integration of producers' co-operatives at the local level. In Tlapacoyan, the IMC operated two big wet and dry processing facilities:

- a. Atzinta in Tlapacoyan, at the very centre of the region, was the main *beneficio* (wet mill) where cherry coffee from the whole region was received, piling up

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<sup>92</sup> Interview with AMSA's General Director, Eduardo Esteve (11-Dec-1997).

<sup>93</sup> The economies of scale pursued by the IMC - when the quota system was still operational - brought about huge administrative costs, losses of different kinds, and a general inefficiency, only sustainable with the great margins of profit the ICA allowed for some years. Before 1989, Veracruz had more than half of the total IMC processing infrastructure nation-wide.



long truck queues outside the Atzinta during the harvest peak (December to February); and

- b. Tepeycan, in Plan de Arroyos, a region known for its high altitude good quality coffee and well 'developed' grower productive culture.

Through these two *beneficios*, the IMC exercised a regulatory function in the region, not always wanted by local elites, nor, in the end, by producers. The PIDER program was one of the federal funds that built up wet-processing facilities and pulping centres (a patio with washing tanks and a simple machinery for pulping cherries) all over Veracruz. Later on, by the early 1980s, the Regional Development Program (well known as the XXVI Budget Branch in the Federal Administration) also funded complementary processing facilities, vehicles and stocking infrastructure. Most of the social sector's processing capacity was formed under PIDER and ROYA programmes. Part of it ended up in the hands of merchants or local bosses, as soon as the IMC withdrew from the coffee fields, and the local coffee organisations (UEPC) almost disappeared once the massive funding from the IMC was cancelled.

### ***Impact on the expectations of small producers***

At first, small producers opposed the new IMC coffee technology, particularly the use of high yield varieties (HYV). Adopting the new technology was a slow process, first started by local elites best suited to allocate land to experimentation with new varieties and input-demanding technology. Contrary to common belief, the IMC never promoted on a massive scale the more intensive technological packages. What became known as the IMC technology was a rather semi-intensive package. In the first period, 1950s and 1960s, the CNCf and first IMC focused on assimilating, adapting and spreading modern *practices*, developed elsewhere (basically in Hawaii, and Colombia). With the exception of local elites and regional enclaves of modern farming (Soconusco, Coatepec, Xicotepec), producers were slowly adopting some of the practices recommended by IMC technicians, like the use of fertilizers, production of seedlings and pruning. Full modernization was never uniformly introduced, nor completely accomplished.

The MECAFE - Spanish acronym for coffee improvement programme - was first developed in El Salvador during the 1970s with USAID funds. It aimed at modernising coffee technology, spreading the use of green revolution type of practices: introduction of HYV seedlings and higher plant density per hectare, intensive use of agrochemicals,

and technical assistance (Rice and Ward 1996). MECAFE was introduced in Mexico at the beginning of the 1980s and focused on plant renovation, variety substitution and coffee technology modernisation (HYVs, higher densities per hectare, suitable shade trees and regular use of fertilisers and pesticides). The ROYA programme focused on preventing the spread of leaf-rust disease (roya), introducing new strains, sound agricultural practices and effective pesticides.<sup>94</sup> Producers pointed out that with MECAFE and ROYA programmes 'everybody was planting the *new* varieties'.<sup>95</sup>

These programmes enjoyed massive federal funds to deliver agrochemicals, coffee seedlings from new varieties, manual and mechanical pulpers, as well as credit in cash to carry out the pertinent jobs. All resources were applied with considerable subsidies, on condition of complying with the technical advice given by IMC technicians to restructure coffee plots. Every year a group of producers was incorporated in a three-year renovation programme. But in 1982 a financial, end-of-*sexenio*, crisis hit the government, and consequently the IMC budget, forcing the agency into a deep restructuration. IMC streamlined departments and staff, cutting down technical assistance. Although rehabilitation and renovation programmes went on, by 1985-86 its decline was well underway.

The IMC created a *strong bond* with small producers and adapted their cyclical strategies to forward credit and input deliveries to such an extent that the IMC withdrawal seriously destabilised the market. In sum, the IMC transformed in different ways the relationship between merchant capital and petty commodity producers, that is, between rich buyer-processors and merchants, on one hand, and peasants, on the other, through diverse mechanisms, some of which are still alive in peasant memories.

### ***Recap and conclusions***

Coffee producers in Atzalan very early on were involved with land markets, even before *ejido* lands were granted. At the beginning of the XX century, a coffee producing zone emerged in the Chiconquiaco and Atzalan mountain slopes. Two decades later, the prospect of land distribution encouraged new land tenancy arrangements, leasing and

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<sup>94</sup>Little was achieved but fortunes were accumulated through corruption. Years after the exaggerated fear of roya (*Hemileia vastatrix*), agricultural practices were proven sufficient to control this fungi: weeding and shade pruning to cut down excess humidity, fertilization and pruning of affected branches, would do a good job.

<sup>95</sup> Meetings with producers in Tlacolulan, El Jardin, Equimite, SPA, and Loma de Las Flores; February and March, 1995.

purchasing private property plots as well as trading with coffee groves. Coffee and land distribution progressed as part of a process of frontier land colonisation. The economic basis for this was the association with maize and coffee, and tenancy contracts between new settlers and private landholders (*hacendados* or *rancheros*).

Once the state developed, communications and agribusiness expanded in the lowlands, during the 1940s and 1950s, and entrepreneurial coffee *fincas* were established for the first time. Peasants learned new techniques and coffee varieties from private growers.

Only with massive state investment in basic research and technical assistance, coffee modernisation took hold on better endowed *ejidos* on a wider scale, and peasant producers introduced, to some extent, a green revolution-type package (pruning, use of inputs and higher densities per unit of land). The combined effect of state support for infrastructure, subsidised inputs and extensionism, as well as good internal prices (during three decades, the 1960s to the 1980s, despite lows and highs) helped to sustain small producers.

Coffee became an important source of income for *ejidatario* producers as available lands for distribution ran out, demographic pressure on grants increased and terms of trade started to be unfavourable for food staples (particularly after the 1970s). An additional factor was the incremental loss of the extraordinary soil fertility in maize fields, although federal investment in coffee became particularly strong from the second half of the 1970s (the oil boom period) to the mid 1980s.

In short, two aspirations drove landless peasants to Atzalan by the thousands during the 1920s and 1930s: access to land and access to a booming market based on maize and coffee. As part of the land distribution procedure, land claimants were supposed to pay rents for the lands they were tilling and intended to get hold of. Agrarian struggles in Atzalan stretched out for almost half a century. During this process peasants were manipulated by state agencies, leaders and corporate organisations – which intermediated land distribution - and even by landlords (eager to capitalise from rent payments and compensation). The so-called radical agrarianism in Veracruz had mixed results. It created a strong social movement, but one that ended up very much dependent on government policies and was unable to lead the land reform process on the ground. It served the interests of better off *ejidatarios* and *rancheros*, and was conducive to dividing entitled *ejidatarios* from landless peasants and *jornaleros* (day workers). The

ability of agrarian organizations to bargain for public resources contributed in the long run to reproducing a thick layer of intermediaries, hampering the functioning of economic organisations, such as the coffee cooperatives.

The *ejido* institutional framework imposed rigidity on *ejido* land markets – though it did not eradicate them altogether - which tightly constrained the ability of peasants to gain access to institutional credit and to mobilise resources. Furthermore, *ejido* institutions had other drawbacks, such as: (1) constraints on local government with restricted powers; imposition of communal duties that became unbearably unfair when inequality stretched the labour capabilities of poor families; and legal dispositions, reinforcing corporatism and clientelism; (2) division of social groups according to ‘sectoral’ functional organisations (peasants’, landowners’, agricultural workers, etc.), which limited the influence of *ejidatarios*, and favoured the emergence of money-lenders and private landowners as likely predominant local groups; and (3) a labour burden in terms of road maintenance unequally distributed between *ejidatarios*, and in comparison with private landowners.

All this notwithstanding, for several reasons the role of the IMC and its ‘coffee social welfare’ were much more complex than just an instrument for rent-seeking. The IMC transformed underdeveloped regional coffee markets, which initially relied on debt bondage (money lending linked to forward sales at low prices) and unequal terms of exchange with peasants. The IMC operational scheme evolved along the lines of merchant practices, opening purchasing centres and advancing credit to small producers. The main principle was to create informal collateral,<sup>96</sup> based on individual productive capacity (calculated at 50% of expected harvest). Credit was given on the basis of collective trust, a sort of “solidaristic” collateral involving an entire local group. In this way credit was distributed in instalments (fertilisers and cash), adapting IMC’s credit scheme to the perceived needs of peasants. To get credit, members of UEPC were required to carry out a set of jobs and technical recommendations to improve productivity. Credit was conditioned to an on-site check by IMC technicians who supervised producer activities. The idea of the IMC was that small coffee production would evolve parallel with modernising ‘the social sector’, improving yields

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<sup>96</sup> Small producers had in general no collateral, due to the small value of their assets, mainly land. In many cases lands belonged to ejidos, and were disqualified from use as collateral by law. The 1992 reform of the 27<sup>th</sup> Constitutional Article, allowed ejidatarios for the first time to alienate their property rights in the market, but constraints remained on selling or investing in the land, as well as on using land as collateral.

continuously through plant renovation, research and development of new varieties. But the IMC scheme failed in several respects, particularly because it did not convey to producers knowledge about the complexities of the international coffee business, regarding in particular price formation, production costs and quality standards. The IMC did not undertake research and adaptation in the region but spread a homogeneous and partial technological package, without looking at the patterns of labour use, crop association and seasonality of agriculture in different regions. In short, the IMC failed to introduce small producers to a *joint venture*, with its risks and gains, investment needs and decision making to face a dynamic market, with changing rules, among others, for the following reasons. First, born under the umbrella of the quota systems in the mid-1950s, the IMC never foresaw market-led reforms. Instead of intensifying production and increasing yields continuously, the IMC expanded the coffee frontier to marginal lands and often adjusted its agenda according to other than economic criteria. Productivity rates increased from 5Qq/ha in 1949, to a national average yield of 12 Qq/ha at the end of the 1960s, basically due to technical assistance and new varieties. But according to the Institute, productivity in small producer *fincas* (less than 20 ha) stagnated during the 1970s and fell to 6-8 Qq/ha in the 1980s (Beaumont 1985, pp. 162-66). And even if these figures seem inaccurate, given the scope of coffee investment during the 1970s and first half of the 1980s, it is widely acknowledged that the IMC did not reach more than half of the total number of producers, and that those who benefited the most from the full application of IMC's technological package were medium and big growers.<sup>97</sup>

Second, the IMC created, during the 1970s, a high capacity for primary processing to meet quarterly exports – under the quota system - overlooking the processing capacity of the private sector. With excess capacity, compared to Mexico's export quota, and based on an undersized domestic consumption market, the IMC could not undertake modernisation any further.<sup>98</sup>

Third, capture of peasants as well as welfare transfers happened in Mexico. High production costs, especially inputs and transport, administrative and supervision costs

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<sup>97</sup> See: Hoffmann (1982), Beaumont (1985), Diaz (1994) and Interview with Ing. Núñez, ex-IMC Delegate in Tlapacoyan (2-Jan-1995).

<sup>98</sup> In Brazil, Colombia and Costa Rica there is a strong consumption market that influences the perception of quality and the priority of the sector in terms of public spending. A domestic market also offers a cushion during crisis. Apart from promoting cropping technology, in these countries merchants and producer organisations, along with governments, have developed different coffee institutions (from standards of labour and regulations on suitable lands for coffee, to roast and ground coffee marketing and quality labelling). See chapter 6 for country comparative perspectives.

were indirectly subsidised through cheap credit. The IMC functioned as a patron to small producers, but also as an umbrella to unions and co-operatives, which could not exercise influence on the coffee sector's strategy, let alone on macroeconomic policies, such as exchange rate and fiscal policies.

Fourth, social and geographical distance required intermediaries and marketing networks. Unless some forms of centralisation arrived on the scene (co-operatives or other organisations), peasants and small producers were not able to engage directly with buyers. Several factors played against primary producers: deterioration of coffee cherries after 24-36 hours of picking; high transport costs from communities to selling points (usually 3-5 hours distance on shattered roads); knowledge and negotiating skills for marketing parchment coffee; and an urge for cash because of debts previously contracted or just "postponed consumption," and the expectations of materialising coffee incomes.

Contrary to the ideology of independence, which coffee family farms developed in Costa Rica or Colombia, in Mexico the agrarian movement - with a socialist orientation in Veracruz - structured an ideology of dependence on state intervention and protection. Coffee producers were not exposed to market bargaining from the very beginning (1900-1950). The structure of incentives operating during 1949-1973, benefited mainly producers close to the IMC bureaucracy, those with more land and resources, or just power, but ready to bet and invest in the new coffee package. When small producers were ready to learn and apply the new technologies, opportunities and information were missing. During three decades, the IMC played all the roles - intermediary, buyer, processor, research, development and technical assistance agency, and development bank - preventing market mechanisms from enhancing productivity and quality. At the same time, homogenous price structures, irrespective of costs and quality, input subsidies and bulk selling, represented negative incentives to producers. Strong distortions in the structure of prices no doubt affected the competitiveness of plantations. Manipulation of exchange rates, wage levels, subsidies on inputs, technical assistance and credit were crucial to achieving profitability and competitiveness.

However, the shortcomings and failures of the IMC cannot be explained only in terms of capture, due to the presence of peasant movements – agrarian and price bargaining struggles - and social alliances among producers, technicians, leaders and bureaucrats, defending different development projects for the coffee sector. Social legitimacy of

property is crucial for the formation of a competitive sector, at least in three respects: a) it creates conditions for the development of efficient property rights institutions; b) it facilitates social interaction, cooperation, business making and complex social interaction within organizations, institutions and business enterprises of rural groups; and c) it allows sustainable formalisation of property rights, freedom and flexibility of use. Land reform in Veracruz was one of the most radical experiences in Mexico, but it also entailed a disruption of the social tissue of *ranchero* regions, as I have shown using the coffee sector as a case in point.

## CHAPTER 3

### PEASANT ORGANISATION AND COFFEE INSTITUTIONS

#### 3.1. Introduction

Structural adjustments started in Mexico since 1986, but it took the controversial 1988 electoral campaign to reach coffee sector out. In 1989 the triple crisis of coffee exploded in Mexico which set liberalization in motion: a severe frost in the Gulf basin, the international price drop and the closing down of IMC. By 1993 IMC's operations had completely finished. In its place, from 1990 to 1994 Solidarity programs tried to compensate the spaces left by the IMC (income support, infrastructure upgrading and marketing).

Despite liberalisation of the coffee market and its political-institutional framework, state agencies remained the main actor in the sector.<sup>99</sup> While the macro strategy of the ruling group made these changes irreversible, coffee sector restructuring was the battlefield of regional interests, as well as the site of clashes between several agencies.<sup>100</sup> The centralised nature of the restructuring process, its narrow and short-term economic basis, along with its large budget and organisational looseness, became the setting for an intense game of accommodation among federal and state bureaucracies, as well as regional and local elites.

Furthermore, the independent coffee organisations could only marginally influence the process of infrastructure privatisation (or devolution) and, in most regions, failed to take root and occupy the spaces left by Inmecafé (IMC) and the weakened coffee branch of the PRI's peasant organisational structure (the CNC's Coffee Producers National Union, UNPC). Very frequently independent producers' organisations ended up entangled with the political agendas of leftist leaders and their limited local grass-roots support, as well as with the demands of the coffee market. These demands included financial discipline, competition among producers, bargaining with powerful buyers and self-management of wet processing facilities (called *beneficios*) without suitable technical skills and

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<sup>99</sup> According to Snyder (1997), the Mexican coffee sector underwent a process of *re-regulation* under neoliberal restructuring. New reforms failed to promote producer participation and market efficiency, but regional organisations proved better suited to the task.

<sup>100</sup> Basically, the Ministry of Agriculture (SARH) and the National Program of Solidarity (PNS).



financial back up. Interestingly enough, the first 'independent' movements against the IMC during the mid-1980s focused attention on increasing the domestic price for coffee, rather than opposing the inefficiency and lack of accountability of IMC policy on coffee price formation.

But, why do peasants prefer to act locally, often rejecting vertical integration and marketing organisations, and even avoiding stronger bargaining positions, like participating in co-operatives for processing berries or deepening market integration? Evidence as to why small coffee producers never pursued full-scale modernisation under the IMC technological packages has already been examined. Drawing on my fieldwork in Atzalan, in this chapter I describe how the old practices pursued by Inmecafé, in terms of distorting the formation of prices and lacking a sound structure of market incentives, were persistently reproduced. The disappearance of IMC was not immediately superseded, and was also followed by other forms of indirect regulation, equally disruptive. Producers' organisations becoming the counter-parts to this process – sponsored by the state - played the role formerly taken by the IMC, profiting from privatisation and selling off processing infrastructure, which did not necessarily improve the position of small producers in the market.

### ***3.2 Coffee surplus, price formation and peasant movements***

A key problem in understanding peasant responses and strategies is to find out how surplus is created, used and distributed by all the agents involved in the process, either through markets or non-economic means (coercive instruments or institutional claims). Until the 1950s producers were hardly exposed to price incentives. In the case of Atzalan, the coffee market functioned in isolated mountainous areas on the basis of 'customary prices', actually defined by money-lenders and merchants in non-competitive markets.

When the coffee board was created to stabilise internal prices, establishing purchasing centres and delivering credit, it faced a strategic problem in sustaining its regulatory functions. The board had to fix an internal price in advance, without knowing what the actual international price would be at the end of the cycle. When the ICA's economic clauses operated in 1982-1989, a price band (120 dollars per 100 pounds minimum; 140 maximum) made it possible to anticipate future price movements under manageable margins. But for some years the ICA was not operational, and prices were fixed basically by supply and demand. The main challenge was to set internal prices at a level

that would enable the IMC to solve three sets of problems. The first set was how to establish remunerative return to producers - that is, a price - to compensate for actual costs of production, allowing reasonable benefits according to producers' average yield. This was complicated. Which costs of production were applicable? The IMC defined theoretical cost concepts, given a semi-intensive model *finca* - usually of 1,600 coffee plants/ha with specialised shade (IMC, 1989b) - the type the IMC had promoted. Only in those regions with good communications and regular technical assistance from the IMC did such costs apply.<sup>101</sup>

The IMC defined its price structure based on regional operational costs, including cultivation costs, but never gave public access to this information in an accountable way, nor discussed with any producers' representation how operating costs were calculated. On the contrary, officials managed price formation as a discretionary power tool. Regional costs of production data were important as a reference to the social pressures coming from the specialised coffee producers, those from the central region of Veracruz or Chiapas, with the highest average yield, more politicised and dependant on credit and the services the IMC provided.

Supposedly the IMC had purchasing standards, but the room for discretion was very wide, and there were not incentives for quality.<sup>102</sup> Quarterly deliveries under the quota system encouraged the pursuit of economies of scale, rather than quality-oriented mechanisms. Consequently, producers of good quality coffee made considerable transfers to the inefficient ones, especially to the most productive growers (with modern technology).

The IMC had to absorb operational losses and discounts over quality were passed on to *all* producers. Not only in Mexico, but in other countries where producers had no first-hand information, technical skills and lobbying capacity, coffee boards managed this price pressure *towards* a bottom line, defined by minimum wages or customary prices. Above all, peasants found marginal returns acceptable due to the absence of alternative commercial crops in the steep mountain slopes and to the coffee welfare system.

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<sup>101</sup> Most small producers did not reach that technological stage (as demonstrated in Chapters 2 and 4). See also Díaz P. (1992), Nolasco (1986) and Díaz C. (1991).

<sup>102</sup> This was a major obstacle for the development of the Mexican coffee sector. In an interview (6-Nov-1997) with a former IMC expert, Andres Villaseñor, he recognised that the IMC did not correct the problem of quality. Having parchment standards at national level the IMC failed to enforce them properly, and to develop regional ones at all stages of the coffee chain.

The second problem was the need to set a price that would meet IMC's operational costs and working capital needs. Although the IMC received a federal budget, theoretically high enough to meet its financial needs, reality was different. Federal fiscal cycles meant the IMC never had cash in time for starting harvest purchases, a crucial factor for regulating prices in the field, and had to borrow from SOMEX (a development bank specialised in infrastructure), or commercial banks at higher interest rates. Forward credits were about 50% of the total value of production, implying the need for large amounts of cash at one time. Inflation, budget cuts and losses generated chronic indebtedness, despite the fact that the federal government wrote off year to year deficits. By 1989 the IMC's accumulated debts rose to more than two times its annual budget (IMC 1989).

The IMC transferred some of its operational costs into the coffee price, inflating in this way actual transformation costs. This practice was somehow hidden, as the legal status of parastatals clearly prevented them from generating their own income sources.<sup>103</sup> As soon as this information reached producers, their leaders and advisors, they understood part of the manipulation process of internal price formation, which sparked social movements in most of the cases.<sup>104</sup>

The third set of problems triggered by IMC price policy, relate to trade and the structure of incentives. A high price for coffee affected industries and consumers. Too high a price for coffee would increase pressures for imports, as happened in 1990-1992 when roasters and manufacturers claimed there was not enough domestic supply, but this was usually an excuse to put pressure on the coffee board and undermine demands from organisations. At the same time, maladjustments between forward credit, real cost of money and real prices led IMC to huge losses.

During the years of economic restructuring, from 1982 on, there were price controls on basic food staples, coffee among them, so there was no room for accommodation

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<sup>103</sup> IMC (coffee), Tabamex (tobacco), Proquivemex (barbasco), etc., were all decentralised public enterprises, regulated by an inefficient federal fiscal regime and sectoral policies. Parastatals had no financial autonomy, i.e. they were not allowed to retain their own incomes. Instead they had to transfer all surplus earnings to the Federal Treasury, which in turn allocated their respective budgets each fiscal year. The Ministry of Agriculture (SARH), formally scrutinised IMC budgets and income policies, but there was no real monitoring and evaluation of results. Parastatal managers were never held accountable, except to the President, who in turn, appointed most of them. Deviations were negotiated politically and deficits absorbed by the Treasury on a regular basis.

<sup>104</sup> S. Quiroz (SPA, 29-Jan-1996) and I. Rodriguez (La Palma, 1<sup>st</sup> -Feb-1996) – Atzalan local leaders - participated in the 1982 movements against the IMC, and they remember how the IMC tried to argue against any price increase, making evident unjustified entries and overpriced cost concepts.

through price rises. Additionally, exchange rate regulations encouraged an overvalued peso in order to secure cheap grain imports and, from 1989 on, to facilitate all kinds of imports, as an anchor against inflation. Apart from the price fall, from 1.2-1.4 dollars per pound to only 50 to 90 cents (during the crisis 1989-1993), coffee producers' returns diminished by 40% due to overvaluation of the Mexican peso. The IMC was carrying a burden of debts, partly due to its inefficiency and illegal politically-led spending, and partly due to its inability to react flexibly to the international market.

In sum, the IMC manipulated price structures to cover up multiple and variegated inefficiencies, the capture of bureaucracies at federal and regional level, and the exhaustion of a wasteful economic strategy dependent on international quotas and high prices. Instead of a terse transition to a more efficient market-led institutional framework, the restructuring of the coffee sector in Mexico was a political operation in which 'politicians' ruled instead of 'technicians'.<sup>105</sup> The main objective was to eliminate the IMC, privatising its infrastructure while controlling the discontent of producer organisations hit by a severe crisis.

Price formation synthesised social pressures from all agents for increasing their respective surplus share and challenging that of others, the kind of nuances that escape the orthodox Marxist approaches discussed in Chapter 1. While *ejidatario* peasants in Atzalan recognised coffee market actors and the way they acted, it was very difficult for them to figure out how to influence market prices. Other agents were in a different position, since their claims were better defended and even legitimised by market norms. Two examples illustrate the problem:

a) The price for cherry coffee *tends* to be defined by the international quotation of Mexican *prima lavado* in the New York Stock Exchange.<sup>106</sup> Theoretically, the price for coffee beans should be deducted from a downward cost structure, each agent covering production costs and a reasonable return. In practice, price integration was manipulated by brokers and buyer-processors, separate from local intermediaries.<sup>107</sup> Brokers make

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<sup>105</sup> In 39 years there had been seven managers in the coffee board, most of them "technicians" and only a few *licenciados* with administrative experience. During the IMC restructuring (1989-93) there were five politicians as managers.

<sup>106</sup> According to a study prepared by Andres Villaseñor in 1992, producers were paid around half the quotation price for the Mexican *prima lavado* (US\$45/100 Lb) and only 2% of the value of 100 Lb of final products. Personal communication (6-Nov-1997).

<sup>107</sup> In Tlapacoyan buyers were fixing low price levels, taking turns in offering the best price to producers (A. Celis, Manager of TIASA/Atzinta, 23-Jan-1996). To avoid competition, in some isolated communities intermediaries agreed on a price band. That was the case in the lowland communities of El Zapote, Belisario

discounts on a systematic basis (8, 10 or even more points from current price), taking advantage of their control over tasters and deliveries in transit (particularly in Nuevo Laredo Mexico-USA border). Buyer-processors and industrialists profit from net yield gains and the quality value of coffee (not paid to cherry producers). Quality classification, assessment of defects and net weight also allow surplus appropriation, legitimised by marketing norms,<sup>108</sup> difficult to challenge other than by bargaining power and, to a lesser extent, on technical grounds.

b) Processing sub-contracts (*maquilas*) have to reflect a mean cost of processing plus an average margin of profit, that is an average 'market price' in a specific region, but in rural areas such charges frequently present themselves as cartel arrangements among buyer-processors.<sup>109</sup>

Without the information, expertise and guidance from able elites, peasants often followed dysfunctional strategies of social mobilisation led by agrarian organisations, especially the *Confederación Nacional Campesina* (Peasants' National Confederation, CNC) – part of the corporatist structure of the Partido Revolucionario Institucional (PRI) and the so-called independent movement.<sup>110</sup> Despite ideological and organisational differences, both based their political identity on a *peasant* programme, which included claims, and socio-economic and political demands.

### *The IMC and the ARICs*

The Mexican Government tried to reactivate agribusiness and investment in agriculture with the *Ley de Fomento Agropecuario* (1981). One of the changes this law introduced was the prospect of association between landowners, or - in general - private investors,

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Dominguez, La Palma and Norberto Aguirre, at the peak of the harvest 1995-96 (December-January), when a Topete intermediary, having a margin for a higher purchasing price, managed to increase his 'commission' by lowering the producer price for berry coffee (La Palma producers, 11-Dec-1994 and Rolando Topete, 2-Feb-1996).

<sup>108</sup> American and European coffee quality classification standards contain a wide array of defects, sometimes outdated nuances, which are the object of subjective interpretation and serve brokers and industrialists' stronger bargaining power. Stereotypes about a country's coffee quality can be influenced only with a good deal of lobbying, PR efforts and a well designed marketing strategy (Geer 1976, Richards 1980, and Renard 1990). Among big brokers and TNCs relations of trust supplant those technical barriers (Marshall 1988).

<sup>109</sup> At the beginning of the 1990s producer leaders denounced processors in central Veracruz for lowering their processing fees arguing this was a dumping practice employed against organisations recently integrated in the business. (Díaz P., 1992).

<sup>110</sup> In Mexico, the self-styled independent organisations defined their autonomy by opposition to PRI. In the region I studied there were two variants: the Independent Peasants' Union (UCI), a radical leftist agrarian group which emerged in the early 1980s (see Chapter 2), and one of UCI's branches, the Quicempacayotl co-operative, active since the late 1980s and closely linked to the *Coordinadora Nacional de Organizaciones Cafetaleras* (CNOC), a network of regional and local coffee producing organisations.

and ejidatarios, regardless of land tenancy. The so-called Rural Associations of Collective Interest (ARICs, by its Spanish initials) had this purpose. A few years after the law was passed, several of these associations appeared in the region around coffee marketing: ARIC Misantla in 1981, and a couple of years later, after its early success, ARIC Tlapacoyan and ARIC Plan de Arroyos. In 1982, sixteen regional organisations from Oaxaca, Veracruz, Chiapas and Puebla created ARIC National, whose experience influenced the most important independent organisations in the coffee sector. These associations, which by and large represented elite interests, were created to confront and limit the power of the state monopoly and also to make more transparent the process of price formation, as well as to check discretionary practices and inefficiencies in the use of coffee surpluses.

By that time it was clear that the IMC was managing the sector with inefficiency, corruption and preferences to some private processor-exporters. The IMC was responsible for allocating Mexico's export quota through quarterly permits, but these were sold in the black market. Furthermore, producers started to perceive that domestic prices were not fair, and that the *alcances* – remnants between the reference price paid during the harvest and the actual price achieved in selling transactions - they were used to were missing.

The emergence of co-operatives and different sorts of organisations followed a pattern of state-led initiatives, elite seizure of the spaces created, fast growth, momentum and decline. Some coffee merchants and processors in Misantla, Plan de Arroyos and Tlapacoyan actually took the initiative of organising the aforementioned ARICs (Hoffman 1982). They knew best about the IMC profit margins, so they took advantage of widespread discontent launching the new organisations. Good prices in the international market entailed high earnings from the very first exporting deals, following a quick support from producers and different agrarian offices, anxious to get hold of this successful and politically promising avenue of organisation.<sup>111</sup>

Awareness of unfavourable terms of trade in the coffee sector emerged at the end of the 1970s, paradoxically during the coffee boom and Mexican oil bonanza, but mainly in

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<sup>111</sup> The Mexican government tried to face the long-standing crisis of agriculture inducing a transition of agrarian organisations to become economically viable. The 'second level' organisations - Ejido Unions - had not performed as expected (due to clientelism, corruption and lack of access to capital). Along with Credit Unions, Marketing Co-operatives and other 'polycentric peasant instruments of power' (Gordillo 1988b), ARICs were seen as an alternative (Díaz P. 1986). ARICs were soon integrated in the CNC's corporate apparatus (see Chapter 5).

*isolated* areas where transport costs were higher and supervision of IMC staff very relaxed. Indigenous peoples in Chiapas realised their unfair treatment from IMC staff, i.e., heavy transport charges over coffee price and irregularities in operating credit and purchasing centres.<sup>112</sup> Of a more limited scope - but originating in the same problems - was the initiative of San Pedro Altepépan's ejidatarios to purchase in 1978 the first privately owned beneficio. Important at that point was the way in which the IMC scheme was called into question for the first time, losing legitimacy and discretionary powers. It was forced to absorb increasing costs despite diminishing returns. In addition, organisations were getting confident in taking control of purchasing centres, storage and primary processing; they even attempted to take over IMC's financing functions. In the early 1980s ARICs could gain access to export markets and discovered wide margins and producers' potential to manage the whole coffee chain up to intermediate and final consumers.<sup>113</sup>

Under mounting financial pressures and economic instability, at the end of the harvest of 1981-82, the IMC was running into trouble for paying producers what is known as *alcances*. In May of 1982 a wide movement broke out in central Veracruz demanding from the IMC a price increase (ultimately granted at 5.8%). Producers distanced themselves from the PRI's CNC and established a new organisation, the Coffee Producers Union of Veracruz (UPCV). In 1983 organisations of the northern sierra of Puebla and Chiapas joined together, and others followed later on, bringing together official and independent coffee organisations. This wider movement put new demands on the IMC such as: an increase of berry coffee price by 66%; elimination of IMC administrative expenses; exemption of producers from contributing to the FREC (a coffee fund financed by an export tax); a stop to illicit purchases of early and late harvests of big producers by corrupted IMC staff, who bought low quality coffee that diminished the overall merit of small producers; an increase of IMC volume purchased up to 60% or more of the national production; opening the IMC Administration Council

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<sup>112</sup> Irregular operation of purchasing centres, lack of funds to pay in cash and insufficient storing capacity, fraudulent weighting and unfair quality discounts and stealing of liquidation price remnants (staff retained cashable receipts presenting excuses to affected producers arguing that their receipts were not issued; and the former usually did not insist, nor complain). Flores et al 1988:151. Interview with Luis Guzman, former purchasing centre receptionist in Veracruz and Chiapas, April 17, 1992.

<sup>113</sup> There was a similar phenomena when tobacco producers discovered Tabamex's export margins in the early 1970s in Nayarit, Mexico (Díaz et al. 1986). Olson (1971) and Bates (1981) explain this phenomenon in other countries.

to producer representatives and, last, the nationalisation of the coffee industry to make it depend on the IMC.<sup>114</sup>

There was a visible increase in the political initiative of these new independent groups, compared to the inability of the CNC's quiescent organisations. Radical left-wing activists and advisors, prescribing an "autonomous shift", synthesised producers' claims from the late 1970s and combined elements of a contradictory nature.

With the evidence of a study of international market prices, leaders from Veracruz, Oaxaca, Guerrero and Chiapas launched a clear challenge to the way IMC had allocated coffee income through price formation.<sup>115</sup> Accusations about corrupt deals with big producers added an important charge against the IMC management. Although leaders mentioned the quality factor, they did not build on this, nor did they make a connection with specific forms of producers' participation in the IMC Administrative Council.<sup>116</sup> Even though they had pointed out problems of corruption and inefficiency, paradoxically they not only asked the IMC to increase its coffee purchases up to 60%, but even proposed that a nationalised coffee industry should come under IMC control.

Given the poor results in terms of price increase, leaders started to talk about a *battlefield shift* towards an 'appropriation of the production process', meaning by this an access to processing infrastructure and export markets (i.e. vertical integration). These new organisations expanded in several coffee regions, although in Veracruz the official UPKV (Union de Productores de Café de Veracruz) could not take hold among small producers. Several factors might explain what happened, but one is paramount. In Veracruz, the 'pro-agrarian political culture' - the constitutional agenda of land distribution and peasant freedom - is deeply rooted, and so are CNC's ejido unions, leagues and committees, which give corporate form to those claims. Though weakened, the CNC structure was far from dead, and the same could be said from the political elite that supported it for decades through a myriad of channels.

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<sup>114</sup> *Excelsior*, June 28, 1983, cit. in Flores et al. (1988, pp. 155-156).

<sup>115</sup> Other movements had become similarly aware of income structures in commodity chains. In the mid-1970s, students in Chiapas helped barbasco producers challenge the monopoly profits of multinationals, prompting the government to intervene through a board. In the early 1980s an interesting alliance between Tabamex's technical staff and tobacco producers in Nayarit took place against the tobacco parastatal and multinationals (Díaz P. 1986, 1988).

<sup>116</sup> Several leftist political parties and organisations – the Partido Socialista de los Trabajadores (PST) and UCI (see Chapter 2) - were very active among coffee producers in the 1980s, but none of them developed a more sophisticated framework to challenge official policies.



United in 1989 as an umbrella network, *Coordinadora Nacional de Organizaciones Cafetaleras* (CNOOC), coffee organisations acquired for the first time national influence. From then on, the demands of independent organisations to participate in the IMC restructuring process played a central role in the future of the coffee sector.

### ***3.3 The coffee sector restructuring and the government's room for manoeuvre***

Producer responses to the coffee *structural* crisis started when the IMC's regulatory system began to erode in the early 1980s. In eastern Mexico, coffee producers' discontent was channelled by new independent organisations, Veracruz ARIC among others (Celis et al. 1991), because the CNC's traditional National Union of Coffee Producers showed itself incapable of challenging the institutional framework (the IMC) they had always benefited from.

Small producers were already adapting to the less favourable prospects they perceived, given the clear signs of financial and marketing troubles of the IMC. At first, they kept an eye on new developments with demonstrations and formal complaints (fair payment of *alcances* and price increases), hoping the IMC would get things right.

The 1988 Presidential Election campaign made the complaints against the coffee parastatal sound stronger, and added the CNC's affiliates own demands. From the PRI's Coffee Sector Consultation Forum (mid-1988) onwards, the new governing elite took the initiative away from the independent coffee organisations. Parallel to public discourses, the newly elected President – Carlos Salinas - and his cabinet were taking decisions about radical changes in the agricultural sector.<sup>117</sup>

A new organisational trend emerged within the corporatist structure during this period, adopting some of the independent movement's experiences in integrating peasant economic instruments (enterprises), particularly around Credit Unions. The Salinas group created alliances with the north-western producers' organisations (UNORCA), which had distanced themselves from both the corporatist CNC-PRI structure and traditional leftist parties. UNORCA developed a framework for integrating an autonomous peasant movement, able to negotiate with the state and to integrate the so-

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<sup>117</sup> Elimination of subsidies and parastatals, the ejido reform, trade liberalisation and the creation of income support Solidarity programmes (Cornelius and Myhre 1998).

called “economic instruments of power”, that is, marketing and financial services vertically integrated with producers.<sup>118</sup>

Once in office, President Salinas’ team had unambiguous ideas about what to do with the IMC, despite the rhetoric about IMC *restructuring*. Through the Solidarity National Program (PNS) the government channelled resources directly to communities, displacing traditional intermediary organisations within the corporate structure, and created a new umbrella for controlling independent organisations (the *Congreso Agrario Permanente*, CAP). In this context, the future of regional leaders and their projects to reshape the IMC, along with the CNC-UNPC, emerged at the wrong moment (see Chapters 5 and 6 on coffee elites).

The government had to respond to a complex set of issues dominating the political agenda of the coffee sector. First, given the wholesale trade liberalisation strategy, the CNOC’s position favouring the renewal of the International Coffee Agreement (ICA) - due to finish in September 1989 - was out of the question. The government thought opening up the international coffee market was unavoidable for many reasons, namely USA pressure on this issue, macroeconomic coherence and unsustainable IMC’s indebtedness. Opening the coffee market was an advantageous move for Mexico and other MILS’ members, for their exports and revenue could immediately increase.

Second, the ‘Presidential campaign commitments’ generated political pressures of all kinds - within the corporatist structure and other coffee organisations - to make use of a coffee fund (FREC) made out of a tax on exports, and to reform the IMC to improve producers’ conditions. Salinas’ staff had their own interpretation of this agenda, subordinating the ‘IMC restructuring process’ to the priorities of liberalisation.

Third, there was a realignment of all major organisations – of producers as well as of entrepreneurs - involved in the coffee sector, that lobbied for the IMC infrastructure privatisation. The ruling group devised a double strategy, aimed at improving profitability in the ‘efficient’ producer sector, and at the same time, at subsidising

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<sup>118</sup> UNORCA’s *autonomous* strategy for peasant organisation was influenced by leftist advisors (*Linea de Masas*, of Maoist inspiration). A key figure among them was Gustavo Gordillo, who made a theoretical synthesis of that experience, adding insights from new institutionalism and elaborating on the constraining role of state agencies and the need for vertical and horizontal integration to markets, mainly through financial services, processing and marketing infrastructure. With personal links to President Salinas, Gordillo became Under-Secretary for Agricultural Policy and Producers Organisation, while the autonomous movement was the implicit new paradigm to reorganise the corporate structure and modernise agriculture. His group was very influential in orienting the IMC restructuring process, mainly the so-called *Transferencia* programme (devolution of *beneficios* to producers’ organisations).

‘inefficient’ peasants through income support programmes. All state organisations realigned around this strategy. The rural development bank (Banrural) eliminated the so-called *marginal* producers (i.e. peasants) from its clientele, and focused its financial services on ‘profitable’ producers, raising credit quotas according to actual costs of production.

The Ministry of Agriculture (SARH) appointed a commission for dismantling IMC infrastructure and dividing it into smaller units and selling them off to suitable organisations. IMC officials had nevertheless an important voice in bargaining over which organisations could take part in the allocation process and what type and size of units would suit them.

Apart from disposing of processing facilities, the Agriculture Ministry (which headed IMC operations) was actually excluded from any substantial decision-making on national coffee policies. The leading voice was that of the Inter-ministry Spending-Financing Commission, formed under Treasury Ministry guidelines. During the three-year transition process (1990-92), the IMC restructuring and final liquidation was supervised by the Commerce Ministry, responsible for formulating an important part of the liberalisation policies.

Salinas’ government first launched a package of measures around the *Programa de Transferencia*, which sold the former IMC processing infrastructure to the private and social sectors<sup>119</sup> dismantled the coffee board and eliminated any direct participation of the state in the coffee market, bringing four decades of state regulatory intervention to an end. Part of this package was a programme for transforming the former local Producing and Marketing Unions (UEPC) into legally recognised organisations: *Sociedades de Solidaridad Social* (SSS, Social Solidarian Societies), *Sociedades de Producción Rural* (SPR, Rural Production Societies) and other associative figures formally able to absorb assets and get credit. This programme was managed by the Agrarian Reform Ministry, jointly with the IMC. A decentralised agency of the Agriculture Ministry, INCA-Rural provided technical assistance to producers.

At the same time, Salinas’ administration set up the famous Solidarity programme under the umbrella of the Budget and Planning Ministry (SPP). In mid-1989, an ad-hoc inter-Ministerial commission deliberated on how to implement IMC restructuring, and the

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<sup>119</sup> It considered three types: a) letting contracts open to purchase of 16 wet *beneficios*; b) associative processing subcontracts in 3 dry *beneficios*; and, c) constitution of small pulping units (Díaz P. 1992).

SPP devised a Solidarity cushion programme for small coffee producers. The unexpected severity of the coffee price drop in the international market from July 1989 and the frost the following December, accelerated the implementation of official plans. Along with contingency measures (food supply and interest-free marketing credits to organisations), the restructuring process in fact started to take place.

While Solidarity lured regional coffee organisations into bargaining for free-interest marketing credits, at the local level this programme induced beneficiaries to constitute Local Committees, as a condition for distributing income support on an individual basis. In this way the government succeeded in widening the gap between regional co-operatives and community-based organisations. As the leaders of the Congreso Agrario Permanente (CAP) and CNOC organisations acknowledged, Solidarity avoided the ‘natural’ integration of the former UEPC into the already organised coffee associations.<sup>120</sup>

### ***3.4 Strategic scope of responses to the coffee crisis***

Why did the traditionally politicised coffee sector not resist the wholesale dismantling of the IMC and coffee sector policies? Besides public demands for compensatory measures, they could not reverse the direction of new coffee policies, nor focus grass-roots discontent. Several reasons explain why coffee producer organisations were not successful in managing the crisis and challenging the official coffee restructuring project: (1) the divisions among national umbrella peasant associations and their coffee producer branches; (2) representational confusion of government-sponsored regional coffee funds, which became brokers as they distanced themselves from producers; and (3) the *natural* tendency of small producers to disengage from risk, dependency and other unfavourable arrangements (either market or organisational). All of them entailed a lack of strategic vision among coffee producer organisations.

#### ***The national organisations: fighting a losing battle***

Given a discretionary overflow of resources, regional coffee organisations devoted the time of their top-ranking leaders to lobbying Solidarity, as it became the most readily available source of financing, if not the only one. *Bancomext* – the state bank for

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<sup>120</sup> Interview with Luis Hernandez, CNOC’s Advisor., Mexico City, 25-Nov-1994. CAP, National Forum of the Social Sector’s Coffee Producers Organisations. August 1991. Summary of the Discussion Group No. 3, by Luviano, G., CNC Delegate, p.2. Tejero, M., CEPSCO’s Advisor, CNOC Working Papers of the Analysis Meeting..., p.3

exports - allocated credit lines through the *Banrural*, but there were requirements to meet (mainly guarantees, a sound export project, and high interest rates) and hence they were less advantageous than Solidarity's credit arrangements. Regional organisations concentrated on petitioning for marketing credits, particularly Solidarity's. Thus little pressure was exerted on the Commerce and Hacienda Ministries, which led the process of liberalisation, the NAFTA negotiations and took the main decisions on coffee policies. The state reorganization reduced the visibility of former coffee organisations. The Rural Bank, for example, serving 'profitable' producers, was out of reach for most coffee organisation.

The largest regional organisation in Tlapacoyan (the ARIC) was at the time bankrupt and inactive. The rest of the corporate structure - the CNC's National and State Coffee Producers Unions - were divided by different regional agendas and loyalties to bureaucratic groups. Lacking producers' backing and leverage - the source of which had been IMC's largesse - they were unable to launch any significant initiative, and were generally superseded in terms of membership and resource allocation by independent organisations.

In this context, by the beginning of the 1990s, CNOC grew as the main national actor in the coffee sector. They were the only coffee organisation challenging the restructuring of the coffee sector, on the grounds of alternative policies including a return to a quota system and the adoption of a retention scheme and allocation of Solidarity resources through regional organisations according to *actual* membership. While CNOC advisors and leaders frequently knew more about coffee markets than most public officials, they were unable to formulate new practical economic strategies.

Co-operatives and marketing social organisations controlled no more than 12% of national parchment coffee in 1992-1993, but after that they were the only actor able to generate a *new* coffee strategy. Given CNOC's weak bargaining power, at best, it was only able to compete with local intermediaries. Its leaders generally failed to seize opportunities for asset formation and vertical integration at a higher level, and instead continued to operate the obsolete technology the IMC passed on to them. After the first two years they witnessed a self-defeating over-accumulation of processing capacity and low profit margins for processing berry coffee (the most important income for organisations, for members do not pay contributions).

CNOC was a varied network of regional and local organisations, comprising very poor micro-plot indigenous producers and medium-size, semi-intensive specialised producers. In general CNOC's main coffee 'business' strategy was vertical integration, more suited to the needs of medium-sized producers than poor small producers. Although they ran a marketing firm to help member organisations deal with exports, it did not build a more sustainable basis for long-term market transactions. In 1995-96 it operated credits in dollars and many of the member organisations were unprotected against the impact of devaluations, resulting in considerable losses.

Although CNOC became the most consolidated coffee organisation in Mexico, with professional advisors and marketing experience, they could not play a more decisive role in the coffee sector, at the level of national policy-making. While they progressed regionally in many areas, as a national actor CNOC kept demanding from government a 'well defined national coffee policy' and insisted on not repaying Solidarity income support, when those resources were transferred to them.<sup>121</sup> On the other hand, Solidarity successfully undermined CNOC's efforts at playing a constructive role in the coffee sector. Solidarity and INI officials played a distracting role without having a substantial set of concessions to bargain with.<sup>122</sup>

A neo-corporatist type organisation emerged from formerly independent organisations, strongly promoted by President Salinas through the PNS. In particular, the Workers, Peasants and Students' Union (UGOCEP), which channelled considerable funds and made opportunistic moves to increase the access of their coffee clientele to Solidarity marketing credits, thanks to the personal support President Salinas gave to them. These divisions among national umbrella organisations (corporatist, neo-corporatist and independent ones), and the distance from grass-roots support, made it impossible to challenge the coffee restructuring agenda on a national scale.

### ***Regional organisations: between brokers and producers.***

At the regional level, independent organisations and producer groups had more room for manoeuvre, although the lack of technical skills, funding and experience made them vulnerable to bankruptcy. Regional Solidarity Funds (RSF) were created as a continuity

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<sup>121</sup> During CNOC's 1995 National Congress (Xalapa, February 10-11), member organisations did not reach agreement on this issue, i.e. repaying Solidarity production subsidised credits or demanding that the federal government waive these credits as a form of income support. Participant observation.

<sup>122</sup> Participation of the author in the unofficial meetings CNOC/INI-Solidarity. July 1991.

of the Solidarity Support Program for Small Coffee Producers. The PNS transferred the management of the latter programme to producers in order to make it self-financed. Paying back what was at first considered income support, allowed producers to set up their own *Fondo Regional de Solidaridad* (FRS, Regional Solidarity Fund). Instead of paying back Solidarity, producers paid their organisations in kind, constituting a very cheap source of funding. With FRSs, Solidarity officials in Veracruz tried to bypass ‘corporatist’ organisations, launching a new type of leader, and consolidating an economic instrument of self-financing. In the case of Tlapacoyan, the region’s coffee Solidarity Funds could not reach a consolidation stage, as they never became grass-roots organisations and ended up in the hands of local and regional élites. Mis-managed and overtaken by more experienced entrepreneurial organisations (*Asociaciones Agroindustriales Serranas* in Tlapacoyan, analysed in Chapter 5), they practically disappeared as early as 1996.

The few regional organisations that stood up to the crisis and made it to the 1994-95 recovery, were facing representational problems. Overwhelmed by market discipline, regional organisations and FRS either failed to compete or started successfully to embrace vertical integration under the control of new elites.

Solidarity’s *Cajas de Ahorro* (local savings groups) were a slightly different story. They had initial support from several communities where savings were managed honestly. However, the unpopularity of the main leaders of the Regional Coffee Fund, and a fraud in the Azotal’s savings group – which functioned as a holding company- many communities withdrew their savings between 1995 and 1996. After that experience, however, payments due to the regional fund were displaced to local funds. By the end of the 1990s these local funds were still running with favourable conditions, particularly because they had access to cheap credit when this was scarce and expensive.

### ***Local organisations and producers’ distrust***

During IMC restructuring, the government aimed at promoting “viable scale” organisations, giving priority to regional groups (usually highly politicised) and facilitating the integration of former UEPCs, according to the influence zone of *beneficios*.<sup>123</sup> UEPCs were transformed into legally recognised organisations: *Sociedades de Solidaridad Social* (Social Solidarity Societies, SSS) and *Sociedades de*

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<sup>123</sup> Olvera, Hoffmann and Millán (1994) and Díaz P. (1992) point to the bias against independent organisations, loyalty conflicts and lack of identification between producers and ‘their’ organisations.

*Produccion Rural* (Rural Production Societies, SPR). As in most of Veracruz and the rest of the country, in Tlapacoyan, SSS and SPR have usually played a passive role, showing signs of existence only when public resources were available, allowing local bosses to advance their own projects (see chapter 5 for the case of the privatisation of Atxinta, the biggest beneficio in Tlapacoyan).

Existing independent organisations in Tlapacoyan region - such as Quicempacayotl Co-operative (CNOC's affiliate) - did not link to these local organisations (SSS and SPR), as they were considered to be under the control of the CNC corporate structure and Solidarity (i.e. the government). Instead, regional organisations tried to set up their own sections and representatives. It was not uncommon to find in the same community two or three different local coffee organisations.

None of the regional organisations in Tlapacoyan – independent or not - considered an alternative strategy to integrate producers to the market under more advantageous terms; they all followed – perhaps unintendedly - the type of strategy established by the IMC during the years of the export quota system: production of bulk quality coffee and vertical integration. They also failed to enhance the *multi-directional* economic strategies of peasants (the only viable perspective for building up a *peasant* organisation).<sup>124</sup>

However, the new top-down, state sponsored regional organisations – Solidarity's Coffee Local Committees - never succeeded in replicating the success of the UEPC, based on flexible arrangements at the local level. UEPCs were designed after a detailed analysis of the actual dynamics of the regional coffee markets in Mexico, as *functional* and semi-formal organisations emerging from the IMC's own mandate for promoting producers' organisations, but not from any agrarian or secondary law, as in the case of ejidos, ejido unions, SSS, SPR and ARICs, or co-operatives and credit unions (Downing, 1988). The single most important characteristic of the UEPC was the *peer group collateral*, an efficient way of delivering credit with high repayment rates (usually above 90%).<sup>125</sup> The group was responsible to the IMC for each individual credit and it was expected that repayments could only be made in full, otherwise the group had to take responsibility for individual shortfalls. It was an advanced scheme at the

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<sup>124</sup>One of the few regional coffee organisations that developed a *peasant* strategy was the Union de Ejidos de la Costa de Guerrero; not without experiencing the failures of the “productive process-appropriation” strategy, they have tried to integrate coffee within a diversified and sustainable regional strategy, as Celis (1991) and Paz and Cobo (2000) show.

<sup>125</sup> Francisco Piedra Gil, former Director of Organisation at the IMC, personal communication, 15 June 1995.



beginning of the 1970s, when for example Banrural (a rural development bank) operated credit on an individualised basis (either to individuals or groups), with long lasting bureaucratic procedures (subject to sound collateral: i.e. land titles or other mortgageable assets), delayed deliveries (fiscal cycles never matched agricultural needs), low repayment rates and high insurance costs, apart from corruption (Grindle 1990; Cruz 1995; Escalante 1992).

Of course this set of rules represented the institutional form of the relationship between producers and the IMC, but there were deviations from the norm. Among coffee producers, delegates were likely to benefit more than their peers, for they were closer to IMC extensionists and officials, and sometimes corruption emerged from these privileged relationships. As a former extensionist put it, when a UEPC member did not pay back his credit, he was not taken into account in next year's forward credits, but if the debtor was a *grillo* (a politicised producer), he was normally exempted from any disciplinary measures.<sup>126</sup> Some local leaders made their first step into politics through the experience and contacts gained as UEPC delegates. And when the IMC's infrastructure was dismantled, only some of the better-off producers manage to get pulping machinery and sun drying patios to produce parchment, mainly those who had privileged knowledge and contacts with former IMC technicians and officials, since most of them were UEPC's delegates.<sup>127</sup>

### ***3.5 Peasant strategies and coffee producer organisations***

When coffee producer organisations started to participate in the market, leaders and advisors realised that most peasant producers gave limited support in exchange for receiving "good prices" (i.e. better than those of private intermediaries). If during the harvest 'their' organisation ran out of cash, paid by instalments or delayed payment, producers would not hesitate to desert the organisations and sell to private buyers, even at a lower price (provided they paid in cash at once). On these occasions leaders became frustrated and criticised the *underdeveloped, retarded, rustic productive culture* of peasant coffee producers.<sup>128</sup> Even well intentioned leaders are apparently unaware of

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<sup>126</sup> Interview with Nicolás Hernández, former IMC extensionist and advisor to the FRS Azotal, Tlapacoyan, 3-Feb-1996.

<sup>127</sup> Such infrastructure was sold by IMC at concessionary prices to UEPC. When these units were regularised into SSSs or SPRs, to be entitled to hold property, the issue of common ownership of coffee processing assets was not clearly dealt with. It was easy for leaders and better off producers to ultimately appropriate machinery and facilities.

<sup>128</sup> Cobo and Paz (1992, 2000) include excellent reflections on Guerrero coffee producers and their 'disloyal' reactions to their regional organisation, though one of the most peasant-minded and complex in Mexico. Diaz

two problems: first, the constraints peasants face in becoming fully engaged with a market-led organisation, and the fundamental contradictions between producers' strategies and marketing organisations; and second, the concomitant advantages of private intermediaries given the organisations' higher operating costs and risks. Four major areas of constraints put peasants at odds with their own organisations:<sup>129</sup>

1. Control over production and risk reduction. Under open market conditions, dealing with coffee can be extremely risky for an improvised organisation, because of the big capital volumes involved and the price volatility. There is always a time-gap between the purchase of berry coffee in the field, which is a major component of costs of production, and final selling operations to intermediaries and/or processor-exporters. The bigger the time-gap, the higher the risk of getting caught by a down turn in the market price for coffee, as happened to almost all coffee organisations during the 1988-1993 crisis when they had to sell parchment or gold coffee at a price lower than costs of production leaving huge losses and credit defaults everywhere.

Once producers deliver their coffee they lose control over a product, which is the object of claims by many different market agents. Apart from commissions, intermediaries, or *coyotes*, make their margins out of quality classification, price differentials and weighting; processors manage net yields at every processing stage and can also make unfair quality and weight discounts; finally, commissioned exporters make margins out of quality premiums – as well as unfair discounts to producers' cooperatives, intermediaries and local processors - lower interest rates on working capital and currency differentials. The problem of leaders' lack of accountability deserves special attention. Apart from mismanagement of wet *beneficios* and incompetence in marketing decision-making (low turnover, bad contracting and selling deals), most coffee organisation leaders in Atzalan reproduced the fraudulent practices of intermediaries, adding some of their own, like overestimation of management, administration and processing costs. At every stage agents engage in pressure tactics and pre-emptive strategies. If producers delivered their coffee under consignment schemes, based on partnership, they could easily lose everything, because no one in the coffee market was

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Pineda (1992) offers evidence of producers' lack of support to organisations in Veracruz (Interviews with Miguel Ugalde, Antonio Concha, Alberto Andrade, Gabriel Barrera, Rolando Topete).

<sup>129</sup> I draw on participant observation of coffee organisations in Atzalan region, integrated in the *Fondo Regional de Solidaridad Azotal* (Solidarity Regional Fund of Azotal, FRS-A), harvests 1994-95 and 1995-96. Most of these local organisations were created during the coffee crisis 1989-1993 under the auspices of four Solidarity programmes (emergency marketing coffee credits, income support for small coffee producers, IMC's infrastructure transferral and the creation of regional coffee funds).

fully accountable. Cooperative representatives could be involved in deceitful or disadvantageous contracts, fouled by intermediaries, processors and exporters. This was a common practice after devolution of the processing infrastructure to producer organisations. Trucks were robbed, entailing heavy losses because insurance cover was practically not-existent and 'protection' fees had to be paid to police patrols.

Theoretically, co-operatives could speculate, but they usually faced cash pressures to stretch capital turnover and pay producers for their coffee. To the extent that producers lacked the means to sustain any sort of control over their coffee while managed by organisations, they opted out. Distrust of organisations reduced the efficiency of capital use and the room for manoeuvring sale contracts.

2. Trust and financial efficiency. Small producers were not able – or willing - to finance their organisation's purchases. They demanded full payment and were altogether reluctant to make concessions on grounds of financial efficiency (coffee deliveries as consignment sales cut down financial costs for co-operatives). While most of the co-operatives tried to delay or at least split payments to producers - in order to intensify capital turnover - producers put pressure in the opposite direction: immediate payment of the full coffee price. An exceptional case was that of organisations in which producers accepted a partial payment at the moment of coffee delivery and a remnant after the harvest (similar to the IMC scheme). This was the case of Chaparro Grande's local coffee organisation, in the neighbourhood of San Pedro Altepépa, where ranchero families prevailed over ejidatarios, but cohabited with them constructively. Despite being a member of the FRS-A, the local organisation was able to prepay only around 50% of the total price to coffee producers' deliveries. In most cases, organisations had to pay up front a very high proportion of the expected final price (90% of the whole market price).

3. Specialisation versus diversification and the use of credit as a consumption fund. Peasants used income support – and credit, when available - delivered by organisations and state agencies as a consumption reserve, financing simple reproduction (i.e. food purchases rather than buying fertilisers or agrochemicals). As long as yields were low and terms of trade unfavourable, default always tended to appear, becoming a vicious circle difficult to break out of. Banks and other institutions that delivered rural credit had difficulty maintaining financial services to 'unprofitable' producers. Even small producers' organisations, disciplined by markets in terms of adopting cost minimising/

profit maximising strategies, found it difficult to overcome peasants' 'productive culture'. The temptation of opting for a populist solution, accepting producers' default on a discretionary basis, led organisations to economic failure. Enforcing financial discipline - market prices for producers, adding actual cost of money to credits, etc.- was unpopular, as it was usually imposed upon members, outside of any grass-roots control over organisations. Property rights over a co-operative's assets (processing plants, vehicles, etc.) were not clearly defined, and there were no effective checks and balances on employees, advisors and leaders. While organisations focused on the coffee business, producers pursued diversified objectives, that is, not only maximising their coffee returns. Most coffee co-operatives were not able to diversify capital flows according to households' diversified strategies.

4. Control over commodity chains<sup>130</sup> was held by financial capital and transmitted to commercial capital, leaving co-operatives to play a functional role in centralising peasants' production. Most organisations became a dependent link in the coffee chain, because very few had access to credit and export markets. The more coffee organisations integrated into the market and regulated peasant production, the greater their organisational specialisation and complexity (larger and professionalized staff, introduction of accounting and administrative systems). As organisations became bigger and more complex, they related to their constituencies on more asymmetric terms, often marginalising peasant communities from decision-making and, instead of 'empowering' them, they tended to alienate local elites. Coffee organisations with diversified assets and advanced development projects, for instance in the southern state of Guerrero and northern sierra of Puebla, endured a complex and increasingly more diversified apparatus - with coffee processing plants, warehouses, vehicles, fertiliser concessions, retailing shops, marketing teams, etc. - but the gap with peasant communities increased as well.<sup>131</sup>

My fieldwork in the Regional Coffee Fund of Azotal during two cycles, revealed two major constraints preventing organisations from being profitable and sustainable: their

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<sup>130</sup> Commodity chains analysis focus on global organisation of production, processing and distribution, usually along a network of interlocked processing links of a particular commodity. A commodity chain may follow vertical as well as horizontal forms of capital integration and value adding. In the case of coffee see Ponte 2001 and Talbot 2004.

<sup>131</sup> Comparison of extreme right and left 'peasant' organisations has not been undertaken from this point of view, though it might be enlightening. The *Union de Ejidos de la Costa*, in the southern state of Guerrero, a long standing leftist organisation, played complex social roles in the sierra and coastal municipalities; in the northern sierra of Puebla, while right-wing *Antorcha Campesina* built a stronghold among coffee producing indigenous communities, absorbing also local governance functions.

economic strategy and the structure of incentives facing them. In Atzalan they carried on with the same IMC practices. Among the most important problems they faced were: deficiencies in market information; accounting, administration and price formation; professional management, risk assessment and operating strategy; and working capital and turn over. Checking the stock exchange for daily coffee quotations was challenging, although organisation leaders managed to be fairly well informed on prices, even without formal market analysis. Introducing accounting was very difficult, first, because leaders had little schooling and were always hesitant to transfer decision-making to administrators or managers and, second, because leaders were looking for personal gains, while administrators were challenged, bribed and co-opted. Local organisations were run by producers themselves, while the regional organisation (FRS-A) hired only an accountant and occasionally a taster. Nevertheless, the latter took no part in decision-making, while the former had a strictly administrative role. Personnel with scant qualifications – usually part time producers - ran the wet processing facilities under the direct leaders' command. While intermediaries collected coffee from the best spots (highlander communities), organisations were obliged to buy all the harvest from communities. Establishing recollecting points, enforcing quality controls, setting price structure and selling transactions were always a matter of a leader's discretion. Due to producers' lack of trust and leaders' inability to bargain for better prices and contracts, organisations were always way behind private buyers and processor-exporters in terms of capital use efficiency (turnover).

Another area of major constraints was the *structure of incentives* that did not properly compensate quality, risk, labour and the *stakeholders' rights to coffee capital*. Once coffee was under an organisation's control, the status of coffee deliveries (coffee capital) was not at all clear. First of all, the FRS-A bought beans from all small producers in Atzalan communities, whether or not they were members. While organisations put pressure on producers to finance wet processing and marketing costs and risks (by taking an advance payment), most producers wanted to be paid the full price, and were always hesitant to take part in any further commitment. Therefore, if the FRS-A had any profits at the end of the business cycle, the organisation's leaders were more or less free to decide how to use them.<sup>132</sup> Secondly, as long as the price structure

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<sup>132</sup> The FRS-A split profits among local organisations, according to coffee deliveries. Then, they usually did two things: first, they paid for outstanding repairs in wet processing installations, and second, they organised a community party.

did not reflect stakeholders' participation in capital formation and risk taking, there were no incentives to commitment and quality.

With respect to the *regime of labour remuneration*, Atzalan coffee producers tended to involve all kinds of labour in their hard and non-differentiated agricultural labour, including that of leader-managers, *beneficio* workers and administrative personnel, failing to set up price incentives to producers as well as performance incentives to *beneficio* workers and staff. Compared to other private *beneficios* in Tlapacoyan, the FRS-A paid very low wages to workers and staff, creating perverse incentives (disregard for quality processing, overuse of inputs and fuel, petty robbery of coffee, tools and office items, etc.).

After the frost of 1989, the first years of full operation were the cycles 1993-94 and 1994-95, when the four Regional Funds operating in the Tlapacoyan region (Altotonga, Plan de Arroyos, Tlapacoyan and Azotal) were the only organisations with subsidised working capital – even if it was limited. This advantage became prominent in the region after the peso devaluation of December 1994, when many coffee organisations defaulted, and the bankrupted financial system cut credit lines to the coffee sector.

The lack of a sound economic strategy and the technical inability to operate transferred *beneficios*, left organisations in the Tlapacoyan region without the advantage they started with. A leader of the FRS Plan de Arroyos said:

‘We had everything in our hands, but did not know how to take advantage of it. We could have bought the former ARIC Tlapacoyan warehouse, [but were unsure about it]... and finally Barrera<sup>133</sup> seized the deal and we ended up having to join the venture under his lead, not to be left out. We were the only ones with money to buy coffee, but it is no longer the case and the opportunity was wasted.’<sup>134</sup>

Part of those resources facilitated by Solidarity were ‘drained’ to the personal benefit of leaders, but there were also important losses in the form of damaged lots (excess fermentation, contamination, etc.) and wasteful operation; and overall incapacity to create and capture value according to market rules.

In the cycle of 1995-96, Solidarity finally handed over the coffee support programme's budget to the FRSs and regional coffee organisations, which had been used as a

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<sup>133</sup> Member of a family of trades in Plan de Arroyos, Gabriel Barrera became a prominent leader of the coffee elite in Tlapacoyan. His role as coffee leader and entrepreneur is analysed in chapters 5.

<sup>134</sup> Francisco Ceceña, leader of the FRS of Tlapacoyan. Interview, 28-Jan-1996.

renewable income support fund, partially integrated with small producers' repayments, particularly new transfers. The FRS Azotal reduced its purchases considerably, for they forecasted tight competition for berry coffee and the repayments of the 1994-95 cycle had been very low and therefore, operating capital was very limited. By 1996-97, when I followed up the FRS-A operations, many of the local organisations were dealing directly with traders, outside the FRS-A, and most of the coffee infrastructure was out of order.

### ***3.6 Organisation, representative democracy and caciquismo***

From the first co-operatives, promoted early in the land reform period (1930s) as an organisational and productive alternative for 'rural proletarians', to the later ejido unions, ARICs and Solidarity-sponsored associations, a vicious circle was created by the state's efforts to encourage rural organisation. The short-lived schemes of the first half of the 1990s were more or less similar. Directed to implement Solidarity programmes (the coffee income support programmes), local delegates were chosen, then leaders were appointed to a regional organisation (the FRS-A). Although at the local level there was more room for the community to elect their local representatives in general assemblies, delegates were easily manipulated by more experienced leaders and second-tier appointments (top posts) were usually fingered by the corporatist regional structure (Atzalan-Tlapacoyan-Altotonga CNC and PRI).

Representatives convened in – irregular - monthly assemblies exercising no voice. These meetings were commonly very formal, leaders reported in broad terms about the state of the coffee cycle and “consulted” on issues already lobbied upon. Delegates had no background information and had little opportunity to consult their constituencies. Most producers thought representatives lacked formal skills, experience and even the nerve it takes to speak out and outperform cacique leaders. Unequal access to education and outside experiences endowed some with the ability to exercise a greater influence in the process of decision-making. As Ignacio – a local leader from La Palma and former PRD candidate to Atzalan Municipality - explained,

“Some delegates to the coffee Fund [FRS Azotal] hardly read and write. How could they know if the numbers they are given are right? Besides, *leaders* [the members of the Directive Council] know how to treat them, giving them a *taco*, and a *refresco* [a soft drink], and sometimes *pasaje* [travel expenses]. They come back to the community and do not know what to say; we ask them if they questioned how it is that such and such problems are happening, and they just shook their heads and rise their shoulders.”

Why, despite the abundance of coffee organisations in the region, was it that difficult to build up representative organisations? And more important, why did it become almost impossible for communities to control representatives? There were several factors as far as the coffee producers' experience is concerned, which I examine below in the light of experiences in Atzalan and the role of local leaders and their relations with peasant coffee producers.

### *Centralisation of leadership*

As noted earlier, small coffee producers' livelihoods compelled them to avoid, as much as possible, engaging in collective action outside the community. Thus, it is likely that state organisational initiatives ended up enhancing caciques' positions, increasing the social distance between them and common people, breaking down local bargaining mechanisms. Caciques' local rule was visible, but people somehow bargained within the community, either through kin relations, god-parenthood and other alliances, or by informal consensus building (women's gossiping being one example). Once caciques were incorporated into self-contained committees and regional councils, the delicate relationship between bosses and people was easily undermined. The more powerful caciques displaced would-be leaders from high positions and the local power system tended to centralise around a few bosses. Solidarity's experiments for generating new grass roots *elites*, through local assemblies, and then delegates' assemblies, failed as other state projects did.

In a market where minifundia producers prevailed, there had to be an agent who centralised coffee production and facilitated its successive transformation in the commodity chain. That agent appeared in two forms: one was the producers' own organisation, and the second, the 'coyote' private intermediary.<sup>135</sup> Although they were seen as competing in an antagonistic manner among themselves, it is more accurate to look at them as two different market agents, who competed but were offering two different services.

Apart from paying the whole price in cash (what is known as *precio muerto*), coyotes waited long hours on the spot, and bought any amount of coffee. Compared to them, organisations had limited cash and usually put pressure on producers to finance the organisation accepting either a pre-liquidation price (from 80 to 90%, and rarely less

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<sup>135</sup> Chapter 2 analysed the historical role of intermediaries, both private and institutional.



than that), and the rest at the end of the harvest, or to wait two or three weeks for payment, while the organisation was able to process and actually sell the coffee lot. It was not uncommon for organisations, at the peak of the harvest, to run out of cash and stop purchases at a certain volume, leaving producers with no other choice but to sell to coyotes.

There were hardly any stable, trusting relations between organisations and regional buyers, unless the relation was corporatist, as was the case of the Plan de Arroyos ARIC and its holding, the Asociaciones Agroindustriales Serranas, both under the personal leadership of the coffee leader-entrepreneur Barreda.<sup>136</sup> In the 1994-95 harvest, the Tlapacoyan and Plan de Arroyos FRSs experimented entering into a subcontracting deal with processor-exporter Antonio Concha,<sup>137</sup> which was on the verge of failing because the FRS did not meet its commitment to deliver *all* its production to his *beneficio*, the main problem being pre-emptive distrust and inability to bargain for a favourable contract.

Under conditions of poorly developed institutional markets, the ability to get information, compare and bargain over the price of coffee highlights the role played by leaders. Good negotiators had to build up personal relations with buyers, though this approach was seen by producers as evidence of leaders' entanglement and corruption. Most of the price negotiation process was invisible to lay producers, so - as a rule - they did not trust what leaders told them about prices, transformation costs and margins of profit.

In the case of the SPA, the main positions of *ejido* authorities (President, Treasurer and Secretary) were concentrated in the hands of full-time agrarian leaders, mainly belonging to Serafin Quiroz's political faction. They also controlled the local coffee co-operative, in which shareholders had no voice, despite holding formal annual assemblies. Sometimes, Quiroz played the neophyte-but-loyal leader, cheated by all-knowledgeable brokers, knowing well enough how to treat people in order to hide personal interests.

At the regional level, most FRS' delegates had no access to learning from the coffee transactions with brokers and buyers. Only those who belonged to prominent political factions joined the inner circle of leaders and picked up experience, prevailing over the

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<sup>136</sup> Gabriel Barreda was one of the main coffee leaders-entrepreneurs in Tlapacoyan (see Chapter 5).

<sup>137</sup> Concha's activities will be examined in Chapter 5.

rest. That is the way José Luis Arcos (JLAL) – the main leader of the regional coffee organisation (FRS-A) - recruited his faction: Julian (Tierra Nueva) and Pedro (Azotal), both new cacique breeds without agrarian careers or experience with coffee before the start of the Solidarity programmes. Afterwards, they bought *fincas* and dealt in coffee. Other local bosses did not succeed in creating regional alliances, and were more prone to fail in the business. Managing the FRS' coffee programmes allowed JLAL to prevail over local caciques of the Atzalan region. The traditional boss Serafin could not widen his influence in the region, nor could other lowland factions; on the contrary, they started to withdraw after the 1995-96 harvest (La Palma, Norberto Aguirre, El Zapote).

The reproduction of cacique factions prevented FRS delegates from consolidating a collective life and improving their technical skills, hence, leading them to become only a subsidiary power.

Every time the state talked about modernising rural Mexico, setting up rural organisations and centralising peasant production became the major objective. As noted previously, state development agencies and PRI's corporatist structure facilitated the emergence of this type of centralised representation. It is not surprising that the combined effect of the vertical coffee market structure and the corporatist policies in this sector brought about a long line-up of cacique-type leaders.<sup>138</sup>

### ***Unaccountable practices and lack of incentives***

Most of the local organisations in Atzalan (SSS, SPR and CLS) did not have a proper organisational life after the UEPC disappeared along with the IMC, later on (end of the 1980s). Had it not been for Procampo and Solidarity income support programmes, those overhauled organisations would have disappeared much earlier. There were no regular member meetings, and the annual general assemblies - when they took place - were organised always with great delay, and representatives were not replaced in due time.

In San Pedro Altepepan there was one general assembly of the influential coffee co-operative, which marked the end of the harvest. But there was no transparent accounting report (coffee volumes purchased, processed and sold; average prices paid to producers; weight losses; net yield and sales by lots; expenses and net profits). The treasurer

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<sup>138</sup> African auction markets present a very different structure, allowing producers direct marketing of their harvests, establishing a direct link between the merit of their coffee and price incentives. The corporatist structures of rural Mexico have fed back into the practices of state agencies and private intermediaries, creating a very segmented and disorganised coffee market.

usually forgot his “accounting book”, but remembered diesel and electricity bills, and offered access to “those who would be interested”. Quiroz, the *permanent* leader, presented an overview of the main results, describing anecdotally all kinds of problems: bad experiences with buyers (delays in payments, unfair classification of quality and discounts) and lack of liquidity for extending purchases among associates and “preventing private buyers from paying low prices”. The assembly-party was a well known performance.<sup>139</sup>

Such lack of accountability explains why contributions for meeting the costs of the ejido authority - not to say coffee representations - were painstakingly collected. Distrust in leaders shaped people’s reluctance to cooperate towards their personal expenses. In the case of coffee organisations, the problem was even worse. Producers were not at all happy to be taxed under any circumstance. As members did not pay contributions, organisations did not have their own legitimate resources. Leaders used the assets of organisations as personal savings, and financed their activities as they wished, including their political careers.

When Solidarity officials tried to promote new - supposedly accountable - elites, they just spurred tensions within communities, and ended up reshuffling new and old elites in the new power positions (Solidarity’s Coffee Funds). And when they put forward new organisational practices, like information meetings and election assemblies, the actual results were far from democratic.

Even if information was provided in good faith, most delegates were not trained to understand administrative matters. For example, during the General Assembly of the Solidarity Saving Case Tlapacoyan-Plan de Arroyos, in February 1995, the substantive issues, such as the reinvestment of profits or compensating for inflation with a higher interest rate, were not discussed. An agreement on sustaining a lower-than-inflation interest rate, of 12% per year, was all it took to approve such a delicate matter. It was assumed by officials and leaders that peasants were not willing to pay a higher interest rate, but there was evidence that coffee producers understood a great deal about the workings of credit. They usually tried to avoid borrowing, but when the need appeared

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<sup>139</sup> Usually nobody dared to challenge the co-op “reports”, although smiles and whispering were very lively. The Barreda’s (Equimite) are famous for blathering criticisms, but which end up amazingly in support of Quiroz. Others, like Pablo Guerrero (Jehovah Witnesses’ follower from Las Flores), criticised the lack of elections and accountable management, but gave up for the sake of safety. The main event was the *barbacoa* party (oven cooked meat, beer, soft drinks and dancing music), also known as the “espumilla” party because it was financed by selling *espumilla* coffee (leftovers however sold at discount prices).

they took loans from the informal market (Díaz P., 1992). What they were not ready to do was to trust leaders and staff, hence taking the risk of accepting a real interest rate that would end up benefiting leaders. The expenses incurred in generous lunches and drinks at these meetings were usually very high and became a way of corrupting delegates. Ironically, the lack of incentives publicly given to representatives, made them reluctant to commit themselves to serve the community as efficient promoters of coffee producers' interests and, consequently, delegates avoided responsibilities, except when they were bribed.

### ***Corporatist policies and dysfunctional rural organisations***

As part of development programmes, state agencies promoted many different rural organisations, sometimes with overlapping membership and functions. The state used the criteria of *land tenancy* and *land-holding size* to define who should be a beneficiary of state programmes and public services. The same criteria ruled the structure and functioning of rural organisations, creating artificial boundaries among rural groups. In this way ejidatarios were isolated from, and even put in confrontation with, landowners and the landless local inhabitants (*avecindados*). This gap took institutional forms as state agencies were set up according to agrarian entitlements, for example the Rural Bank was initially 'Banco de Credito Ejidal', primarily oriented to serve *ejidos*. In the end, landowners' bargaining power was able to channel most of the government spending to rural development, and among *ejidatarios*, only those better organised groups (that is, belonging to the corporatist structure) could benefit.

*Economic activity* was another criterion used by the state to organize peasants. Formal coffee organisations - state induced and legally registered- prevented grass-roots efforts from becoming alternative options of organisation. If peasants were not only coffee producers, a more representative organisation could have spread its concerns to different activities, at different times during the agricultural cycle. What appear marginal, resistance-led community practices sometimes remained so because producers lacked conditions to progress towards a complex organisation, which could manage resources across several economic activities during the agricultural cycle: food and cash-crop marketing, input provision, financial services, etc. Although producers are keen to evaluate their efforts in coffee production, their focus has remained localised at the level of individual *fincas*.

Coffee producer groups wondered about ways of overcoming high transport costs, dependence on intermediaries and monopoly traps, including the inefficiency and corruption of coffee organisations. For the most part, those efforts ran outside formal organisations, which were only used by default. If some Solidarity coffee organisations survived was because of its appropriation by elite groups and to a lesser extent due to community participation. State support has also been influential to allow these functional organisations to cover losses.

Rural people learned to play with different state-imposed identities: ejidatario, peasant, poor and coffee producer. Nevertheless, the game involved extraordinary costs (time-consuming meetings, applications and evaluations), and people got fed up with so many institutional requirements. Rural organisations (co-ops, credit unions and other formal associations) forced people to adapt to formal structures, not the other way around.

### ***Dysfunctional education and low levels of technical skills***

Communities always tried to appoint people they trusted who were able *at least* to read and write. Though many people could do so formally, there was little *social practice* of those skills through recording, evaluation and written communication. On the contrary, despite increasing levels of literacy, it remained dysfunctional in different ways. Formal federal basic 9-year education added almost nothing to rural livelihoods, except the expectation of undertaking urban jobs. Graduates often left communities, and those who stayed had no job options for a creative use of their “skills”.

In the Azotal FRS there was only one secretary and most of the staff were relatives and leaders’ subordinates. Without exception leaders were operating the coffee processing plants, sometimes with the help of a less ignorant fellow, but no graduates, not to say coffee experts. Rural enterprises were frequently run by personal friends of the caciques. All jobs were concentrated by leaders and their factions in a very inefficient way. Needless to say, there was no scheme for training youngsters as mechanics and electricians, coffee tasters and sellers, although coffee specialists were badly needed in every producing region.

In this context, coffee organisations’ delegates were chosen from among registered *ejidatario* producers, leaving out educated youngsters, who were potentially good choices. Land scarcity and the *ejidatarios*’ practice of delaying land inheritance - a tactic for getting protection until relatively old age - deepened a generational divide,

which stopped new generations from taking part in the exercise of local power. The *ejido* institutional practices were also a barrier to entry of the landless into community decision making. For every *ejido* landholder there were around five landless *ejido* inhabitants: *ejidatario* descendants, land tenants and *avecindados* (the strictly landless).

There was no unified framework for local governance. The peasant version of accountability - community service in exchange for prestige - had almost disappeared in these *mestizo* communities. *Ejido* representation was highly limited outside agrarian issues. Public works' penalties for minor infractions were no longer exercised. As explained above, the only way out was to appoint local bosses, better placed for bargaining with the state agencies.

### ***Conclusions***

Peasants failed to put up intermediary functions and despite several state-sponsored organizational efforts, the superiority of private intermediaries prevailed. Among many other reasons, this was because the practices that distorted the structures of prices and incentives were reproduced even after the pro-market reforms. It was also because organisations, whether independent or official, never seriously questioned the prevailing structural problems for an efficient co-operation, i.e., the dispersion of peasants throughout a mountainous and disconnected region; the difficulties to form well integrated chains of production in order to aggregate value and a structure of incentives not fostering quality, product differentiation and information.

Organisations and their leaders did not induce a learning process to enrich producers' economic, social and political capabilities, as well as entrepreneurial skills that would, in turn, enhance their bargaining position. On the contrary, a rather backward peasant ideology was reinforced time and again in order to facilitate corporatist control through a rather widespread political device practiced in the PRI: placing peasants, wage-workers, small landowners, more successful agricultural producers, coyotes and other intermediaries at odds with one another, fostering confrontations which made cooperative undertakings between these groups extremely difficult.

The very idea of justice that peasants endorse – embedded in agrarian struggles and demands - could have served as a mechanism to check the market demands of other agents and build a consensus around what is socially appropriate and acceptable

regarding the distribution of surplus. Instead, it became an identity obstacle to build the relations of trust required for more constructive and productive collective endeavours.

In addition, the economic strategies of small producer and coffee organisations were always in tension. Most productive organisations in rural Mexico were created by state agencies, according to the functional objectives of rural development policies, that is, modernisation and increasing production. Government efforts at reviving the UEPCs to integrate second-tier organisations that would manage the privatisation and devolution processes in the coffee sector were disputed from all quarters (local bosses, existing official and independent organisations, political parties). While competition forced organisations to rationalise costs and price margins, they also were expected to fulfil social functions (pay the best prices, buy coffee the harvest all along, redistribute gains). The only way organisations could possibly meet these two worlds was through complex production, consumption and saving strategies, moving the highland coffee capital along the agricultural cycle in the different markets in which peasants were integrated. At the same time, in order to achieve such a sophisticated strategy, organisations would have needed to internalise the functioning of a market economy. They would have needed to teach, convince and collectively figure out peasants' engagement with markets. Contrary to this grass-roots perspective, the emergence of a new elite profiting from heading these top-down organisations did not help in building more constructive intermediary functions. As will be seen in more detail in Chapter 5, as elites became increasingly successful in integrating with the market, they distanced themselves from the very peasants they were supposed to represent.

## CHAPTER 4

### SMALL SCALE COFFEE PRODUCERS: WHY AND HOW DO THEY SURVIVE?

#### 4.1 Introduction

Much confusion about the rationale of peasant production in capitalist markets arises from naturalistic assumptions<sup>140</sup> and their evolutionist corollaries of transitions from a peasant stage to a proletarian or bourgeois one. The hypothesis of the natural economy - used by Marx to shed light on the general evolution of primitive social forms to capitalist markets - presents several problems if taken as an historical roadmap. Modern forms of peasant economy are more related to capitalist markets, than to ancient formations.<sup>141</sup> As suggested in chapter 1, the use of categories such as 'peasants', 'semi-proletarians', 'simple commodity producers' (SCP), or 'petty capitalists' presents many problems unless we consider the historical transformations that give rise to such rural livelihoods.<sup>142</sup>

This chapter focuses on the production of coffee, as a *specific* crop produced for exchange and adapted within peasant's traditional agriculture. In the region studied - Chiconquiaco/Misantla sierra - the emergence of the coffee market allowed peasant families to make use of their *particular* advantages – labour abundance and inherited knowledge of agriculture - to adapt coffee to their livelihoods, retaining in this way a measure of *formal* control, a physical close contact with, and manipulation of, individual coffee plants and plots.

In order to understand why and how small scale producers survive in the coffee market, one has to consider the interaction between objective and subjective factors. I consider as objective factors all those related to the structure of the market, which produce and

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<sup>140</sup> O'Brian and Roseberry (1991, p.5) argue that the naturalistic assumptions attributed to peasants (on one hand, use-value orientations and non-accumulation strategies; and, on the other hand, the family economy or the household as a production-consumption unit) in the past cannot be simplistically applied to the family economies of the capitalist present.

<sup>141</sup> That is the case of the Mesoamerican 'closed corporatist peasant community' studied by Wolf (1956 and 1957) and its cargo system (Korsbaek 1996), the civic-religious hierarchy.

<sup>142</sup> Deriving the concepts of social class (working or peasant) from the formal categories of the capitalist mode of production, entails substituting a relationship historically lived for a static and reified entity. See Thompson (1966:9). The framework of livelihoods allows due attention to agency of rural actor as well as to the many trajectories of agrarian change (see chapter 1).



reproduce spaces for peasants and depend on the natural and geographical determinants of coffee production, other economic determinants such as the overlapping of different cycles affecting the dynamics of this sectoral market, the so-called labour problem, the characteristics of cherry producers (*cereceros*) and the process of surplus formation. The subjective factors, in turn, include at least three strategic components: First, the family economic strategies revolve increasingly around livelihoods diversification (Ellis 1998): coffee associated to other cash-crops and foodstaples, as well as seasonal labour migration. Second, social networks facilitate access to land and coping strategies (or in other words access to different forms of capital. See Bebbington 2001). Third, coffee income is still used to strengthen peasant patterns of production and livelihoods (rather than capitalist paths).

Mainstream economists tend to believe that coffee is a homogeneous commodity, whose prices are explained by supply-demand fundamentals. What is missing in this stylised picture is the social and political complexities of the coffee market, the conflicting interests and strategies of coffee producing peasantries and capitalist growers, as well as the segmentation of the market. This is precisely why price-led adjustments are difficult to reach at and are also short-lived. The profit maximizing behaviour of thousands of capitalist growers is met by the “squeezed” reproduction of millions of peasants and small producers. Anticyclical mechanisms deliver incentives for long term adaptation and competitiveness, while procyclical ones and “open market politics” deepen the effects of speculation and instability.

An understanding of these interweaving cycles and how institutions internalise its management offers a superior analytical base than supply-demand linear models.

The aim of this chapter is to understand coffee production among *ejidatario* landholders of Atzalan not only in terms of the ‘economic niches’ they occupy (a very labour intensive activity), but in a more comprehensive way.

Section 2 analyses how the main natural conditions of coffee production affect supply, quality, labour regimes and production systems, to such an extent that they deeply shape the market.

Section 3 explains the structure and dynamics of coffee market and how they constrain long term decisions, while at the same time create spaces for peasants’ livelihoods,

which entail relative advantages.<sup>143</sup> It then analyses the distinctive rationality of small producers and why they adopt procyclical strategies that frequently lack the backing of sound institutions.

In section 4 small producers' strategies are considered in detail. Their agricultural-cycle based economic strategies, associating food and cash crops with an intensive use of land and household labour; patterns of access to land and the role of social networks; the way they confront labour bottlenecks; the adoption of subsistence tactics and family economic strategies to face the coffee crisis. Here key findings of fieldwork are reported extensively examining small producers' strategies and how they differ from better off producers. Finally, reconsideration is made on "peasant rationality" and how it is influenced by deeply embedded culture and old and new religious ideas.

The role of labour is examined as a key factor of peasant livelihoods in Atzalan. Social reproduction depends on labour - allocated to subsistence farming and wage labour - more than on the behaviour of commodity markets (coffee, plantains and citrus). To the majority of Atzalan's small landholders, coffee - still one of the few viable cash crops in this mountainous region - sustains peasant livelihoods. Only a few of these small producers - ejidatarios and landowners - started an upward differentiation movement based on capital accumulation (as will be examined in chapter 5). Changes in economic strategies (adoption of modern technology and other risk taking investments) on the part of producers, are not triggered by short-term factors (i.e. a few years of good prices), but rather, by a set of convergent changes, like the cultural impact of labour migration, religious organisation, social networking (close contact with merchants) and, in sum, a collective perception of enduring favourable trends in the market and state support programmes.

Adjustments to coffee supply are only possible in the long term, but there are always conflicting economic strategies and adjustments. Intensive technology growers are more sensitive to cycles because they rely on massive use of agrochemicals and plant

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<sup>143</sup> Many authors have argued the economic advantages of small producers from different theoretical standpoints. Generally speaking, Marxists have looked at this phenomenon in a historical-structural perspective, sustaining the self-exploitation argument (peasant families' ability to produce food and absorb part of the reproduction costs of labour, and to react to commodity price drops intensifying labour (Bernstein 1982 and 1992); and capitalism's inability to completely remove non-capitalist forms of production (Palerm 1981). Based on functional, cultural and micro perspectives, many others have defended the efficiency of small-scale farming (Netting 1993) and the ability of peasants to resist state domination and market integration (Wolff 1966 and Scott 1996). As was argued in chapter 1, the critical use of both perspectives, keeping in mind the macro-micro and the structural-functional levels of explanation, helps to understand the complexity of peasants, rural elites and markets.

renovation, as well as large amounts of credit. However, countries with specialised coffee institutions may soften the impact of cycles, through financial instruments that allow gradual adaptations to market changes. Peasants tend to follow the ups and downs of the coffee market, and they tend to lack the backing of sound institutions (microfinance and insurance mechanisms, instruments to increase economies of scale, etc.). Provided specialised market institutions are in place, big growers may be able to invest during price slumps while small producers may receive transfers from savings made at peak price periods. More than short term advantages (i. e., exchange rate), competition is defined by long term institutional advantages (R&D, anticyclical provisions, long-term financing instruments).

#### ***4.2 Natural determinants of coffee production***

The agroecological conditions of coffee production bring about specific spaces for peasants, particularly in the case of Arabica coffee, adapted as an under storey tree in forests between 1,000 and more than 2,000 m.a.s.l. The primary differentiation of coffee beans comes from the two worldwide commercially used species: Robusta and Arabica, each having a different ecological niche and agricultural requirements.<sup>144</sup> Coffee's ecological niche and agricultural requirements – temperature, rainfall, canopy, ripening periods, picking and berry processing and average yield- entail relative advantages for highland peasantries over other larger scale producers, particularly in the high rainfall tropical mountainous areas where weed control and harvests remain major activities requiring high labour inputs.

*Temperature.* Given its temperature tolerance range ( $68^{\circ}\text{F} \pm 10$ ), the altitude at which coffee is actually cultivated depends on latitude (N-S). Between the latitudes  $25^{\circ}\text{N}$  and  $25^{\circ}\text{S}$ , the upper limits are determined essentially by thermal constraints: coffee resents cold winds - especially during the flowering period - and does not resist frost (not the slightest in unshaded plantations).

*Rainfall.* Being a perennial evergreen, coffee requires subsoil water at all times, except during the dry period, when the plant slows down growth (vegetative rest) to initiate flower buds. The number of distinct rainy seasons in a region determines blooming and the harvest regime. Harvesting methods primarily depend on the number of flowerings

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<sup>144</sup> Appendix No. 7 presents the general characteristics of each coffee species. However, modern hybrids do not conform to this conventional classification.

and terrain. In high rainfall areas weed control is a major activity, requiring considerable labour inputs or herbicides (Pieterse and Silvis 1988, p. 8).<sup>145</sup>

*Canopy.* Shade has an equilibrating effect on the tree. The canopy reduces temperature changes depending on the environment and soil, and preserves soil fertility by adding organic matter and – through leguminous trees- nitrogen. Shade also protects soil from erosion caused by heavy rain, winds and excessive heat (which decompose Nitrogen). Shade is advantageous with good rainfall and proper management. It contributes to weed and pest control, through higher biodiversity (Nestel 1995). Under primary vegetation, coffee and shade plants retain much of the sunlight, discouraging weed growth. This process, in turn, diminishes the physiologic activity of coffee trees and naturally controls some plagues and diseases, allowing lower temperatures on the surface tissues of the coffee bushes, which prolong their productive life.<sup>146</sup>

*Ripening periods.* Rainfall and temperature affect the rhythm and time-span of flowering and latter on berry ripening. Shade is an important factor that slows down fruit maturity. Generally speaking plain-sun plantations have faster and shorter harvest periods, as is the case of major areas in Brazil, making mechanical harvest feasible. The timing and rhythm of harvests, in turn, influence labour regimes. Faced with a short harvest season and high costs of labour, for instance, Brazilian big estates opted for harvest mechanisation, despite lower coffee quality and price.

*Picking and berry processing.* The use of particular picking and processing methods is not entirely a technical choice, but the combined result of the productive behaviour of a coffee variety (Arabica or Robusta), rainfall regime, labour availability and coffee market profitability trends. Robusta and some Arabica varieties retain berries on branches after full ripening, facilitating natural drying. Since Robusta beans –with stronger taste and caffeine content - bring the lowest prices, it is not profitable to undertake the more expensive wet-processing. New high-yield Arabica hybrids tend to drop ripened cherries, so harvest has to proceed quickly at peak periods. Pulping has to

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<sup>145</sup> In Colombia, where most coffee is cultivated without shade trees, broca (*hipothenemus hampei*) control is expensive and tends to damage quality to some extent.

<sup>146</sup> Plain-sun high-density plantations severely damaged soil in Colombia during the 1950s (Palacios 1980). In Guatemala, in the late 1980s large plantations were abandoning high densities (10,000 trees/ha), considered to be very sensitive to changes in real prices for coffee (inputs and labour). Due to high costs of inputs (fertilisers, weed and pest killers), some modern plantations have introduced temporal shading during periods of low prices (Graff 1986), like Brazil.

be carried out no more than 12 hours after harvest. Both family and wage labour are needed to undertake either selective or strip picking.

*Average yield* varies according to coffee variety, soil and climate, and production system. There are gross generalisations in the coffee literature about average yield, which do not consider varieties, densities, size of plantations and systems of production (not to say rate of substitution or pruning-stumping cycles). This is an old problem that makes aggregate coffee statistics inaccurate. New technologies and varieties have increased yields, shortening the time to get first harvests (to almost 2 years), although new pests and diseases impose setbacks and sometimes radical reallocations of producing zones.<sup>147</sup>

The early dominance of Latin American countries is the result of fewer coffee diseases and pests.<sup>148</sup> Latin America offers advantageous natural conditions for agriculture (possessing a quarter of the world's cultivable land, a third of inland waters and half of all tropical forests, apart from lower use of agrochemicals than the world average).<sup>149</sup>

*The problem of quality.* Shaded coffee - as in peasant diversified fincas - compares advantageously to commercial plantations (full sun-light exposure) because shade provides soil protection and even temperatures, natural fertilisation, higher CO<sub>2</sub> and N retention, biodiversity and beneficial predators, better sun-light conversion rates, and longer grove life-spans (Nestel 1990 and 1995; Moguel and Toledo 1996; Babbar 1993 and Lopes 1988). Quality is associated to multiple factors, but mainly colder climates found in the highlands, particularly with canopy trees.

There is still no conclusive research on the correlation between the attributes of coffee (aroma, body and taste) in the cup and the causal factors, but there is strong evidence that highlander *shaded coffee may have a positive effect on coffee quality*. Much of the knowledge of growers, processors and roasters is practical, acquired by experience and transmitted in the trade.<sup>150</sup> Cuppers tend to associate in a *more* methodical way<sup>151</sup> this

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<sup>147</sup> Java was displaced from its leading role in the coffee market, early in the XVIII century, while most Southeast Asia had to turn back to *robusta* variety due to nematode infestation during the 1970s and 1980s.

<sup>148</sup> Latin American coffee plantations are healthier than Asian and African ones, giving cost structures and quality a relative advantage. Expansion of the coffee berry borer slightly changed this picture (Interview with Mexican coffee expert A. Villaseñor (6-Nov-1997). See also Díaz-Cardenas (1997) and Graaff (1986:41).

<sup>149</sup> FAO, Regional Office for Latin America and The Caribbean. 2003. "Trends in Latin American agriculture 1990-2000." Internal document.

<sup>150</sup> See note 19.

practical knowledge, creating records and personal databases of regional samples, from which they develop their blending preferences.

There are three reasons that make clear-cut cause-effect relationships difficult to establish. First, environmental conditions bring about distinctive adaptation of coffee plants. Second, in contrast to industry, full normalisation and standardisation of agricultural processes are very difficult to achieve. Third and last, quality in the cup is an aggregated outcome of cropping, processing, roasting and even packing techniques, each of which entails alterations of a pattern that can easily occur.

In conclusion, the more favourable – and competitive - agroecological conditions for coffee cultivation are still rather rustic: high mountainous lands, varied canopy, tropical and subtropical weather and a mix of intense sunlight, cold temperatures, high moisture and rich soils. Although there are exceptions, like the southern plains of Brazil or the islands of Hawaii, most coffee producing regions conform to this rustic environment of the tropical highlands where peasantries live (Tulet et al. 1994).

#### ***4.3 Institutionalisation: understanding structure and dynamics of coffee markets***

Coffee is a complex commodity market, the second source of export incomes worldwide, just second to oil. Most of coffee cropping takes place in a wide area of the tropical and subtropical mountains, involving a labour intensive activity of around 20 million small-scale producers and hand-picking workers.

The nature of the exchange of centrally planned, geographically concentrated, large scale and capital-intensive annual crops – like cereals - is very different. The coordination of the international coffee markets has been based on the structures of national states, first, and on the international organisations created by the oligopolistic interests of the main consumer countries (USA and western Europe) and a handful of transnational corporations, on the one hand, and the two main producer countries (Brazil and Colombia), on the other. Governments and corporations have set rules for marketing and price setting, namely classification systems, based on which the stock exchanges in New York, London and other European cities, big brokers and buyers rank stocks and influence the global price structure. The logic of the commodity market

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<sup>151</sup> According to statistical analysis, the traditional cupping method is not verifiable, because there are always physiological and psychological risks (Lingle 2000). It is not scientifically known what the key compounds are in the desirable sensorial evaluation of each coffee variety and type (sniffing techniques are still used at some point). Coffee quality assessment is to a great extent affective and descriptive.

players is to maximise operational profits by forecasting and covering for price changes. By definition, the international market organisations are not concerned with supply regulation (it is for the market mechanisms to set the supply-demand balance, futures and short-term delivery price finding, stocks and business cycles). The functioning of these markets create two important effects, first, the movements of coffee contracts have little to do with physical coffee supply-demand trends, but influence expectations in the real coffee chain, and second, global investors can take profits from coffee capitals modifying the workings of coffee cycles (Gilbert 1997). The greater the market instability, the better their business.

National organisations coordinate and regulate production standards and internalise the coffee market's rules. The strategies and organisations created by each producer country aim at maximising returns (fiscal, capital and labour) in this way:

- Expanding the share of exports given the national natural endowments;
- Substituting, inducing and backing producers' collective action in the coffee chain;
- Maximising profit margins, and particularly tax revenue and returns to capital;
- Reducing the impact of cycles on export output and incomes.

Most producer countries once ran highly regulated legal and institutional frameworks for production, processing and marketing, along with different price stabilisation schemes, as counter-cyclical mechanisms. However, since the quota system ended in 1989, most of them have adopted open market, "neutral" and *procyclical* strategies, adding at best non-pegged price income support mechanisms during crisis. Depending on historical and institutional factors in each producer country, entrepreneurial growers use counter-cyclical strategies (the best way to maximise returns is to invest during crisis), while peasants always follow the coffee cycle (the lower the income, the smaller the investment in coffee).

Understanding how this intricate institutional framework passes price incentives on to producers, and how they adjust their diverse strategies, is fundamental to figuring out the interests of coffee market agents. Brazil and Colombia benefited for decades from valorisation schemes; Colombia and Costa Rica took great advantage from the boom of the 1970s to undertake massive modernisation; the USA created effective barriers to entry in the industry and the stock markets; Latin-American and African countries

“captured” peasants’ coffee surpluses; and retailers, roasters and the soluble industry benefited from chronic overproduction and cheap coffee.

International institutions promoted investments to increase worldwide coffee supply after the 1989 crisis; entire regions became unviable in Latin-American lowlands; bankrupt speculators and brokers appear during every cycle, while big grower-processors become heavily indebted during long-lasting crisis. This natural, social and economic complexity has created room for small-scale family producers, despite many efforts to fully rationalise production.

#### ***4.3.1 Shortcomings of mainstream economics’ analysis of coffee***

Economists have long studied coffee markets, and consequently, it is widely believed that “coffee demand is deeply understood” (Bates 1997, p. 176). However, conventional wisdom<sup>152</sup> very often misunderstands the structure and dynamics of coffee markets, leading other economists like Maizels (1997) to examine many unsolved problems relating to the nature of the crop and to the presence of millions of small scale producers who enter the market under a rather different rationality than large scale producers’.

It is out of the scope of this thesis to challenge the methodological basis of coffee econometric models. I will only highlight a few points that prove the serious shortcomings of coffee economics and the way they influence coffee sector institution building and policy making.

Among the demand side problems, which are poorly understood, we find the margin for substitution between different types of coffees (or sectoral markets), as well as the regional, sub regional and micro regional differences in costs of production and in price formation. With the advent of chronic oversupply, demand and consumption patterns weigh increasingly on the international coffee market, which clearly becomes a *traders-consumers* market, rather than a producer market.

Conventional wisdom remains misleading particularly when it comes to price, demand and income elasticity. Demand is said to be highly inelastic with respect to price, that is, to *some extent* consumers do not react to price increases. Maizels, however, makes a critical assessment of coffee econometric models finding several problematic areas on

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<sup>152</sup> ‘Coffee fundamentals’ analysis is strongly influenced by econometric models, the backbone of mainstream economics (Krugman 1996). This reliance on modelling represents one of economics’ main strengths: the logic and unity of its reasoning, but its main weakness too.



the side of demand, such as the lack of data on actual consumption; habits which are essentially non-rational and make demand inelastic; dynamic income-related adjustments of demand and the saturation point of individual consumption (Maizels 1997:151). And still more important, regarding the treatment of coffee quality differentials, there is an *elasticity of coffee types substitution*,<sup>153</sup> i.e., the *sectoral* structure of demand, (Geer 1971), which accounts for a simple fact, that people have *taste* and hence preferences leading to a strategy of product differentiation between ground and roast coffee, soluble, liquor, flavoured or non-coffee substitutes (tea in the UK or soft drinks in the USA) (Maizels 1997:143-44).

Consumption trends are less understood; demand shifts in the late 1980s and 1990s were not predicted. Among others, the transitions of tea-drinking countries to low quality, instant coffee, and then to higher quality roasted beans; the boom in the specialty market since the 1980s in the EUA (after a long period of low coffee grades); the higher rates of consumption of coffee-substitute beverages (beer, soft-drinks and juices, etc.) in some countries; the evolution of high quality brews to saturation and differentiation of soft-drug and energetic beverages; the increased consumption of *espresso* based coffee beverages;<sup>154</sup> or the unprecedented post-1989 stagnation (despite historic-low prices).

There are also misconceptions on the side of supply. Economists think of coffee growers as *investors* trying to maximise the use of coffee capital. While a sector of producers is clearly of an entrepreneur-type, most small producers do not fit the label, and they account for the vast majority of growers and an important amount of the total production world-wide.

For more than 50 years, economists have debated the 'perverse' supply function of peasant producers in developing countries, by which they mean a misfit with the expected rational-maximising behaviour (Ozanne 1992). While sometimes small producers react to falling prices with higher output (to compensate for income loss), this is rarely the case in the coffee market. Alternative opportunities and constraints vary greatly according to the degree of diversification of the family economy and integration in the market (in terms of capital, commodities and labour). The type of producer under examination does make a difference. Reaction to market changes will vary a great deal

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<sup>153</sup> Until the 1980s an econometric model took into account the demand for coffee by *types*, focusing on a group of Latin American producers (Lord 1990, cit. in Maizels 1997).

<sup>154</sup> What Ponte (2001) ironically calls 'latte revolution'.

depending on whether producers are peasants with high levels of self-sufficiency, or highly specialised commodity producers.

The price for coffee a year before is commonly used as the main independent variable in coffee supply models.<sup>155</sup> Although an influential factor, there are other equally relevant factors producers take into account, both related to coffee and other farm and off-farm activities. More important, there are intermediate institutions that transform *real* price incentives in a rather contradictory way. *Rational* decisions cannot be based only on short-term price experience, due to the perennial nature of coffee cropping. As economists have realised, individual and aggregated supplies are not the same; and in the coffee market even more so. Polarised social structures generate differentiated incentives, distorting the terms of competition at different levels. Thus, at one extreme we find peasants and small landholders, having generally no more than 2 ha of coffee plants in Africa and Latin America, but representing between one-third of the total number of coffee producers – in the most modernised countries, like Colombia - and more than three-quarters in most producer countries.<sup>156</sup> They associate coffee cropping not only with food staples but also with wage labour. Their coffee plots show mixed technologies (in terms of coffee varieties and density, and cultural practices) and very low to medium yields. Small producers react usually to changes in commodity and labour markets according to past experiences, rather than to formal forecasts (Ortiz 1976, 1983). The price for food and labour are paramount in defining the income balance of agricultural and off-farm activities. Supply elasticity of small producers, hence, depends on the level of self-sufficiency and surplus production capacity. In general terms they have a *pro-cyclical* reaction to price changes. When prices go down, but are still above wage levels, producers will tend to accommodate to available income (consumption is residual) and find alternative options to complement diminished income, which often means neglecting coffee plants. If prices remain close to local wage levels for several cycles, it is likely that producers will respond by reducing coffee jobs to the minimum (collecting the harvest), taking marginal returns. Only if prices

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<sup>155</sup> The rational expectations framework is considered the best way to predict choices of commodity producers facing market uncertainty (Newberry and Stiglitz 1981).

<sup>156</sup> There are no reliable coffee statistics to weigh the participation of big, medium and small land holdings worldwide considering not only size but also systems of production. Graff (1986, pp. 33-34), for example, assumed medium-sized holdings to be from 5 to 30 ha, somehow representative of Latin American countries, but the difference with large and small farm sectors – considering different factors other than size - is not clear. In Colombia, for instance, most modern coffee producers have no more than three hectares. The displacement of big coffee plantations evolved from the crisis of the 1930s up to the slump in 1989-94 across Latin America, including Brazil (Roseberry et al. 1985; Junguito and Pizano 1992 and Bates (1997).

sink below this floor for *too long* – time relates to alternative sources of income - will producers cut down coffee trees and move towards alternative cash crops or long-term labour migration.

While demand for coffee changes dynamically according to income and price movements, tastes and alternative consumption products (stimulant brews, soft drinks), supply adjusts slowly to these changes. As prices for final products tend to be stationary, rather than replicating the price movements of raw beans, income and price elasticities are high. Big changes in consumers' available income do not lead to a proportional increase in coffee consumption.

Maizels (1997) introduced for the first time different equations for output harvested area and planted area, because the former is a short-run decision, while the latter, a long-run investment decision. Additionally, he introduced a real producer price (producer price in local currency deflated by the local cost of living index) to capture opportunity cost of the work involved in harvesting, as well as the value of the crop. To some extent, he also considered the biological cycle of trees and a time trend that accounts for the yield curve (Maizels 1997:157-160). According to him, elasticities were not statistically significant, reflecting imperfect data and also the lack of methodological references to *interpret* results.

In making the case for a more complete understanding of the way the coffee market functions,<sup>157</sup> I suggest considering several problematic and tightly interconnected areas that can together account for the survival of small scale producers. I deal with the first two in this section: first the cyclical behaviour of the coffee market, which exerts a determining influence on market dynamics, institutions and actors' strategies; and second, sectoral and niche markets, which make room for peasants' coffee. The third area is dealt with in the next section: the strategies of small producers – and their distinctive rationality - to accommodate coffee in their livelihoods. Distortions in the structure of market incentives and state promotion are other problematic issues.

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<sup>157</sup> Pioneering efforts towards such comprehensive study of the coffee market have emerged from different disciplinary fields, including Tulet et al. (1994) in social geography; Palacios (1983) and Roseberry et al (1986 and 1995) from history and social anthropology; Nestel (1990 and 1995) and Cannel (1983) in Ecology; Downing (1988) and Bates (1992 and 1997) in institutional analysis; Stewart (1992), Maizels (1992, 1997), Gereffi (1994), Gereffi and Korzeniewicz (1994) and Gilbert (1993 and 2003) in economics of commodities.

#### *4.3.2 Overlapping cycles affecting coffee supply*

The coffee market is extremely unstable for both natural and socio-economic reasons, which materialise in a complex set of overlapping cycles affecting supply in different ways. Biological, weather and harvest cycles make coffee market agents take counteracting provisions to soften the negative effects of natural cycles on supply. Strategies of stock build-up and long positions in futures markets are used to overcome shortages. However, these strategies in fact feed other cycles that are linked to consumption and the level of income, not to supply.

Coffees of equivalent type and flavour, similar transport costs sharing the same harvest cycle, are likely to undergo competitive pressures. That is the case of Mexican and Central American coffees – known as “Other Milds” –, with similar harvest seasons (around October to March), located in the same region and with similar quality attributes. In contrast, Colombia enjoys practically year-round supply due to a second small harvest and stock carry-over. The entrance of Brazil’s huge harvest in April-May usually pushes the prices down in the stock market, particularly for Robusta and lower grade Arabica coffees.

These seasonal problems create temporary supply imbalances and speculative movements throughout the coffee year. The big TNCs of the coffee industry have the power to bargain wholesale contracts - at discount prices - directly with the coffee authorities (Clairmonte and Caranagh 1988; Bates 1997), building stocks at a cost-efficient level according to their business strategies, blending methods and purchase policies. They usually have research departments in the main producing regions, which forecast harvest and advise on stock policies.

The chaotic behaviour of weather presents complex patterns that can be partially modelled, but not predicted. In Brazil alone, apart from droughts and heavy rainfall problems, there have been between 2 and 7 frosts of different intensity per decade since the 1930s. What happens to Brazilian production affects the world market.<sup>158</sup> The concentration of production in this country further increases the impact of weather variations. However, there have been recurrent frosts, storms, droughts, and pest outbreaks (particularly during crisis periods) in all producing regions, adding to coffee market instability.

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<sup>158</sup> The correlation coefficient between annual production fluctuations in Brazil and the world was 0.93 from 1960 to 1980 (Akiyama 1982:7) and in 1992-97 still was 0.73 (own estimates).

The biological rhythm of coffee plants entails a biannual variation or bearing cycle, that is, a year of intense production followed by another of rest. The biological cycle varies according to coffee plant genotype and life yield curve, although it is strongly affected by climatic conditions and agricultural practices, particularly strip picking (Cannel 1983, p. 262 and Bailly et al. 1992, p. 57). Productive life and renovation cycles are intertwined because trees undergo productive decline, a problem that growers face with different methods of renovation of vegetative material if they want to avoid sharp production and income drops. Massive renovation (by row or section) is expensive, and creates income imbalances. It is a common practice to scale down this task combining two techniques: pruning and renovation.<sup>159</sup>

Natural cycles constrain the supply-demand balance, inducing specialised institutions such as boards and stabilisation funds to attempt to regulate such cycles. Growers, traders and investors adopt *rational* strategies, reacting to coffee cycles that may trigger, in turn, long-term consequences, risks as well as profit-making opportunities.

In addition, there is a long-term cyclic movement in world *stocks* (Pieterse and Silvis 1988, p. 41), which has a strong negative correlation with prices (Akiyama and Duncan 1982).<sup>160</sup> Beyond a certain point, accumulated stocks overcome actual consumption and tend to depress prices; below a certain floor level, the opposite occurs. Information on actual stocks, both in consuming and producing countries - though hidden and manipulated - is vital in determining market trends.

The standard inventories for wholesale traders and the industry used to vary between one to three months of consumption, while for retailers only lasted two or three weeks (Volvergang 1988). After the end of the quota system, most of the cost of stock financing was transferred to producing countries. Stock cycles are greatly influenced by climate, so they cannot be fully predicted. Stock building has had a speculative component to avoid the risk of shortage.

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<sup>159</sup> Stumping or *rejuvenating pruning* consists of cutting the tree down from its stalk(s) to regenerate *all* vegetative tissues. The second technique is to spread out new planting in different age rows, dividing the burden of renovation. The *Veracruzian* pruning consists of renovating every year only one of 3-4 main stalks, in order to allow production in all trees.

<sup>160</sup> There were four major stock cycles during the XX Century. The last cycle started in the early 1990s, when demand and supply were more or less balanced and stocks low, and yet prices failed to recover accordingly (until a retention effort was announced in summer 1993, and clearly when the Brazilian frosts hit in 1994).

Long-term international price cycles affect coffee supply too. During the period of free-market (before 1906), the cyclical behaviour of the international market was explained in terms of demand and business conditions in the consuming countries, climatic factors affecting production in Brazil and lags in the adjustment of supply to price. In the XX Century, major institutional structures were created to regulate the domestic and international coffee markets, altering its performance. Nevertheless, long-term cycles persisted, strongly anchored in consumption and business cycles in developed countries.<sup>161</sup> But a new phenomenon emerged: the great leverage of coffee organisations modified market actors' perceptions as well as future trends. Two types of organisations in particular structured market transactions: the coffee boards or bureaus, on one hand, and the stock and futures markets, on the other. Since the recession of the 1930s, and particularly since the second post-war boom, state regulation was paramount in arranging the coffee sector's structure of incentives in all producing countries. After 1989, that infrastructure collapsed to a great extent, without the complete removal of national states' regulations. From then on, a new market-led institutional framework emerged. Apart from a much faster internationalisation of cost structures in producing countries, the balance of power shifted radically in favour of consumer countries and TNCs' in the coffee industry (Oxfam 2002).

The interaction between financial, natural and productive cycles can be very disruptive and there are very few anti-cyclical institutions with integrated action at all levels. Coffee capital flows do not always respond to agricultural cycles and production needs. In general, coffee cropping has an *endogenous* stock of capital, more or less stable along the coffee cycle. Quite often, there are banks or specialised funds - as well as informal credit - which specialise in coffee producers' seasonal needs. Efficiency in this sector depends a great deal on timely access to high volumes of working capital and cost-efficient insurance during the coffee season (harvest, processing and marketing). Intermediaries, producers' co-operatives or parastatals have to manage credit very efficiently to maximise coffee capital rotation (*turnover cycles*) and reduce the relative

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<sup>161</sup> Polanyi (1957) predicted a cyclical "double movement" in which the extension of self-regulating market conditions inevitably generates counterbalancing social regulations. As Talbot (2004:27) suggests, the prevalence of open market conditions in the coffee chain since 1989 has unleashed the price cycle (overproduction, price fall, pressures on states to compensate income loss, and so on) and has made room for a "new agreement" in the international market.

costs of money (per unit of output). As a very general rule of thumb, it is calculated that 50% of the value of current production is needed to mobilise harvests.<sup>162</sup>

Managing these overlapping and interconnected cycles demands a very complex division of labour amongst different agents of coffee agribusiness (weather forecasting, consumption and stock market research, stabilisation funds, etc.). While brokers in the international stock markets are better prepared to deal with the financial cycles and TNCs and big brokers with those cycles derived from marketing and stocks, peasants are best fit to manage the natural cycles (biannual bearing, plants' productive life, etc.) due to the condensed knowledge frameworks mentioned above.

In general, small producers lack the support of organisations that understand and meet their needs, promoting their interests in terms of credit, insurance, stabilisation schemes and diversified use of productive capital, and that is why they tend to pursue a pro-cyclical strategy (the lower the price of coffee, the smaller the amount of inputs and labour spent on coffee production). While small producers are handicapped to profit from upward price swings (as big producers do), the opposite is also true: during price crisis they do not take the full blow of long-lasting slumps, mainly due to their ability to cut down returns to capital and labour (standards of living), produce food and other associated crops and move to other available activities (without fully abandoning coffee). Furthermore, entrepreneurial growers, processors and exporters face greater levels of uncertainty. The more they expand, the higher the level of complexity for managing their businesses, forecasting market behaviour, planning investments and covering risks.

In short, peasant producers manage the natural coffee cycles in different ways; first, taking returns to labour and decreasing consumption, and even quitting temporarily (they come back with price recovery). At the same time, they allow the natural environment to *sustain* the coffee plants.<sup>163</sup>

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<sup>162</sup> This is the general estimation of coffee sector administrators in Mexico, and it coincides with intermediaries' working capital funds in the field. According to income structures in Central America, similar parameters apply (Pelupessy 1991).

<sup>163</sup> Taking advantage of slow growth and biodiversity's synergies under shaded conditions; root-level stalk cutting or intercropping are some of the tactics peasants employ.

### 4.3.3 Coffee differentiation and sectoral markets

Sectoral differentiation of the international coffee market has created new spaces for small-scale producers, not only in the lower price-tag segments, but also in the upper ones.

Coffee is not a homogeneous product. There are two main markets, clearly distinctive for they correspond to the main commercial species, Robusta and Arabica. The latter used to have two subtypes, emerging from the two main processing methods: *washed* (used in almost all Latin-American Arabicas, except for small quantities of *naturals*<sup>164</sup> and most Brazilians and *unwashed* (Brazilians).<sup>165</sup> Most small-scale parchment producers use rustic pulping techniques, while big grower-processors of both unwashed and washed Arabicas are capital intensive. The washed Arabicas subgroup is branched out again in two divisions, this time according to “quality” standards: Colombian Milds (Colombia and Kenya, mainly) and Other Milds (Mexico and Central America). The next classificatory criteria among Arabicas are altitude and export quality standards,<sup>166</sup> mixing local singularities and labelling (some countries have regulations all along the coffee chain). In general these criteria establish the altitude-latitude where high quality beans are commonly found in each country and producer zone. There are plain export quality (“prima lavados”), and superior qualities like “high altitude”, “hard beans”,<sup>167</sup> and others. Chronic overproduction has encouraged medium, big-growers and some small-scale producer organisations to move to high quality niches in which value-added improves the terms of trade. On the other hand, the vast majority of small producers in the world undergo a process of decreasing returns, disinvestment, neglect and lower-quality production generating new competitive pressures among different types of coffee. Cheaper coffees – Robustas from Africa and Vietnam - invade world markets (particularly via soluble), while the specialties sector is growing faster than total consumption. Much of these sectoral and niche market processes are under-researched and the dynamics of price formation are then inadequately understood. Generally

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<sup>164</sup> Dried on the tree (particularly in dry regions like the Pacific coast of Mexico).

<sup>165</sup> Washed refer to a profuse use of water as lubricant (pulping), vehicle, fermenting-facilitator and mechanical remover of the mucilaginous cover for parchment production.

<sup>166</sup> There are in general two major export quality standards or blends influenced by the two major consumer markets (the USA and Europe). They both consist of a catalogue of imperfection categories that establishes the maximum number of defects in each category permitted in a sample. The American blend allows 5% defects and the European blend only 3.5%.

<sup>167</sup> The term ‘hard bean’ figures in grade descriptions of Central American coffees grown at relatively high altitudes where maturity is slower producing a harder, less porous bean (although there are many exceptions to this generalization).



speaking, given a considerable price increase in one type of coffee, the demand for the contiguously inferior quality coffee will increase (Geer 1971), provided that price and relative scarcity remain unaltered.

Mild blends make minimal use of Robustas, while bitter blends have Robustas and unwashed Arabicas as their main components. Speciality coffees are new market niches developed since the early 1980s, that use mainly high-quality washed Arabicas (gourmet, organic, single origin and varietals and flavoured, among others), although they include some high quality unwashed Arabicas and Robustas. Hundreds of peasant organisations are producing organic, ecological and gourmet coffees, frequently with the help of NGOs, environmental<sup>168</sup> and several solidarity organisations.<sup>169</sup> The soluble industry incorporates lower grades like unwashed Arabicas – natural and Brazilian coffees - Robustas and non-export quality beans.

The crisis initiated in 1989 produced a quality-reducing effect, since historic-low prices forced small producers to decrease the use of inputs and agricultural jobs. As a result, the vast majority of coffee was of lower quality by the end of the 1990s than 15 years before, while at the same time there emerged new high quality niches to supply the high-income consumer. Some countries and organised producers with access to technical assistance, capital-intensive technology, price stabilisation and marketing organisations are catering to those high-quality niches (Colombia is emblematic in this respect). Given a depressed level of prices for both, Arabicas and Robustas, the price gaps among them are narrower than they were under “normal conditions”.

Coffee quality does not appear just as a natural process. It has to be created in a given economically viable scale, transferred upwards to successive transformative and marketing processes, before it can be recognised and paid for. Competition for the quality-led consumer markets (such as those of Northern Europe), affects specialised small farms, in which modern technology and efficient coffee organisations depend on long-term investment back-up. In this sense, the liberalisation of coffee markets put to compete not only price structures, but above all the quality of coffee organisations and institutions in each producer country. Apart from the natural endowment (soil, climate, and altitude), the coffee quality profile of a region is shaped by the interaction of coffee

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<sup>168</sup> The Smithsonian Institute promoted a price incentive for bird-friendly coffee in Central America and Mexico. In this case the connection with peasants lies in the use of shaded systems of production that preserve nitrogen-fixing trees and use less agrochemicals (Rice and Ward 1996).

<sup>169</sup> Max Haavelar, Fair Trade, Cafe Direct, Oxfam, and other solidarity organisations promote direct marketing, sustainable agriculture and higher than market prices for small producers' organisations.

producers with intermediaries, traders, and state agencies (chapter 5 deals with this issue). The extent of vertical integration and modernisation is also important: the establishment of intensive-technology coffee plantations; the development of processing and transport infrastructure; and the research and development of local hybrids. That is why, historically, quality markets used to be linked to big plantations, but the massive emergence of smaller landholdings and new institutional frameworks in the mid-XX century radically transformed the producing dynamics of Latin American coffee regions. While most of small producer coffee flows to the market as an undifferentiated product, a sizeable proportion reaches the top grades.

The coffee industry has been unable to fully substitute the ‘natural qualities’ of green coffee (taste, aroma and others). While aiming at this goal, in the short term big conglomerates focus on reducing raw material costs (cutting down the relative volume of coffee beans per unit of instant coffee), eliminating supply heterogeneity by blending and standardizing high volumes of raw coffee with generic attributes and smaller amounts of high quality coffees. And this trend leaves room for small-scale producers who provide that ‘general’ quality coffee worldwide and also high quality grades, paid at lower prices.<sup>170</sup>

#### ***4.4 Small producers strategies***

Small-scale coffee production is a flexible petty commodity production enterprise, even though the management of a coffee producer family *finca* is far from that of a typical capitalist plantation, due basically to the small scale of operations, the paramount importance of family labour and the role of coffee in diversified peasant strategies. Small producers think of coffee as an activity that brings about the benefits of market exchange (cash income), but also the *insurance* for an acceptable livelihood. For them coffee income is worth the amount of products they are able to get in return (food, clothes, tools, medicines, and livestock). But being a coffee producer is more than an individual choice, for land entitlements, knowledge and the commitment to engage in coffee cropping is a life-time project passed from one generation to another. Coffee is linked to the history of the region, because the coffee market developed through a long historical process (reviewed in chapter 2) involving public and private organisations and institutions.

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<sup>170</sup> See the case of Indonesian coffee (Bennet and Godoy 1992) and Mexico (Díaz P. 1992).

There are some economic factors that explain in principle why small producers *may* enter the coffee market. First, there are no strong barriers to entry in the primary stages, from cropping to processing of parchment coffee. Second, given the emerging complexities in bigger coffee plantations, there are no inherent economies of scale (Gudmundson 1995), nor mechanical correlation between farm size and technology-yields. Third, there are strong barriers to access capital (land, inputs, credit and infrastructure), even if there are few technical requirements that lead to economies of scale (Roseberry 1995, p. 13). Fourth, coffee is a very labour intensive crop due to agroecological and technical constraints. Unevenness in the harvest season and quality of pickings entail a cost efficiency barrier to wage labour in coffee plantations, creating a comparative advantages for family labour (Stolcke 1992).

In understanding peasant livelihoods we have to look at the way a typical peasant family meets consumption needs, and allocates seasonally land and labour to different activities. The prices of cash crops behave erratically and wages are also highly variable; that is why coffee producers' income cannot be accounted for with one-cycle/single-crop analysis.

Being *peasant* in Atzalan means a self-assumed *rural* identity and a set of entitlements within the community (mainly land and associated rights, like dwelling and access to social resources) and managing a way of living around traditional cycles (religious, agricultural), though not necessarily depending on agriculture. The traditional agricultural cycle plays a role as a structuring mechanism,<sup>171</sup> around which resources are administrated in a highly integrated and self-managed way. At the same time, the cycle makes room for short- and medium-term planning, as well as for experimenting (repetition is the framework for systematic comparison and trial and error innovation). Additionally, by cultivating every year peasants fulfil legal dispositions that make them eligible to corporate social benefits (Procampo or coffee income support, for instance).

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<sup>171</sup> Friederichs (1986) finds the agricultural cycle as one of the most important social structures in peasant communities. Medina (1990) has studied how changes in the traditional agricultural cycle (based on the *milpa* –maize crop– complex) in Southeast Mexico have influenced the religious fiesta calendar and may signal the deterioration of the civic-religious hierarchy (cargos system). While Atzalan immigrants never reconstructed a cargos system, and only a minor part of the fiesta calendar survived, much of the traditional maize cycle continues. See also Ellis 2001 on the relationship of agriculture seasonality and risk bearing strategies.

Although small coffee producers are not entirely self-sufficient,<sup>172</sup> they manage on a year-to-year basis a long-run livelihood. This is the strategic profile of the peasant domestic economy explored in section 4.4.4. The position of small producers in the regional coffee market is not merely a result of structural objective constraints, but a combined result of intended efforts to improve living conditions, and unintended moves (choices, bets, guesses and experiments) around both coffee cropping and non-coffee activities. Both, intended and unintended actions revolve around managing agricultural cycles, while making intensive use of labour, land and social networks.

#### ***4.4.1 Economic strategies and cycles management***

Traditional agriculture, particularly the maize cycle has a decisive influence on the reproduction of peasant livelihoods, and it is at the heart of a cultural matrix of the Mesoamerican-rooted communities. The main objective of the agricultural calendar is to synthesise an accumulated knowledge, but it is much more than an agricultural almanac: it is a worldview and a condensed knowledge of biological cycles and climate dynamics, as well as a planning devise (defines the right time for every task and the way of interweaving crops cycles).<sup>173</sup> Furthermore, it provides an organisational framework for ritual life because the agricultural cycle is closely linked to a religious calendar and a 'prestige economy'. Deterioration of traditional agriculture affects to some extent the political and social organisation of peasant societies.<sup>174</sup> Most of Atzalan *mestizo* communities have seen their religious calendar considerably eroded, if not confined to a single festivity, the community's patron saint.

From San Pedro Altepepa upward, highlander communities only have one winter cycle for maize or *tonamil*, while in the lowlands two cycles a year are possible. A first decisive issue in managing wisely household resources is to determine the timing of crops, from soil preparation to sowing. Early or latecomers will face advantages and risks later on in the agricultural cycle, both in terms of labour needs and natural hazards. Two basic decisions ensue: how much a producer should sow and when. The first

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<sup>172</sup> In peasantist approaches diversified small coffee producers are seen as entirely self sufficient and sustainable (Moguel and Toledo 1996), an oversimplification of many paradoxes that small producers confront (discussed throughout this thesis).

<sup>173</sup> Atzalan highlanders have their own measuring system based on units of 20 fractions that combine land-work and work-time as a single dimension, allowing very accurate calculations.

<sup>174</sup> Medina (1990) has studied in Southeast Mexico how changes in the traditional agricultural cycle (based on the *milpa* – maize crop - complex) have influenced the religious fiesta calendar and may signal the deterioration of the civic-religious hierarchy (cargo system).

question refers basically to land and labour constraints in the household, while the second refers to the conditions of taking advantage of biological cycles and rhythms. Early maize croppers have the advantage of having the harvest first, but very early maize *tonamil* may not endure very cold weather at the early stages. Moreover, early engagement with *tonamil* maize can affect the ability to cope with coffee picking, precisely at its peak and when the best cherries ripen.

Maize *tonamil* is sown in January and February, or even as late as April, but the risk of losses for late croppers increases considerably because strong southern May-winds hit and bend young maize canes without the cobs reaching full size (losses can be half of expected harvests). Those that are sown in January/February are strong enough to resist. Nonetheless getting started late in the calendar offers the advantage of freeing labour for the coffee harvest until it is over, which is advisable because prices usually are better at the end of the harvest, and late harvest increases the likelihood that maize stocks will last until the next harvest.

Coffee complements the maize and beans agricultural cycle, in two well-synchronised ways. Maize and beans are mainly self-consumption crops, whereas coffee provides much needed cash for part of the year. Secondly, cultivated together, they create a synergy of incomes and labour continuity throughout the year. Coffee harvest incomes (October to March) finance *tonamil* maize sowing at the beginning of the year (February-March), while maize harvests ensure a basic food to get through the slack season (April and May) and to concentrate on at least some of the coffee cultivation jobs (weeding, pruning, fertilising) until the new harvest comes again. It represents a 'friendly' activity for poor people, for coffee is a relatively advantageous crop when compared to very few other viable cash crops in this mountainous region (citrus, plantains and pepper). In addition, coffee is a hardy perennial of relatively easy maintenance. Flexibility and complementarity of traditional coffee *fincas* are vital characteristics since they allow a family to cope with labour demands of a diversified economy. Finally, coffee makes viable the use of otherwise idle lands (stony, poorly soiled with steep slopes).

Peasants rely on a sound management of cycles to increase the chances of an acceptable livelihood. They make use of a *condensed* rationality, not always consciously assimilated and processed: 'we crop maize the way we do it because that's the way we

were taught to do it'.<sup>175</sup> In multicropping systems with a forest-like structure, natural cycles come into play, reducing management time and energy transferred to the agricultural system. Peasants free themselves from the need of staying in the field, that is, from constant on-site supervision of coffee *fincas* and maize plots. In this way they 'maximise' off-farm activities, while the coffee finca produces *by itself*.

The household economy is organised around cycles, such as the two crops of maize, the annual labour and consumption cycles, or the extended family's demographic cycles, all of which influence peasants' strategic and contingent choices. Of course, coffee producers are also influenced by contingent factors, intuitive actions, and first-hand reactions, which frequently generate unintended outcomes (i.e. the removal of shade trees to plant orange and plantains aggravated coffee disease and soil erosion; or selling fincas just before the price recovery). The overriding issue is that cyclical management provides peasants with the structure for strategic complex decisions.

The key for managing agricultural cycles is mastering synergies of an associated pattern of crops. Mountain slopes present several soil types, shapes and suitability for crops even in the same individual lot. The more each producer gets to know his land's potential, the greater the chances for obtaining good harvests. Among other features, Atzalan producers have an expertise in identifying sunlight exposure. Plots with *oriente* (eastward land) are better sun-lit, which means fast-growing conditions and less risk of fungi-related diseases. That is why land with *oriente* are preferably allocated to maize cropping. Moreover, they have an extensive classification of lands. Coffee needs permeable soils and good drainage, and producers have a sophisticated labelling of soils even within a small patch of land.

However, some producers have lost this traditional knowledge. As a producer from El Jardín recognised in talking about the agricultural calendar, 'some producers have the *curia* (skill) of choosing the 'tender' moon for sowing'. Not everybody can do it any more. They no longer believe in it or are unable to assess the moon's effect on planting and harvesting.

Understanding coffee cycles provides producers with an advantage in managing coffee groves. Apart from the biological biannual cycle (different for each coffee variety),

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<sup>175</sup> With a few exceptions, like the Jehovah Witnesses (JW), most *ejidatario* producers embrace this traditional inheritance. Rawls (1955) defines institutions as the summary of past practices.

there are recurrent droughts and frosts and the lifetime cycle of the finca - from 30 years or longer depending on different factors.

According to the agricultural pattern of each producer, the seasonality of crops defines time frames for labour, both on-farm and wage labour. Food security defines the priority of specific activities: access to land and wage work to be able to produce foodstuffs. The discipline required for food provision is greater than the discipline of coffee cash cropping. With a reasonable harvest of maize and beans, peasants can think ahead about maintenance work on coffee groves, orange trees and livestock raising. Producers specialised in coffee are less likely to engage with the labours required for full self-sufficiency. Modern coffee cropping disrupts the traditional management of complex cycles promoting a simple and specialised mono-cropping. The IMC created a system of deliveries attuned to traditional agriculture, on which producers ended up depending.

Peasant families' consumption undergoes seasonal adjustment on the basis of annual and perennial crops as well as seasonal flows of cash income. Peasants try to balance two groups of basic consumption products: (a) manufactured products that are predominantly acquired through cash exchange (i.e. sugar, oil, salt, soap, pasta soup, rice and most vegetables); and (b) self-produced or gathered foods (backyard livestock, eggs, maize, beans, orange, plantains, chillies, etc.). I did some calculations on the relative weight of those products throughout the year based on a basic consumption basket of a nuclear family. I started the exercise by establishing a priority ranking (see Appendix 4):

1. Essential goods throughout the year (either produced or exchanged);
2. Seasonally available products consumed depending on cash flows and season;
3. "Luxury" goods mainly consumed in the peak of coffee cash incomes.

Three observations result from these calculations. First, there was a strong seasonal diet adjustment in the basic family basket in which maize and beans were the essential food staples with their different forms of preparation and combination along the maize cycle. Second, the aggregate result of such seasonal adjustment is a period of 4 to 6 months of "under-consumption" in which market products are minimized, making maize, beans and other self-produced items last to the limit. But with the coffee harvest comes approximately 4 to 6 months of "over-consumption" in which different "luxury" (i.e. beer, meat), desirable (i.e. soft-drinks, biscuits, candy) and relatively expensive market

items (i.e. clothes, shoes) are incorporated, as well as other food stocks and basic working tools replenished for the next cycle. The final point is that this flexibility can be explained by the diversified strategies of the family economy – seasonal wage labour is important to compensate shortfalls - and by around half year of under nutrition (which particularly affects children and women).

Pure social categories – peasant, wage labourer, farmer - are difficult to find in “really existing” rural societies. Even farmers in developed countries make use of unpaid family labour, informal sharecropping contracts and barter. Modern small-scale coffee producers in eastern Mexico behave *sometimes* like typical petty-commodity producers, but engage in atypical cash crops (double purpose plantain and orange crops); some family members are commonly labour migrants; and they retain limited self-consumption capabilities (maize and beans). When coffee terms of trade change, they can opt out of wage labour, or turn to self-sufficiency, giving up temporarily wage labour. *Ranchero* growers in Atzalan, for instance, during booms, perform as capitalist entrepreneurs, but they prefer to adopt strategies of resistance (closer to those of peasants) when credit is expensive, marketing risks are high and profit margins are low. Production of commodities and surplus does not entail full commoditisation of the household economy.

The much-needed bridge between structural categories – commodity producers, peasants or workers - and social reproduction is the management of resources, physical and social, within dominant units of production (family *ejido* parcels). The extent to which a peasant household has lost the ability to access critical assets (land, social networks) and manage complex biological cycles (relying more on agrochemicals and inflexible disciplined labour regimes), can point to identifiable transitions. In sum, to understand coffee growers – peasant, petty-commodity producers or capitalists - it is important to consider their productive strategies.

In the following Table (No. 6) I summarise the main findings of my fieldwork in Atzalan, describing three types of producers and their economic strategies during the 1990s:

- *Small-scale peasant producer* with access to *ejido* lands (as tenant or *ejidatario*, makes little difference), with a typical *finca* of 1½ -2 ha. After the 1989-92 crisis, the vast majority considerably increased labour migration, neglecting



their *fincas*. A slow come back took place due more to the 1994-95 price recovery, than to government handouts.

- *Small ranchero grower* - either *ejidatario* or landowner (land tenancy makes no difference), with bigger landholdings and specialised coffee *fincas*,<sup>176</sup> where one could still recognise IMC-technology (specialised shade, regular densities). Ranchero growers went through the crisis disinvesting assets like trucks and livestock, and some intensified other businesses (retailing and plantains).
- *Grower-processor*<sup>177</sup> with more modern unshaded *fincas* in better conditions, had serious financial problems (indebtedness). They were the only ones investing during the crisis – replanting, weeding and fertilising - and reaped the benefits of price recovery. Apart from buying and processing coffee with small margins, cattle ranching was also an important activity. Labour supply and supervision was a constant problem for them.

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<sup>176</sup> A more detailed analysis of some of these small ranchero growers is in chapter 5.

<sup>177</sup> A more detailed analysis of these grower-processors is in chapters 5.

**COFFEE PRODUCERS' STRATEGIES: PEASANTS, RANCHEROS AND GROWERS IN ATZALAN, VERACRUZ (mid-1990s)**

	<b>PEASANT EJIDATARIO-SMALL PRODUCER <sup>A</sup></b>	<b>RANCHERO EJIDATARIO-SMALL GROWER <sup>B</sup></b>	<b>GROWER-BUYER-PROCESSOR (MID-BIG) <sup>C</sup></b>
<i>Role of coffee</i>	1. Complementary source of cash income 2. Peasant livelihood's economic pivot (low maintenance & associated crop)	1. Capital accumulation 2. Part of rancho strategy and lifestyle (synergies coffee+cattle+maize)	1. Capital accumulation 2. Specialised and formal business 3. Part of farmer lifestyle (coffee+cattle)
<i>Landholding</i>	4 ha (in Tlacolulan)	20-40 ha	60-150 ha
<i>Typical finca</i>	1½ - 2.00 ha	5-10 ha	50-100 ha
<i>Coffee technology</i>	Diversified shade; irregular under 1,200 trees/ha pattern; many varieties	Unproductive shade; regular 1,600-2,200 trees/ha pattern; mainly caturra & MN	Unshaded; regular 2,200-2,600 trees/ha pattern and caturra & MN.
<i>Coffee yield</i>	6-10 Qq/ha (most below 8 Qq )	16-25 Qq/ha	20-30 Qq/ha
<i>Conditions</i>	Poorly maintained and in varied transitions (low densities, weed and pest infestations, unregulated shade; intercropping with maize, plantains and oranges)	Neglected (lack of pruning, shade regulation and weeding) but still in recognisable shape: even density across the finca and shade in place	In good shape but without all desirable maintenance (2 fertiliser applications instead of 3, replanting and pruning deficits, etc.)
<i>Use of land</i>	Diversified (intercropping) and intensive use (based on traditional knowledge & access through social networking)	Specialised and intensive use (based on modern technology)	Specialised and intensive use (based on market information, scale economies & modern technology)
<i>Labour forms</i>	1. Family 2. Labour exchange at harvest peaks (among relatives and neighbours)	1. Family labour 2. Wage labour at harvest peaks	1. Wage labour at harvest, pruning, weeding and fertilization (seasonal contracts with outside peasants) 2. <i>Beneficio</i> and farm workers
<i>Labour interlocking</i>	Family labour → extended (women & children) Labour exchange ← → with fellow peasants Wage labour → sell to rancheros and growers	Family labour → nuclear (women & children) Wage labour → hire local ejidatario-peasants	Wage labour → hire mainly outside peasants (social sanction problems with locals)
<i>Credit needs</i>	Family consumption (during harvest to bridge cash payment of coffee)	1. Labour intensive jobs (harvest, pruning, fertilization) 2. Inputs 3. Pulping and basic processing (oreado coffee)	1. Labour intensive jobs 2. Inputs purchase 3. Processing parchment 4. Working capital (to buy cherry coffee) 5. Marketing parchment

	PEASANT EJIDATARIO-SMALL PRODUCER <sup>A</sup>	RANCHERO EJIDATARIO-SMALL GROWER <sup>B</sup>	GROWER-BUYER-PROCESSOR (MID-BIG) <sup>C</sup>
<i>Credit interlocking</i>	Credit → receives from small producers (in kind) and as <i>income support</i> through cooperatives & institutions (no access to institutional credit)	Credit → receives from regional buyers and input suppliers (advanced purchases) ← gives in kind to peasants (in exchange for coffee and labour)	Credit ← receive from brokers and/or roasters → finance local intermediaries
<i>Technical assistance</i>	1. Borrowing from rancheros and growers and pragmatic experimentation 2. From organisations (very limited)	1. Private (input suppliers) 2. Institutional (very limited; with the IMC were privileged)	1. Private: input suppliers and brokers; 2. Hire wet mill ( <i>beneficio</i> ) experts and cuppers
<i>Competitive advantages</i>	<ul style="list-style-type: none"> <li>• High resistance to cyclical crisis (low reliance on credit and inputs; high level of diversification of crops and income sources; certain level of self-consumption)</li> <li>• Potential for efficient collective action within the community</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized knowledge and potential for export quality production</li> <li>• Certain level of integration (pulping and basic processing)</li> <li>• Closeness to peasants' labour and coffee supply</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized knowledge and potential for high quality produce (able to reach export markets)</li> <li>• Vertical integration (processing of parchment)</li> <li>• Certain level of diversification (basically cattle)</li> </ul>
<i>Competitive disadvantages</i>	<ul style="list-style-type: none"> <li>• No access to capital and technology, low productivity and diseconomies of scale</li> <li>• Labour bottleneck at the peak of coffee harvest (sowing maize tonamile is due)</li> <li>• Low bargaining power (sell fresh cherries and lack market information)</li> <li>• Weak collective action among communities (corrupt and inefficient organisations)</li> </ul>	<ul style="list-style-type: none"> <li>• Diseconomies of scale and no access to export markets</li> <li>• Limited access to credit and technology</li> <li>• High supervision costs (labour problem)</li> <li>• Low bargaining power and marketing skills (high risk of speculating with parchment)</li> </ul>	<ul style="list-style-type: none"> <li>• Low resistance to lasting slumps</li> <li>• High dependence on massive credit (provided by brokers)</li> <li>• Quality consistency problem (labour problem; intermediaries mixing; obsolete technology)</li> <li>• Low bargaining power (unfair discounts)</li> </ul>
<i>Market interlocking</i>	<p>a. Peasant sells &amp; takes best price → local cooperatives or intermediaries (no allegiance)</p> <p>b. Peasants collect themselves and sell → regional buyers</p> <p>Producers (fill coffee bags with stones, etc) → cheat ← coop. leaders (misappropriate income: weighting, profit distribution)</p>	<p>Producers sell parchment (and pay back credit) ← trust → regional buyers acquire &amp; finance</p> <p>Local pickers (average hand picking) → ranchero producers use debt bondage and patron-client relationships</p>	<p>Growers sell parchment ← trust → exporters and roasters buy and finance</p> <p>Intermediaries (buy, mix &amp; free ride) → distrust ← grower-buyers change them</p> <p>Pickers (strip-picking, theft) → cheat ← growers (tolerate, no price incentives for yield and quality)</p>

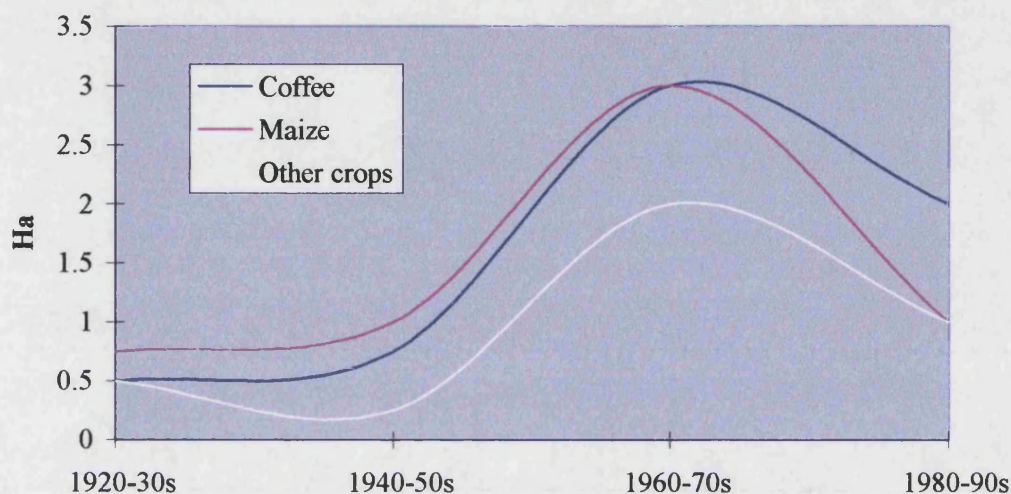


	PEASANT EJIDATARIO-SMALL PRODUCER <sup>A</sup>	RANCHERO EJIDATARIO-SMALL GROWER <sup>B</sup>	GROWER-BUYER-PROCESSOR (MID-BIG) <sup>C</sup>
<i>Management &amp; strategy</i>	<ul style="list-style-type: none"> <li>• Use of measuring framework (traditional) based on surface/yield correlations, agricultural cycle and past experience</li> <li>• Planning in terms of household reproduction: a) medium term: building up suitable economic strategy (food/cash crops balance and off-farm activities); b) short-run: solving agricultural cycles and spreading out of agricultural jobs</li> </ul>	<ul style="list-style-type: none"> <li>• Basic administration techniques to assess cost/benefit relations, cost of money and coffee yield (berry → parchment)</li> <li>• Desirable model: a) long-run: higher density finca and vertical integration (truck &amp; modern pulping centre) and synergies with other crops and cattle; b) short-run: solve capital and labour bottle-necks; maximise profits</li> </ul>	<ul style="list-style-type: none"> <li>• Use professional administration to assess cyclical instability, cost of money and coffee yields (berry→parchment) and quality.</li> <li>• Planning in terms of the coffee business cycle and market competition: a) long-run: higher vertical integration and achieve export capacity; b) short-run: solve plantation maintenance, high working capital needs and maximise turnover and net profits</li> </ul>
<i>Regulatory devices</i>	<ul style="list-style-type: none"> <li>• Low ability to transfer surplus to crisis (disinvest <i>savings</i> assets: livestock) and have to neglect coffee</li> <li>• During recovery add up a pro-cyclical reaction investing in some fertilization and finca improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Some ability to save and transfer surplus income (petty trade incomes and/or disinvest accumulated assets)</li> <li>• During recovery add up a strong pro-cyclical reaction investing surpluses in fertilisers and finca improvements.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher ability to transfer surplus to crisis period, to speculate with price-recovery and to take full advantage of it.</li> <li>• Savings capacity for coffee capital replacement and for investments transfer: cattle, land, coffee, citrus, etc.</li> </ul>
<i>Constraining market institutional arrangements</i>	<ul style="list-style-type: none"> <li>• No access to credit and technical assistance (income support is only for food consumption);</li> <li>• Lack of incentives for improving coffee fincas, quality of pickings and engaging (as partners) in coffee processing;</li> <li>• No financial services to use savings productively and move coffee capital across crop cycles and off-farm activities</li> <li>• Price paradox: low prices put pressure on returns to labour, while high prices increase working capital needs of producer organisations</li> </ul>	<ul style="list-style-type: none"> <li>• Limited access to credit, income support programmes and technical assistance;</li> <li>• Lack of incentives for improving coffee quality and engaging in long-term relationships with processors-exporters;</li> <li>• Limited financial services (main source are merchants and coffee buyers) to use surpluses, acquire inputs and manufactured products (sold to peasants) and get credit during harvests</li> </ul> <p>No collective action (sometimes join or even lead peasant organisations)</p>	<ul style="list-style-type: none"> <li>• <i>institutional</i>: high cost of money and inflexible credit arrangements: working and fixed capital (irresponsive to coffee cycle); no R &amp; D; negligible price incentives for quality (top-bottom); inefficient mechanisms for surplus transfers to slump periods and productive investment</li> <li>• <i>infrastructure</i>: high transport costs, obsolete processing assets</li> <li>• <i>social</i>: opportunistic behaviour and clashes with wage labourers; distrust, high cost of labour supervision and barrier for higher quality</li> </ul>

- <sup>a</sup> Based on Tlacolulan producers' census (March 1995), meetings with producers and field visits in 12 coffee producer ejidos in Atzalan, and participant observation of several peasant household (mainly Laureano Hernández in SPA, Cirilo Moguel and Gabino Monfil in El Jardín, and Gaudencio Claudio in Tlacolulan).
- <sup>b</sup> Based on interviews and participant observation in several ranchero households, fincas and pulping centres (Pablo García in Equimite, Víctor Ramírez in El Jardín, Pablo Guerrero in Las Flores, Jacobo Guzmán Jr. in SPA).
- <sup>c</sup> Based on interviews and participation observation in growers' households, wet processing *beneficios* and plantations (Rolando Topete's 75 ha plantation in Loma Bonita, Agustín Bello's 110 ha fincas in San Carlos, and Andrés Villaseñor Jr.'s 54 ha plantation in Los Naranjos).
- Source:* Fieldwork 1995-97 (see index of interviews, focus groups and field visits in Appendix No 8).

Based on the field data I gathered in land use in Atzalan ejidos -mainly San Pedro Altepépan, Equimite, Las Flores, El Jardín and Tlacolulan- it is possible to reconstruct a broad picture of how coffee has been historically associated with maize and other crops.

**Graphic No. 1**  
**Evolution of a typical coffee producer's landholding in Atzalan**



*Source:* Fieldwork

*Note:* other crops are fruit trees, grassland, sugar cane and beans in the 1920s to 1950s; orange and plantain trees and beans from the 1960s up to now.

If we compare the two extreme points, we can observe, apart from the reduction in size of landholdings, a shift from maize/coffee to coffee/maize, entailing drastic economic and social change. Behind this process of commoditisation, there was a complicated land reform and an important expansion of regional communications and productive infrastructure financed by federal programmes during the 1960s and 1970s. 'Modern' coffee cropping and citrus agribusiness developed very quickly in the 1960s, precisely when maize registered a steady decline, hitting crop patterns of peasant agriculture.

Once the economic and institutional environment stopped being favourable to traditional crops as well as to coffee (particularly after the mid-1980s), most peasant groups in Atzalan – who used to produce surpluses of maize and beans - started a slow coffee cropping technology adjustment. They reduced land allocated to food staples, and those who were rapidly becoming specialised coffee producers, started to rebuild their maize self-consumption capacity and diversify their cash-crops patterns, and all introduced oranges and plantains. The length and distance of labour migration flows increased considerably. Despite many attempts at shifting cash crops (from coffee to



vanilla, citrus and macadamia nuts), steep slopes and cold weather, as well as envy and petty robbery, became major barriers for diversification and innovation.

With the 1989-94 coffee crisis small coffee producers in Atzalan undertook considerable adjustment of cropping patterns (see Table No. 9). Peasants were always reluctant to increase coffee densities per hectare above the level they felt able to manage, both in terms of family labour and input costs. Half of the harvest was concentrated in two peak months (December and January) and the average picking capacity of an adult is 60kg per *journal*. This means that the maximum capacity of a nuclear family (3 fully able adults or the equivalent combining women's and children's labour) would be in the range of 14 Qq/ha a month. With more members or access to labour exchange networks, one family could increase its picking capacity to 16-18 Qq/ha. If they had more than one hectare – which is common – the equilibrium point is lower than that: the higher the total coffee output, the lesser the ability of a family to cope with harvests on its own. The average yields in Atzalan in the first half of the 1990s fluctuated between 16 and 10 Qq/ha.<sup>178</sup> In this respect, peasants rely on their own labour and prefer to reduce all kinds of cash payments (wage labour and agrochemicals). Instead of maximising overall output per hectare, peasants maximise the health and productivity of each tree (reached at 1,333/ha);<sup>179</sup> in other words, they minimise the level of attention to the *finca* and extend the life span of the trees.

Although Atzalan is a rather traditional coffee producer region, it did not fare badly during the crisis, compared to other coffee producer regions in Veracruz (Atzalan 10 Qq/ha against 8Qq/ha in most of the state and 12Qq/ha in more modern coffee producing regions of Cordoba and Huatusco). This can be explained by two main reasons; first, the stronger effect of the crisis in regions more dependent on input, credit and technical assistance; and second, the differential effect of plants neglect and soil exhaustion on the same regions.

Ranchero coffee producers reacted to the crisis differently than small peasant producers. Here I demonstrate the differences through a comparative analysis of typical production costs, beginning with a ranchero commodity producer's *finca*, in which the landowner was able to sustain the IMC technology package.

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<sup>178</sup> Consejo Veracruzano del Café, Unidad de Apoyo a la Producción, 1997.

<sup>179</sup> See footnote 44

TABLE No. 7

**ATZALAN'S PEASANT COFFEE CROPPING PRACTICES COMPARED TO  
IMC'S COFFEE TECHNOLOGY**

	<b>IMC's Technology and Best Practices for Small Producers (mid 1980s)</b>	<b>Atzalan Coffee-Producing Peasants' Adjusted IMC package (1992-95)</b>
<i>Tree density</i>	Semi-intensive density and specialized plantations: a) 1-666 to 2,222 plants/ha <sup>180</sup> b) use of specialized shade	Mixture from rustic (25%) to semi-intensive densities: a) Less than 1,300 plants/ha b) Diversified shade (orange & plantains)
<i>Coffee variety</i>	Use of HYV such as dwarf red caturra and F-6 Garnica	Mixed varieties (former HYV <i>mundo novo</i> and bourbon and even traditional typical)
<i>Coffee pruning</i>	2 prunings (rejuvenation and formation)	1 partial pruning (clearing off unproductive branches; a 1/3 of producers did nothing)
<i>Shade pruning</i>	1 tree shade pruning (Ingas species) to have homogeneous 80% shade	None (most do not have specialised, inga's shade)
<i>Renovation</i>	Renovation of a third of the plantation every 5-8 years	None
<i>Weeding</i>	2-3 weedings (using machete to avoid erosion)	Only 1 <sup>st</sup> weeding, before harvest (using herbicide FAENA and machete)
<i>Fertilisation</i>	2 applications of fertilisers (10-12-16 formulae)	0-1, 25 % applied only one after harvest, using generic <i>urea</i> : (NH <sub>2</sub> ) <sub>2</sub> CO
<i>Pesticides use</i>	Use of agrochemicals to control pests and illnesses	None <sup>181</sup> (there was mild occurrence of leaves rust or <i>roya</i> )
<i>Replanting</i>	Nursery's seedlings for partial renovation and plants substitution	20% substituted dead plants (using fallen beans -naturally sprout- as seedlings)
<i>Yield</i>	Mean yield of 20 Qq/ha	Actual average yield of 10 Qq/ha

*Source:* Based on a survey of small coffee producers in the state of Veracruz (Díaz 1992), and fieldwork during 1995 and 1996.

<sup>180</sup> As IMC research specialist, Villaseñor did experiments in Mexico with 11 different densities –from 833 to 6,664 trees/ha- during 8 cycles and found that the optimum combined yield (kg/plant and Qq/ha) was 2,222 plants/ha. However, at single-tree level the highest yield was obtained with 1,333 plants/ha. See Villaseñor 1991:59.

<sup>181</sup> Producers recognised the need of fighting pests and plagues –and have the skills to do it- but had no means of buying the required chemicals, despite calculating a net loss of 15-20% of the expected harvest. Díaz P. 1992:56.



TABLE No. 8

AVERAGE COSTS OF PRODUCTION IN A SEMI-INTENSIVE RANCHERO COFFEE FINCA, EQUIMITE, 1994-95*								
	Annual Qt	Labour (journal)			Inputs			
		Qt	Cost \$	Subtot	Qt	Cost \$	Subtot	
Weeding	4	3	15	180	2 l Faena	42	336	516
Fertilisation	2	3	15	90	10 urea 50 kg- sacks	60	1,200	1,290
Pruning	1	20	15	300			-	300
Replanting (1 l-seeds nursery & transplantin g)	1	12	15	180	¼ urea 50-kg sack	60	15	195
Harvest	1	67* *	0.58/kg	2,320			-	2,320
<b>Total</b>		<b>117</b>		<b>3,070</b>			<b>1,551</b>	<b>4,621</b>

Source: Interview with Pablo García, El Equimite, 8-March-1995

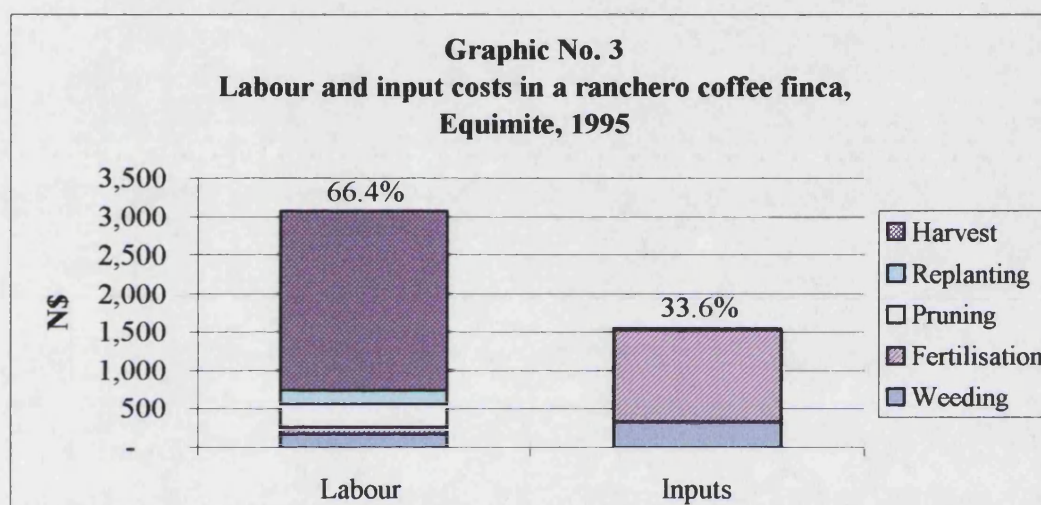
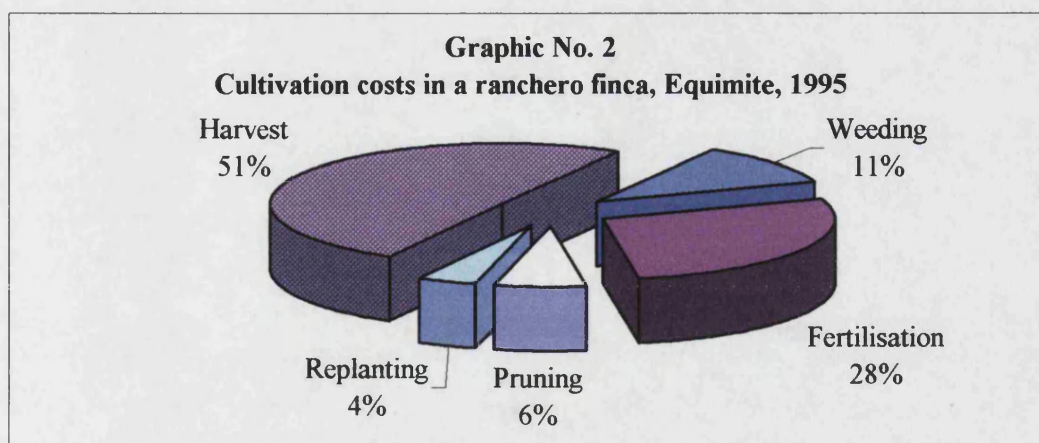
\* Based on a coffee *finca* of almost plain sun, semi-intensive technology (1,600 trees/ha) with a productivity of 16 Qq/ha (4,000 kg/ha), (current N\$/ha, March 1995).

\*\* Based on a handpicking rate of 60kg per journal.

It is important to observe that the normal yield on a representative semi-intensive ranchero coffee finca (see Table 3 portrait of Pablo García's 24 Qq *finca*) was reduced by a third because of more than five years of crisis (low prices, frost and IMC withdrawal) to only 16 Qq. The key feature of modern coffee technology is an intensification of the natural productivity of plants through fertilisers (28% of total costs) and the regeneration of productive tissues (pruning + replanting = 10% of total costs).<sup>182</sup> In a plain sun plantation, weeds grow faster and are more persistent. In this case, García did 4 weedings (11% of costs) and applied a systemic herbicide to save labour.

Labour is always a major cost component in modern technology plantations (the higher the productivity, the larger the harvest labour costs). In García's *finca*, coffee picking represented half of overall crop costs and if all labour concepts are considered these rise to 2/3 of total costs.

<sup>182</sup> In this exercise Pablo García did not consider strict renovation, which is a major capital investment in modern technology plantations.



If we turn to an *average* peasant finca (like those found in Tlacolulan), it is possible to note structural differences in coffee management.

**Table No. 9**

AVERAGE COSTS OF PRODUCTION IN A MIXED PEASANT COFFEE FINCA, TLACOLULAN, 1994-95*								
	Annual	Labour (jornal)			Inputs			Total
	Qt	Qt	Cost \$	Subtot	Qt	Cost \$	Subtot	\$
Weeding	1	1	15	15	21 Faena	42	84	99
Fertilisation	1	3	15	45	8 urea 50kg-bags	60	480	525
Replanting	1	2	15	30			-	30
Pruning	1	10	15	150			-	150
Harvest	1	25**	0.58/kg	870			-	870
<b>Total</b>		<b>41</b>		<b>1,110</b>			<b>564</b>	<b>1,674</b>

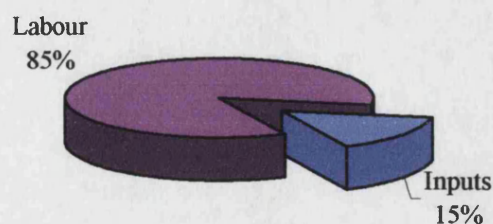
Source: Tlacolulan coffee producers' census, March-1995.

\* Based on coffee fincas mixed technology (1,100 trees/ha) with a productivity of 6 Qq/ha (1,500 kg/ha). In current N\$/ha, March 1995.

\*\* Based on a handpicking rate of 60kg per jornal.



**Graphic No. 4**  
**Labour and input costs in a peasant finca, Tlacolulan, 1995**



The 1994-95 harvest was not typical because of good prices and the *peso* devaluation of December 1994 that improved the terms of exchange for coffee. In previous years, even *rancheros* had cut down considerably the standard maintenance of coffee *fincas*. Peasants' *fincas* were in very poor condition because they had concentrated in off-farm jobs and sustaining maize and bean crops.

Given these considerations, it is possible to draw some comparative perspectives outlined in Table 9:

**Table No. 10**

COMPARATIVE PERSPECTIVES ON RANCHERO/PEASANT FINCAS' EFFICIENCY, SPA, 1995 (current pesos)				
	Ranchero finca		Peasant fincas	
	<i>Per ha</i>	<i>Per Qq</i>	<i>Per ha</i>	<i>Per Qq</i>
Total costs	4,621	289	1,674	279
Labour costs	3,070	192	1,110	185
Inputs costs	1,551	97	564	94
Monetary costs	77%	--	34%	--
Labour/inputs	2:1	--	6:1	--
Gross benefit <sup>a</sup>	6,579	411	2,526	421
Labour returns <sup>b</sup>	2,025	126	2,785	464
Wage coffee labour <sup>c</sup>	10	--	14	--
Capital returns <sup>d</sup>	84%	--	22%	--

<sup>a</sup> Production value - total costs of production

<sup>b</sup> Theoretical wages of non-paid family labour + theoretical dividends to labour capital (gross benefit/non-paid labour investment)

<sup>c</sup> Labour returns / 200 days coffee cycle

<sup>d</sup> Gross benefit / monetary production costs (as a proxy to capital investment)

<sup>e</sup> Production value/*jornales*

For both, *ranchero* and peasant producers coffee cropping is a source of self-employment, but much more so for peasants. For the latter, family and unpaid exchange labour are the only sources of labour, and its theoretical market value is six-fold the investment in productive inputs. During the crisis years peasants reduced the use of inputs even more. For *rancheros* around 2/3 of all labour has to be hired and the ratio labour/inputs is only 2 to 1.

If we consider coffee to be a source of employment rather than a profit-making business, peasants were very efficient in creating relatively well-remunerated jobs.<sup>183</sup> Peasant coffee producers were able to draw high returns to labour, considered as the theoretical wages of non-paid family labour plus the dividends to labour capital, and a mean coffee wage of 14 pesos (calculated as the daily returns to labour during the 200-day coffee cycle), that is almost the market value of the *jornal* (N\$15). It is a reasonable income because they do not spend 200 *jornales*, nor in coffee only. Although peasants invest around 41 *effective* jornales, they have to stretch labour time because of weather conditions (several days of intense rain and cold at harvest time or extreme heat during summer). On the other hand, the total output in peasants' coffee fincas considers intercropped orange and plantain trees and by-products (firewood), most of it for self-consumption.

*Rancheros* obtained a reasonable return to capital (quite above the normal rate of interest), while peasants did not get any real return to monetary investments (if inflation is considered).

As already mentioned, this snapshot of coffee *fincas* has several limitations. During the harvest, coffee prices changed considerably, so average prices were a bit lower than reported here (for March 1995). Actual returns were also lower due to inflationary pressures and the peso devaluation. As I argued in critically assessing the models employed by economists, a full coffee cycle has to be considered to make serious calculations.<sup>184</sup>

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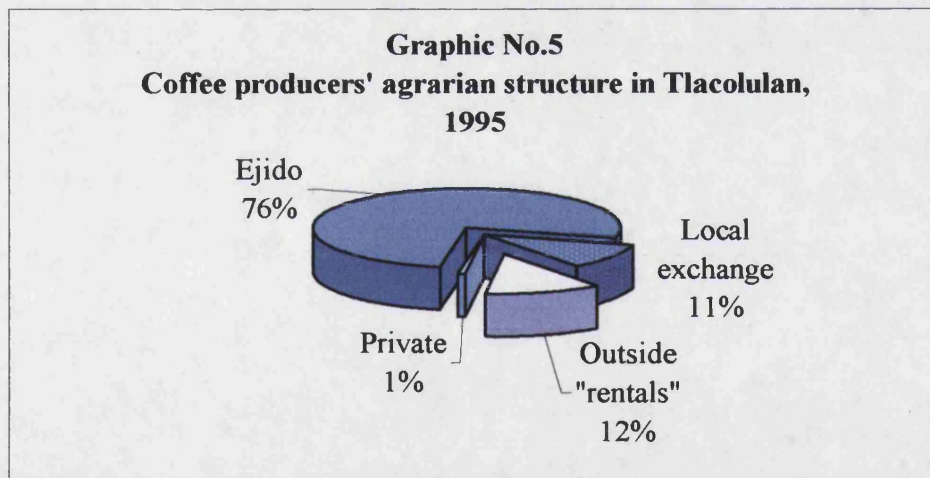
<sup>183</sup> This coincides with similar findings in Colombia among peasant producers, which are predominant in coffee (with less than 2 *has*). See Forero, 1999.

<sup>184</sup> The indicators presented here as *orders of measure* (not the figures on their own), are useful to understand the logic of peasant coffee production.

#### 4.4.2 Access to land and social networks: are they poverty traps too?

One of the main components of peasant livelihoods in Atzalan is access to social networks, and land is at the centre of those agrarian society entitlements. Landholding rights in SPA imply having *ejido* grants or access to customary exchange and other informal market arrangements. The difference among communities is the density of social networking, which allows peasants access to land, the basis of community membership and of coffee producing livelihoods. Access to land is achieved through a wide array of arrangements, from allowances from better off relatives to traditional rentals, as well as many variants of sharecropping.

According to a coffee producers sample I carried out in Tlacolulan in 1995,<sup>185</sup> there were 66 small producers with access to land (263.5 ha), either of their own or held through different exchange arrangements (called provisionally “rentals”).<sup>186</sup> Around three quarters of the land was held as *ejido* “property”, and 23% – also *ejido* land - was “rented in” from relatives in Tlacolulan and from neighbouring communities via informal, unpaid or traditional arrangements (see Graphic No. 5).

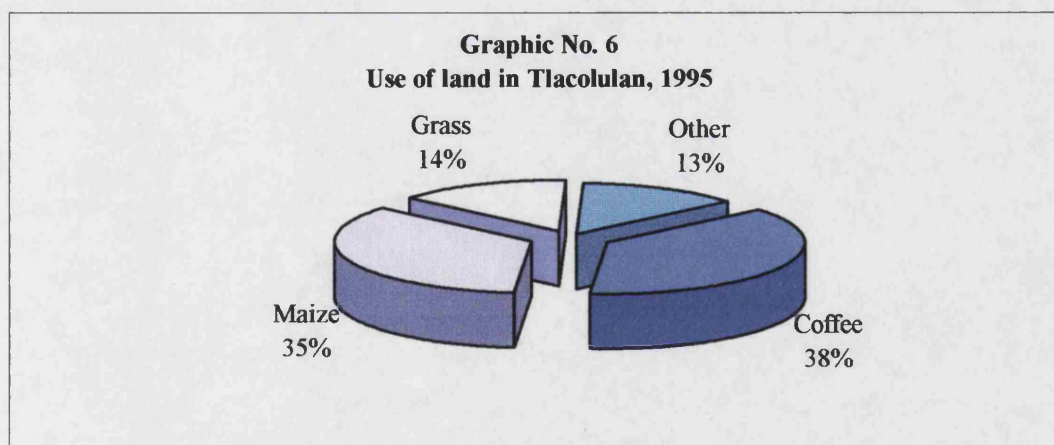


In terms of land use, 38% was cultivated with coffee (specialised and most of it associated with other crops), 35% with maize (apart from some maize intercropped with coffee), 14% was grassland and the remaining 13% was for the most part stony, idle land, apart from some patches of beans and backyard orchards.

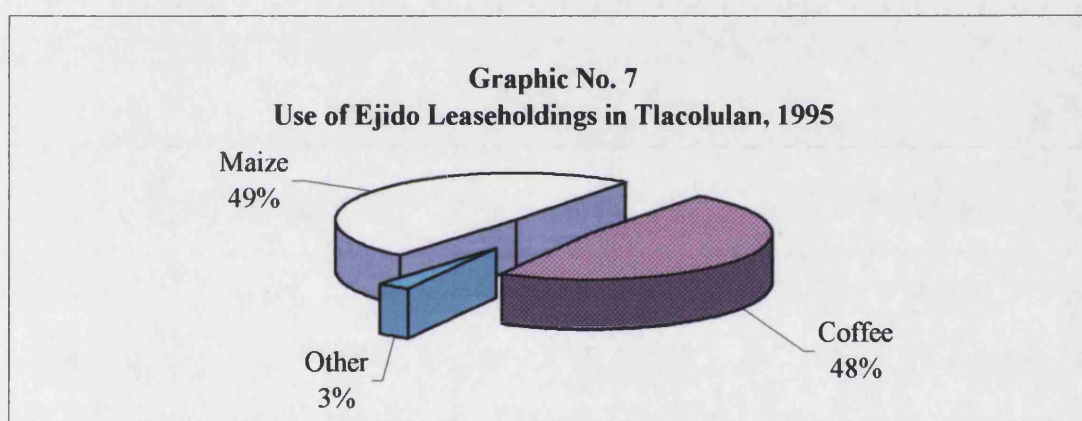
<sup>185</sup> I conducted a non-discriminating sample of *all coffee producers present* in Tlacolulan in March 1995 that compared favourably with the 1994-95 *Coffee Support Program INI-PNS Census*, both registered the same total coffee land (90 ha) and similar number of producers, 66 in my sample and 74 producers INI-PNS. Considering that the programme's census had some errors (2 duplicated names and beneficiaries without coffee), the sample was a consistent census.

<sup>186</sup> People referred to sharecropping-like, traditional rentals and all kinds of concessions as “rentals”.





“Leaseholdings” were intensively used for maize and coffee crops, allocating relatively higher weight to maize than ejido landowners.

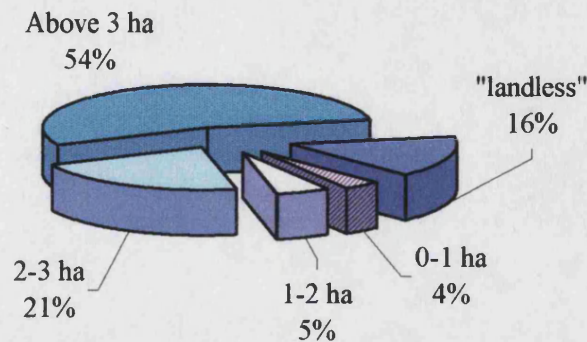


Access to land was unequal. More than half of the land was held by 16 “landed”<sup>187</sup> *ejidatarios* (with 9 ha each on average), while the upper medium strata (2-3 ha) held 21% of the ejido land. The interesting phenomenon is that 20 “landless”<sup>188</sup> coffee producers with no *ejido* “property” – *ejidatario* descendants and *avecindados* (inhabitants) – were able to get hold of 16% of *ejido* lands through different arrangements. At the opposite extreme, *microfundia ejidatarios* with less than 2 ha (N=14) accounted for only 9% of total land in the sample.

<sup>187</sup> Landholdings of 9 ha - with a coffee finca of 3 ha - cannot be considered as typical of a *landed* group, given the Tlacolulan agrarian structure there is a clear gap between them and the under-2 ha groups.

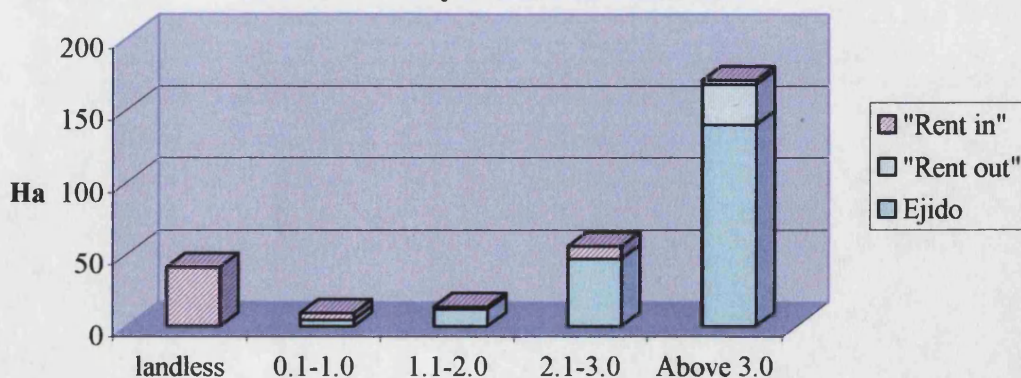
<sup>188</sup> In SPA landless day workers are hardly ever coffee producers, except for *ejidos* in which two conditions are common, one, social networks facilitating land-labour exchange and, two, fractions of land are available to the poor because productive use for them is not cost-effective (they are distant and/or bad quality).

**Graphic No. 8**  
Access to ejido land by strata, Tlacolulan, 1995



Along the same lines, the ability to “rent in” land was also unequal across strata (see Graphic No 9). Small *ejidatarios* (with less than 2 ha) were also the least able to take in additional land (altogether 11% of total exchanged land). The “landless” stratum was the most capable of taking in land (more than two thirds of all “rented” land). The next stratum with more leases (15.1%) was the upper-medium one (2-3 ha). The upper stratum was the only one “renting out” land (28 ha) to Tlacolulan coffee producers, mainly to relatives (the other 32 ha were rented-in from neighbouring ejidos and to a lesser extent private properties). This means that the upper stratum was the centre of a network of land (and labour) exchange, as well as the central node of a political kinship network (see footnote 50).

**Graphic No. 9**  
Access to land by strata, Tlacolulan, 1995



The average landholding in Tlacolulan was 4.0 ha, including coffee finca and *milpa* (maize) plots of almost the same size (around 1¼ ha). The picture of land use changes – particularly for maize – if we take into account stratification. While coffee *fincas* tend to

be even across strata (just above one hectare, except for under 1 ha strata), maize fields are unequal. For the three lower strata, maize fields are smaller than coffee *fincas*, but for the upper strata they are equal or bigger than *fincas*. This has to do with *minifundistas*' labour constraints (they rely more on seasonal wage labour) and, although coffee is more flexible to manage, it is also a perennial crop that cannot be easily adjusted. While maize tends to fit in accessible land, coffee tends to adapt to available labour. Landed *ejidatarios* have a double interest in maize, it feeds livestock – bovines, working animals and backyard species - and provides a marketable surplus, profitably, because of subsidies (allocated per hectare). On the other hand, better endowed *ejidatarios* are less attracted to establishing bigger coffee *fincas* (only one had a 3 ha *finsa*) because of the risks involved, particularly the high financial cost of harvest. At the same time landed *ejidatarios* had grassland for small-scale cattle ranching and maintaining working animals; small patches of beans for self-consumption and only a few had specialised plantain and orange fields. *Minifundistas* had no specialised fields other than maize *milpas*; they associated coffee with citrus, plantains and other productive shade trees. Only in cases of extreme hardship, did poor families start to intercrop maize and beans in their abandoned coffee *fincas*, cutting down shade trees.

Most *minifundistas* grew *milpas* in the best available land, and only planted small amounts of squash and beans.<sup>189</sup> If they owned only bad quality land, they preferred to plant coffee and rent in suitable land for maize cultivation from relatives or neighbours. Again, the poorest landless were the ones taking rent-free patches of bad-quality land to produce low maize and beans yields.

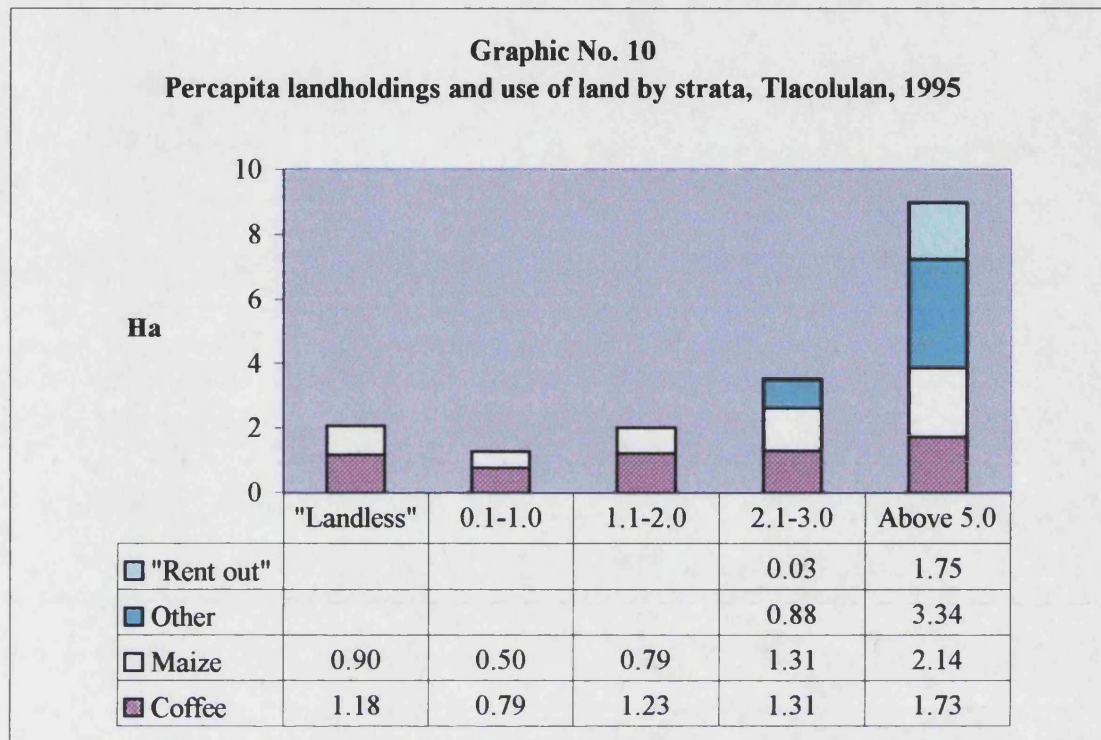
One of the striking features of the *ejido* land-market in Tlacolulan was the importance of “rentals” and the number of the landless peasants (20 out of 66 coffee producers) having regular access to land through customary arrangements. As the following table shows, there is a high demographic pressure on land met by a flexible and informal land market, which allow the landless poor to produce as much foodstuffs and coffee as average landed *ejidatarios*. The strong complementarity between coffee and maize crops is explained by seasonality, but also by labour and income synergies: the first coffee

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<sup>189</sup> The narrow variety of associated crops in both maize fields and coffee *fincas* shows the level of deterioration of traditional *milpas* and shaded *fincas*. Varied patterns of association relate to complex agricultural cycles, a wealth of agricultural knowledge and cultural continuity (locally adapted varieties, soil preservation and poly-cropping technologies, biodiversity balance). See Moguel & Toledo, 1996; Netting, 1993 and Rice & Ward, 1996.



incomes are used to prepare the land for *tonamile* maize crop; maize harvests sustain the household for several months while the household head works elsewhere; finally wage labour finance the coffee harvest.



There are many incentives to rent in land. It is a way out of landlessness as *ejidatario*'s descendants start planting coffee trees in easy-access lands and build up savings via gradual improvements. Tenants are free from *ejido* collective duties (collective works – or *faenas* - twice a month and many more cash or in-kind contributions), and at the same time are able to receive income support from state programmes. Some indicators show that they profit from this situation (they tend coffee trees better and have yields as good as landed *ejidatarios*).

Table No. 11

ACCESS AND USE OF LEASE HOLDINGS, TLACOLULAN, 1995											
Strata		Total land	Rent in land			Coffee land			Maize land		
		(1)	(2)		(2/1)	Tot (3)	Rent (4)	(4/3)	Tot (5)	Rent (6)	(6/5)
(ha)	N =	(ha)	(ha)	%	%	(ha)	(ha)	%	(ha)	(ha)	%
landless	20	41.15	40.78	67.37	99.10	23.55	21.38	90.79	17.90	16.90	94.41
0.1-1.0	7	9.40	4.75	7.85	50.53	5.50	2.00	36.36	3.50	2.50	71.43
1.1-2.0	7	14.00	2.00	3.30	14.29	8.60	0.50	5.81	5.50	1.50	27.27
2.1-3.0	16	56.00	9.00	14.87	16.07	21.00	3.00	14.29	21.00	6.00	28.57
Above 5	16	144.00	4.00	6.61	2.78	27.50	2.00	7.27	35.00	2.00	5.71
TOTAL	66	264.55	60.53	100.00	36.42	86.15	28.88	30.90	82.90	28.90	34.86

Source: Coffee producers' sample, Tlacolulan, March 1995.

As Table 10 shows, in 1994-95, total exchanged land in Tlacolulan – excluding purchases - was 60.5 ha, 25% of all agricultural lands. This is a very high proportion compared to traditional rural land rental markets in Mexico and Latin America.<sup>190</sup> This exchange considered family concessions, traditional rents and sharecropping-like contracts, *all* of them informal arrangements.

The high proportion of “rentals” has several possible explanations:

- *Exchange incentives.* There are always patches of unsuitable land (exhausted, stony or close to mountainous areas where wild animals cause heavy losses), and excess land amongst labour-scarce families and the elderly or disabled; these lands are underused and open for the needy. *Ejididos'* land grants were made out of several fractions, hence distant parcels are quite often hired or sold.
- *Social sanctions and networks.* Better-off ejidatarios feel socially obligated to help less fortunate relatives through customary land arrangements (concessions, fixed rent or sharecropping contracts); old-age parents bargain help from siblings retaining land rights and exchanging land for labour either through fixed rent in kind, or access to land in exchange of tending an elder's *finca* or *milpa*. At the same time, there were some former *ejidatarios*, fed up with *ejido* contributions and *faenas* (collective work), who decided to get rid of their land rights and rent in land instead without the burden of social obligations.
- *Capture of handouts.* The former IMC's subsidies and income support programmes created incentives for agricultural production and land use (food and coffee crops), so people tended to subdivide – sometimes deceitfully - one ejido parcel into several parcels, increasing the number of eligible beneficiaries within a family.

It is not easy to make a clear-cut differentiation, particularly between the first two forms in which exchange incentives usually mix up with social sanctions (these are precisely socially embedded markets). It is really difficult to ascertain – even for local ejidatarios - the extent of artificial land partitions, because there are extended families in which married siblings still live and work together with their parents and other brothers (regularly during the first years in which the new family has few and young children). Later on, new families separate completely and form nuclear families with their own

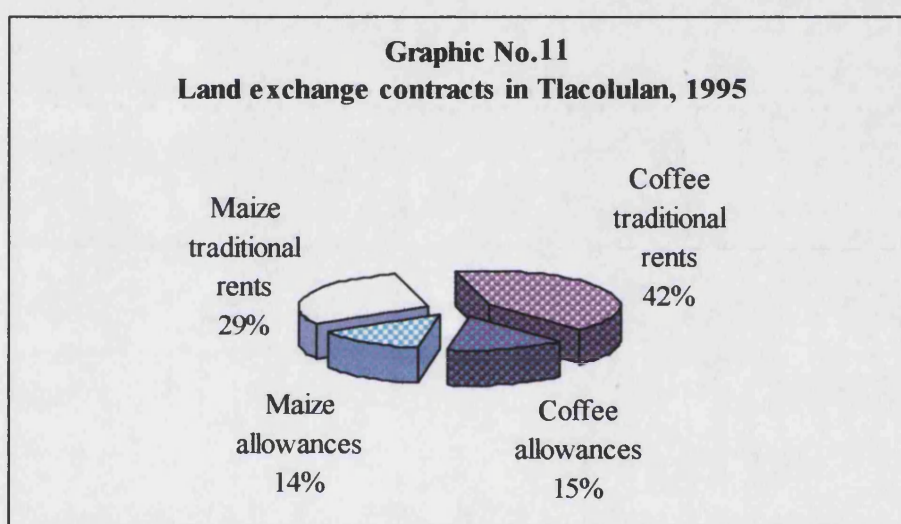
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<sup>190</sup> The range of land rentals in Latin American countries is between 5 and 15% (see Díaz et al 2002), while official agencies in Mexico have always underestimated this phenomena with figures below 5%, Tlacolulan figures compare closely with rates in Asia (30%).



land. But this issue also has to be seen the other way around, for coffee producers have also influenced state agencies' policies, according to local custom and practices. In any case, my guess is that in my database no more than 5% of "rentals" could be considered artificial land exchange contracts.

Graphic No. 11 shows different land exchange arrangements that are classified in paid and non-paid terms. There were 36 coffee producers in Tlacolulan engaged in 56 different bilateral deals with a total of 60.5 ha. In the case of traditional rents, these were clearly the vast majority (71% of the total surface), whereas all kinds of allowances represented 29%.



Traditional rentals were always fixed-rate in-kind, although there were exceptions according to a field's productive conditions or other special circumstances. Several tensions arise from these arrangements. Upholding fixed-rates for a crop with historically increasing yields (coffee) creates an additional incentive for entrance through renting in lands. In the case of maize - with decreasing yields - peasants try to keep leases to a minimum, although some - with clean *milpas*- get access to Procampo's income support.

There were many kinds of allowances. The first one is outright support for those relatives who need it most (new families, sick and landless poor). A second one involves the bargaining process of inheritance (it takes the form of an exchange contract of mutual support between the parents who give out land and the sibling who works their lands). The third one consists of a form of exchanging land (for maize cropping during two or three years) and labour (for clearing forestland or weeding grassland or

fincas). The last one is a temporal concession (newly established fincas, frost damaged or in the process of renovation).

Access to suitable lands for maize requires annual negotiations that usually involve social ties of a different nature. A family has commonly several possible sources of land based on different networks from kinship to labour exchange and godparenthood networks among upper strata families.<sup>191</sup>

In the case of coffee allowances or rentals, there is a particular method of land clearance improvements. Since coffee was first cultivated by land-claimant peasants in Atzalan, an unusual market exchange of coffee plants emerged, allowing tenants with no secure property rights to move flexibly “coffee capital”. That practice is very much alive. Underused poor-quality lands are commonly offered for clearance, rent-free during two or three years. Poor peasants can take a small plot (1 ha or so) to establish a coffee finca and then when a good opportunity or need arises, they can sell *the trees* to the landlord or somebody else. In this way, landless peasants are able not only to access land and build up coffee capital savings of some importance, but sometimes they can get land of their own (either buying the land they were renting or selling the trees to buy better land elsewhere).

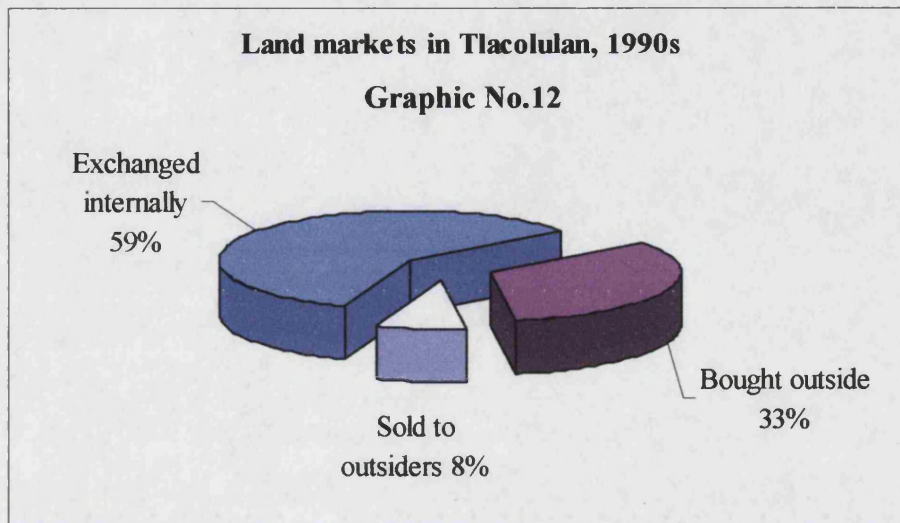
Drawing on my interviews with producers (not statistically representative), there is evidence of a very dynamic *ejido* land market during the coffee crisis (1989-1994). In that period Tlacolulan coffee producers bought and sold around 89.7 ha in 20 transactions,<sup>192</sup> equivalent to all coffee lands and a third of the total cultivated lands in 1995. Out of the 89.7 ha, 59% was exchanged among local families, a third was bought outside Tlacolulan (in the bordering *ejidos*) and only 8% was sold to outsiders. Around half of these sales did not involve coffee, but an attempt to eliminate unbearable *ejido* contributions, unload undesirable lands or simply moving for different reasons (old age, violence). The other half of transactions related in one way or another to the price

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<sup>191</sup> God-parenthood provides an extensive network of potentially useful relations (Wolf 1966 called them vertical-dyadic-manystranded coalition). That is why better-off rancheros or local bosses are sought after as godparents, while poor people have fewer of these connections. In El Jardín I conducted an extensive investigation of god-parenthood networking and found a close relationship between wealth and the number of god-parenthood links, with a few exceptions (prestigious people like coffee leaders or teachers). El Jardín 5.13. See Gil Mendieta and Schmidt for a social networks analysis of political power in Mexico (1999).

<sup>192</sup> Most transactions were made after 1992, when the constitutional agrarian reform took place, but I have no means of establishing a cause-effect relationship, since the coffee crisis, which reached its bottom in 1992, could have had a stronger effect.

slump: people selling and leaving for good or clearing part of their assets (debts, survival) and those taking the opportunity to increase landholdings at cheap prices.



Coffee producers underwent a transition from specialised coffee production towards associated *fincas* using a diverse mix of cash crops and food staples. Most producers faced the crisis not by intensifying coffee productivity, nor abandoning coffee altogether (the two foreseen scenarios by officials and specialists of international organisations). Among the mainstream adjustments they introduced were:

1. *Asset liquidation*: during more than 5 years of problems (triple crisis: IMC privatisation, price slump and the 1989 frost) many people had to consume and sell livestock, trucks and even land to get by. The 1994-95 recovery served to rebuild the backyard economy (many producers I interviewed were buying piglets and poultry), to invest in house improvements and tending their crops).
2. *Food staples*: cut down total maize and beans surface to a minimum just to cover consumption needs and get income support (Procampo).
3. *Finca pattern*: remove partially unproductive shade trees (*ingas*) to interplant orange and plantain trees and, in the case of land-scarce producers, even maize and beans.
4. *Coffee maintenance*: reduce considerably the number of weeding, pruning, fertilisation and other maintenance jobs to a minimum, but with the recovery they did not manage to bring maintenance back to normal.
5. *Wage labour*: the pattern of local migration changed to longer distance and periods of labour migration (for the first time massive flows to the USA and major

cities in Mexico). However, better prices for coffee in 1995 induced many migrants to come back to tend *fincas* and maize fields

6. *Other coping activities*: women started to complement the family income with petty trade, catering and other local jobs, as well as finding alternative foodstuffs (they rediscovered plantain *tortillas* and the use of wild herbs); some men went fishing and even stealing (all of which created conflicts). This trend went on beyond the short-lived recovery.

These reactions had clear limits. All of them depended on compensating for losses and establishing conditions for another cycle. Under-consumption has to be met at some point with “normal” consumption – if not over consumption - depleted assets (tools, livestock and cash savings) have to be refilled and so on, otherwise the family undergoes absolute impoverishment and cannot face the agricultural cycle which requires energy, planning, minimum assets and social arrangements (labour exchange, land clearance). In relatively more specialised coffee producer communities (like Equimite or San Pedro Altepépan) or in the land-scarce lowland *ejidos*, mass migration became a structural change. Many families did not come back and some disintegrated; only very few managed to introduce some changes in land-use patterns (specialised plantain and orange fields). A small group of producers entered the business of intermediation (coffee, plantains, pigs, petty trade); they usually had little or no land at all, but had social connections, marketing skills and small savings.

Tlacolulan offers the imprint of a cooperative model based on social networks of land and labour exchange, coffee marketing and governance.

#### ***4.4.3 Strategies to face the labour problem***

The labour intensity of coffee cropping - a common argument in explaining small producers' presence in the market - involves several issues. Uneven mountain lands, dispersion of fruit in several branches and different ripening rhythms through the coffee harvest hindered complete mechanisation.<sup>193</sup> As long as these structural constraints are not overcome and labour remains relatively cheap and abundant, coffee in most producing regions will be picked by hand, and selectively. Recent history seems to

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<sup>193</sup> Modern coffee technology – Green Revolution type - was developed from the 1950s, making possible a mechanised and almost automated cropping system. There are in use motor shakers and multi-fingered harvesters, none of which have produced efficient results. They damage coffee plants and collect unevenly ripened cherries, apart from requiring widely spaced coffee rows on even ground.

favour flexible labour arrangements based on small producers' family labour and/or landless workers.

Capitalist units (usually plantation grower-processor-exporters) may well encounter three problems by introducing more efficient technologies: reliable *labour* supply, *quality*-deteriorating factors and competitive *financial* services. In any case, the most productive technology depends on substantial working capital. To figure out how important this dependency is, we could use the metaphor of *ecological friction*: the more modern coffee cropping speeds up production and distances itself from the natural environment of coffee, the greater the demands on capital to compensate for at least three main imbalances: soil exhaustion and plant over-aging; a higher level of pests, plague and diseases; and loss of some natural qualities of coffee.

The ecological milieu stops working for the modern coffee system, the way it works for peasants' diversified *fincas*, where the bond coffee/ecological niche has not been totally upset. Without an array of suitable institutions and organisations (financial, research and technical assistance), big modern coffee plantations are very vulnerable.

Labour amounts to about 50 to 90% of total coffee cultivation costs worldwide, depending on the choice of technology. It follows that the key to understand producers' strategies is timely supply and efficient use of labour. During the crisis of the 1990s (there was only a slight price recovery in the 1993-94 harvest), small-scale producers adapted primarily through increased wage work and reshaping cropping patterns: they strengthened food-staples production, and resized and altered coffee *fincas*, making an intensive use of available land and labour.

To face labour needs, the family unit can follow a combination of alternatives: adjusting the size of the coffee grove (to available household land and labour) and hiring *jornaleros*. The problem with using wage labour is three-fold. First, the family unit enters a tighter competition to keep up with wages paid elsewhere (Martínez's sugar refining mill, citrus and pineapple plantations, and also coffee growers). Second, peasants' chronic cash shortages, make the use of credit necessary, but this is scarce, expensive and only available from buyers and local merchants. When coffee prices are low, credit, inputs and even wage labour are not affordable to small producers. And finally, the problem of efficiency, since temporary piece-rate pay is a disincentive selective picking of properly ripened cherries. *Jornaleros* tend to find their way around



the payment regime, speeding up cherry collection by strip picking or “branch milking”. This practice damages plant branches and lowers the net yield of coffee beans (green berries do not develop weight, nor quality in the cup), resulting in productive losses and price discounts.

During slumps coffee groves are neglected, and then job opportunities in the coffee sector decrease. Under such conditions day labourers, landless peasants and many small coffee producers prefer to migrate to lowland citrus and pineapple plantations and nearby cities, because they get better wages there. With good coffee prices in a *minifundista* region, labour becomes scarce and wages go up because everybody gives priority to his own *finca* and the need for supplementary incomes diminishes. Only landless locals and some immigrants engage in wage labour on a full-time basis.

The vast majority of Atzalan small producers confine themselves to a short business process in the coffee chain, cultivating and selling fresh coffee cherries, that is why they are known as *cerecero* producers.<sup>194</sup> Ripened cherries tend to fall and spoil, and after picked, cherries last around 24 hours only. As a consequence, producers have no flexibility to wait, not even a few days, for a more advantageous market price. In contrast, *pergamintero* producers pulp and dry their own coffee beans (parchment) and are able in principle to wait months to market their beans, and have additional bargaining power, if they have adequate storing facilities and financial support (which is usually not the case).

Atzalan producers have historically drawn to some extent on *self-reliance* strategies intensively using family labour (self-employment and wage labour) and *ejido* lands. As has been seen, there are arrangements between *ejidatarios* and their relatives and neighbours for exchanging labour (*préstamo de trabajo*), which is a way of concentrating family non-paid work at peak times. Even hiring wage labour for coffee harvests or maize sowing can be considered – under certain conditions - an indirect labour exchange in terms of *time*.<sup>195</sup>

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<sup>194</sup> Pulping and drying coffee cherries are labour intensive processes, which require infrastructure and enough sun-light during the harvest season. In Mexico most Pacific-coast coffee producer regions have evolved from cherry to parchment production, but in Veracruz - in the eastern Gulf coast - around 70% of producers have remained fresh cherry producers. This is the result of natural constraints (high relative humidity throughout the harvest season), as well as the concentration of more than half of the national ‘wet’ processing infrastructure in Veracruz (Díaz P. 1992).

<sup>195</sup> When the amount of labour hired approaches the amount of labour sold in the market and, moreover, when there is not a rational calculation of the cost-benefit relationship of selling one’s labour over buying

To intensify the use of family's work capacities, labour must be freed from a single source of income (what peasants call "desembromar" or avoid distracting). Except for harvest and weeding, the rest of the cultivation process consists of continuous intermingled *interventions* (a visit to the field might be directed at pruning coffee, but at the same time to gather firewood and tend fruit trees). This strategy allows spreading out and stretching labour inputs to the limit. Even poor *ejidatarios* tend to use herbicides to reduce manual weeding time and/or avoid hiring labour. The key to this type of diversified-risk portfolio strategy is peasants' ability to engage and disengage from markets, adjusting selectively cash crops and wage labour according to perceived terms of exchange. Two conditions are necessary to carry out this strategy:

- A *buffer economy*: access to land and its relatively high carrying capacity are convergent conditions combining food crops and backyard livestock; and
- *Seasonal labour migration* to nearby cities and lowland plantations, which supplement on-farm incomes and does not interfere with the maize cycle and coffee harvest calendars.

The second option to face labour needs is to adjust the coffee grove size to meet harvest, weeding, pruning and fertilising jobs according to family labour. In Atzalan and elsewhere,<sup>196</sup> there is evidence that historically small-scale producers have adjusted coffee fincas to be manageable by the family.

Even if the coffee *labour problem* seems to be successfully addressed by *ejidatario* landholders, a closer look reveals some 'fault lines' in this labour regime (Roseberry 1995: 18). In first place, small-scale production leads to labour interdependence, but also to constraining bottlenecks. Labour requirements concentrate around harvest (October-April), particularly during its two-month peak (usually December and January). The starting point of the harvest varies within one-month time-span, and the ripening pace is uneven as well: first and last pickings are low-yielding, while intermediate ones are the best, both in terms of coffee volume and net yield (bean weight). The producer's family is usually unable to face the harvest peak on its own. Furthermore, in homogeneous microregions, labour demand rises synchronically

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others' labour, these arrangements are not common but happen, particularly among some lowlander and highlander families (with different harvest timing).

<sup>196</sup> Contrary to the concentration process in Colombia before 1970, three decades later the average size of coffee plantations went down from 3.5 to 1.3 ha per head, while total coffee surface decreased 17%. García & Ramírez 2000:3.

creating shortages particularly at the harvest peak. The end results are some fruit losses and working schedules bordering physical limits<sup>197</sup> - including the contribution of women and children (who quite frequently are absent from school during harvests). Having said that, it is important to acknowledge that the integration of women and children's labour and initiative in the coffee economy (picking and managing *arraces*), tends to favour more open communities.<sup>198</sup>

But there are two further labour fault lines. Unevenly arranged coffee fields pose the problem of labour measurement and exchange reciprocity (for instance, in terms of quality pickings), which combined with the synchronicity of coffee ripening in local *fincas* creates the tendency to default on cooperation. Finally, there is the generational continuity and capital formation problem. While an important part of *ejido* landholders are aging, young *ejidatarios*' descendants are in general not interested in undertaking traditional agriculture as a livelihood.<sup>199</sup>

Small producers make decisions about *alternative* changes, only after several bad harvests, usually 2 to 3 years of very low prices, or even more if job opportunities are not available. In the case of Atzalan, coffee producers began migrating to the USA and distant cities not in 1989 or even 1990, but mainly in 1992 and 1993.

Labour and input investments are made before knowing actual selling prices, and during coffee crisis there is somehow an expectation that prices will improve (past experience on cycles). Only when things get really harsh, when there are no other cash incomes (plantains, oranges or remittances), nor job opportunities available (known and affordable), do small producers make radical changes in their economic strategies.

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<sup>197</sup> Under 30-34 °C heat and high humidity jornaleros work for no more than 8-9 hours, while peasants work in their *fincas* for 10-12 hours, particularly during the harvest peaks.

<sup>198</sup> When picking berries women socialise among themselves and reinforce their bonds with children; their "gossiping" can be very influential in community matters. Paramount to better off *ejidatario* families are women's entrepreneurial ventures investing and increasing coffee incomes. Additionally, women are able to keep *arraces* (last pickings) as savings for the slack season, and they claim this coffee-money as retribution to the efforts of themselves and their children. Papua New Guinea presents many similarities in women's bargaining of coffee incomes (Sexton 1986, pp. 60-62). Women's labour outside silk-producing peasant households gave place to a "social form" or urban-rural strategy which became influential in the early "diffused" industrialisation of the Italian piedmont (Bull and Corner 1993, chapt. 2-3).

<sup>199</sup> I did an informal focus group in SPA's TV-Secondary School among a dozen older pupils and asked them what they would like to be after graduating. Nobody talked about going on to university and the great majority hoped for what they considered attractive jobs: truck drivers, retail staff, police guards, and so on, that is, low-skill and low-paid urban jobs, but perhaps just above peasant status.

The opposite reaction seems to be much faster. Migrants tend to come back after one or two good coffee cycles. The price recovery of early 1994 attracted Atzalan peasant-workers to the 1994-95 harvest. By the fall of 1995 there were many more people coming back, despite the international price reduction, compensated with the peso devaluation and income-support programmes.

In short, most small producers add their own labour to the local market in three different ways: self-employment in their own coffee *fincas*, exchange-labour with neighbours or family and wage work in growers' plantations. If we consider the year-to-year fluctuations in coffee prices and wage labour in the regional market, we can understand why it is difficult to prove the hypothesis that peasants are ready to accept marginal returns to labour as the bottom line price for picking, processing and selling coffee.

#### **4.4.4 Subsistence and economic strategies**

Family "strategies" rely on "coping" tactics like food and labour self-sufficiency, diversified food and cash crops, seasonal wage labour and cooperation, cyclical management of resources and consumption. However, few economic strategies account for the vast majority of coffee producers reactions to the coffee crisis:

- I. The socially isolated poor peasants, with limited access to land and social networks, who rely on wage labour, hope to save and invest in land to become fully entitled *ejidatario*. They are highly dependant on *rancheros*.
- II. The organized poor and medium peasants, with complex social networks and communal governance structures, establish a certain distance from local elites and hope for family improvement. Their strategies (influenced by a traditional-religious worldview) are based on an intense use of land, labour and cooperative organisation..
- III. The specialised coffee producers, linked to local elites with privileged access to institutional support (IMC, Banrural, Solidaridad, etc.), have good quality lands close to roads. They aim at regional and vertical integration of agribusiness activities (coffee, citrus, maize). These specialised producers substitute the insurance of social network with specialised knowledge and contacts with market and state agents. Most of them are political entrepreneurs (professional peasant leaders) and coffee organisations are one of their favourite income capture means (see next chapter).

IV. The small-scale *ranchero* growers and processors, who benefited from access to institutional support and freed themselves from *ejido* obligations, aim to become local entrepreneurs through coffee vertical integration and economic diversification. They benefit from *ejidatario* labourers and costumers (petty trade and money lending).

Peasants' activities show patterns of behaviour and values transcending mere biological survival and resistance, although these concepts can be useful to understand rural societies. Status achievement, a sense of fairness, and intended efforts to improve the next generation's chances of a better life matter too. However, consciousness, awareness and formal rationalisation are not always an ingredient of peasant responses. There are 'traditional' systems (social resources and technology) at work allowing individuals not to rationalise whole sets and processes, step by step, in terms of time, effort, choice, outcomes, monetary costs and gains when these concepts apply. The management of cycles is one form, because it provides a structure within which flexible variations accommodate. Innovators react creatively making shortcuts and adapting agricultural cycles to new challenges and opportunities. They avoid in this way continuous reproduction of traditional systems and they are usually located in the upper strata or in the outskirts of ejidos, at a distance from local bosses and political factions.<sup>200</sup>

The problem of effort and taste, frequently neglected in analysing how people meet their needs, remains another shortcoming of the survival/basic needs focus. Peasants share an aesthetic and affective dimension of life. Along with word playing, hard drinking and socialising, flows a rich communicative exchange of experiences, information and argumentative talking.<sup>201</sup> As a result, there is always an ongoing evaluation of social options in the community, which influences individuals' decisions of either remaining on the land (sometimes at a high physical expense) or, walking out to find a job as a day labourer in nearby agribusinesses or as worker in the construction industry in the nearest cities.

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<sup>200</sup> Herring (1984) analysed productivity and social consequences of local agrarian settings with highly concentrated power structures. Cancian (1992) tested the idea that mid-upper social segments are the most prone to change and innovation. According to my fieldwork, the middle strata are the most conspicuous innovators, but I also found that social distance from power structures is important.

<sup>201</sup> See Kerkvliet (1990) and Ulin (1984) who – following Winch – argue for the importance of common language and language games in understanding social relations and peoples' rationality (rationality is the informal logic of a shared life experience of a community of speakers or a cultural tradition), therefore the relevance of anthropological fieldwork.

What is considered a basic need also varies a great deal, depending on social expectations, experience and status, as well as economic strategies. Thus, well-off *ejidatarios* and landowners share a basic *ranchero* lifestyle. For them the ethics of “right” implies: first of all, keeping your business (livestock, fields and other businesses) in shape. ; and, secondly, ensuring your family’s health and status while maintaining minimum social duties (religious fests, civic contributions and god-parenting and some labour alliances with poor peasants).

In contrast, the worldview and ethics of the majority of peasants (“endemic peasants” who are landless and *minifundista ejidatarios*) place family wellbeing as the first “right thing to do” (very basic health and food consumption), but this is commonly a collective endeavour, involving not only a nuclear but also an extended family. Compared to better off families – who tend to avoid social obligations of food sharing and economic support to the needy - poor families rely much more on social networks of help and exchange. “Endemic peasants”, who only work outside in nearby labour markets during the dry season for no more than a couple of months, can do without many of the items of well-off *ejidatarios*, no matter how desirable they can be for young men and women.

Proletarianisation - as indefinite emigration - can take place on an individual or family basis, but it is not always irreversible, not necessarily the result of a cumulative impoverishment. Apart from successful stories of people who have returned with savings -from the USA and Mexico City - to buy land or livestock, many emigrants kept their lands in Atzalan and came back temporarily to collect coffee in the 1994-95 coffee price recovery. Among the families that emigrated for good, many stayed in nearby cities, sustaining relations with their families and even businesses.

In bad times, the level of attention to all farm activities can be reduced to nil, except for maize and beans. The bottom line for food security is access to a piece of land, a few kilograms of seeds and some meals to sow a patch of *milpa* (maize field). Considering the social networks, these basic resources are almost guaranteed. A patch of land can be borrowed from a relative or a neighbour in exchange for labour or even for free. The same applies for maize and bean seeds. It is almost a social obligation to provide those in need and ready to work.

Producing maize and beans for self-consumption is for many a safety net, to overcome income shortfalls. The fact is that peasants’ ability to produce enough food and to store

it through the slack season and until the next coffee harvest, has disappeared for different social, economic and agroecological reasons.

Coping strategies are rounded up by coffee incomes but, when they fail, basic needs change completely. If price drops stretch for many years, as in 1989-93 or 1995-2003, the ability of social networks to sustain collective survival diminishes considerably.

Wage labour is a second safety valve because there is always the last resort option of going down on a three-hour trip to the citrus export plantations and lowland *ranchos* to harvest, weed and fertilise. This is why, after five years of coffee crisis, many families survived without turning to long-term migration and carried on with coffee cropping.

Market forces, not only 'basic needs', exercise a strong influence on the amount of surplus production. Surplus does not necessarily mean remaining product, after meeting household consumption needs (Patnaik 1976 and 1987). It is simply the product sent to the market (even at the cost of under-nourishment). 'Doing without' can even be considered an adaptive strategy in the short term.

#### ***4.4.5 Peasant rationality: surplus, productive investment and cooperation***

The current price of labour, the previous years' price for coffee and the overall cost of basic consumption goods together influence peasants' expectations of what is considered a 'good price'. In case of high prices, that is, 'reasonable' terms of exchange, small producers invest part of their surpluses in coffee and reduce wage labour. In the opposite case, 'bad' prices for coffee discourage small producers and push them to neglect coffee trees, increase the use of wage labour and turn to other cash crops. The rationality of different types of producers differs in one specific way, namely their pro-cyclical or counter-cyclical strategies upon coffee price instability.

The model of producers as rational maximisers following price incentives takes little account of the many different and complex rationalities at stake.<sup>202</sup> Most producers in fact make rational calculations, but they rely on *condensed* knowledge frameworks:<sup>203</sup>

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<sup>202</sup> There is an extensive literature within Economic Anthropology, challenging formal explanations of economic rational behaviour. See, in particular, the contributions of Polanyi (1957) on non-market forms of exchange and the long debate on the redistributive/differentiating functions of prestige economy (Wolf 1957, Cancian 1965, Smith 1977, Greenberg 1981 and Korsbaek 1996).

<sup>203</sup> Gadamer (1994) distinguishes three types of knowledge: practical, rational and technical knowledge (*phronesis*, *episteme* and *tejne*, respectively). Condensed historical knowledge basically corresponds to

- a. Choices about renovation of the stock of trees, either by intensely pruning defective plants or by new planting assumes medium- to long-term planning and requires institutional incentives (otherwise peasants do these tasks sparingly).
- b. Coffee producers change *collectively* their medium term expectations based on the institutional framework of the coffee sector, which determines how fast and pressing a crisis is felt by the vast majority of producers (small, medium and even big ones), or to what extent booms allow technological modernisation.
- c. Coffee producers constantly monitor the terms of trade among different farm and off-farm activities. Unless legislated against,<sup>204</sup> they move assets across at least three economic spheres: food-staples (maize, beans), cash crops (coffee, citrus, bananas) and buffer investments used to store and dispose off savings (backyard livestock).<sup>205</sup>
- d. Coffee incomes create unequal incentives in different producer regions according to prevalent rural livelihoods. Where returns to labour are the key feature of small-scale coffee producers' strategies, and few or no cash generating activities are available, a "perverse" reaction to lower than costs of production prices can be expected (i.e. carry on the harvest). On the contrary, where labour markets are very competitive and coffee productivity is high (wage labour is then crucial to pick up the harvest), lower prices for coffee may lead *immediately* to a lower harvest. Five years of crisis – without state support - made plantation growers in southern Brazil move to soy production, while many millions of peasants worldwide went on with – diminished / lower quality - coffee production.

One of the most important findings of my research is the fact that small coffee producers generate surpluses. But there are not enough, nor sound instruments, for surplus savings and productive investments readily available to them. Private banks do not offer appropriate services for traditional agriculture, as *ejidatarios* are not

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the practical knowledge, which according to Gadamer has a very different structure from the other two forms of didactic knowledge and is derived from the exposure to vital concrete situations.

<sup>204</sup> In Kenya there are long standing prohibitions to plant and cut coffee trees in designated areas. During the recent crisis Colombia introduced tighter regulations and incentives to restrict coffee planting in suitable areas, while in Mexico, the government decided to restrict the establishment of new coffee plantations to suitable lands of existing coffee producer regions only.

<sup>205</sup> For Colombia, Junguito and Pizano (1991 and 1997), recognised the importance of this triple synergic pattern. In eastern Mexico, Díaz P. (1992) distinguished many more variations to this pattern. See Sexton (1986) for Papua New Guinea and for Brazil, Stolcke (1995).



considered attractive customers (due to high transaction costs and risks, low profitability and lack of collateral).<sup>206</sup>

Thus, surplus is spent on (compensating for postponed) consumption, *tonamil* maize and beans investments, debt repayments, coffee *finca* maintenance, tools, and hard drinking.

Coffee income does not only replace coffee producing assets, but also those of associated crops and other activities within and outside the *finca*. Buying and raising poultry, pigs and cattle continue to be very important forms of saving and productive investment of coffee incomes. In different coffee producer regions, livestock has played the role of safety net, in case of coffee slumps.<sup>207</sup> In Atzalan communities, pig raising stands out as the most important alternative, due to uneven terrain and the manageability of costs (not as high as in the case of bovine cattle).

Non-Catholic coffee producers in the area have undertaken interesting changes in the patterns of surplus investing and consumption. Conversion to so-called Protestant sects has spread widely in coffee growing communities. Particularly, the Jehovah Witnesses (JW) group has increased its membership by a considerable amount, exercising a strong influence in local life. According to my observations, they have introduced incentives for material and educational improvements (health and cleanness; better nutritional habits; prohibition of alcohol and other vices; promotion of literacy), making a positive impact on savings, self-help and cooperation.

Although there are also Catholics trying to save and invest in new crops (i.e. specialised orange fields), and improve living conditions (i.e. sending children to school), there is a lower level of cohesion and organisation among them. Apart from unequal opportunities and an individualist behaviour, Catholics criticised JW for their lack of commitment towards the whole community, moral disguising and even misappropriation of resources.<sup>208</sup>

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<sup>206</sup> There have been new financial projects in rural areas, such as the *Cajas Solidarias de Ahorro*, which have induced saving and borrowing practices, despite some abuses of local bosses.

<sup>207</sup> In Colombia there have been incentives to integrate coffee cropping with cattle raising and food-staples, not only to counter overproduction of coffee, but to encourage the synergies of the three sectors: use of fodder, transformation of coffee pulp into forage and self consumption (Junguito and Pizano, 1993).

<sup>208</sup> I cross-questioned many Catholic and JW coffee producers of SPA and Loma de Las Flores, respectively, on the opinion of each other and the apparently higher standards of living and cooperative organisation of JW. See interviews to Guerrero family of Loma de las Flores, March 1995, Nb 4.12-4.65,

There is evidence in other regions of an expansion of Protestant influence, in terms of numbers and impact on community life, encouraging scepticism about getting involved in local politics and functional organisations and weakening traditional corporatism.<sup>209</sup>

Regarding the logic of collective action, *ejidatarios* have different forms of cooperation such as *faenas* (community labour), sharing costs of public works and services. The *ejido faena* is a traditional institution in indigenous and, in general, in peasant communities, which consists of a contribution in kind (usually labour or its equivalent wage) of all land entitled families, as a duty towards the community. There are also coffee co-operatives that have a contradictory relationship with peasants' strategies.<sup>210</sup> Co-operatives run high financial costs and risks, while producers frequently get to the harvest with great cash needs and only hope for selling coffee cherries as soon as harvested - at the highest price possible. Only a few communities have managed to buy independently small pulping centres, but they are regularly underused because of the lack of working capital<sup>211</sup> to buy, process and market at least *seco de agua* or semidry coffee (producing parchment requires big drying patios or driers, as well as financial risks).

While giving up otherwise potential profits in processing and collective marketing, small coffee producers allocate a higher priority to the whole household economy. They lack the material means, social contacts and technical skills of merchants, and they tend to distrust co-operatives. Coffee cannot be easily centralised and marketed by common peasants, a task which implies either big amounts of money just to buy and resell the beans, or strong collective action, trust and marketing expertise.

### ***Conclusions: old and new spaces for peasants in capitalist markets***

In the first section of this chapter we evaluated the objective factors of coffee cropping. Coffee is a tropical crop with strong colonial roots (the North finances, trades and consumes, while the South crops). The natural determinants of coffee cropping

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and Catholic priest Juan Vasquez M, of Tierra Nueva church, 28 January 1995, Nb 1.63, among many others.

<sup>209</sup> David Skerit, personal communication (June 13, 1996). Similar to Atzalan peasant communities, in the neighbouring northern sierra of Puebla state, Garma Navarro (1987: 91-133) found that in Totonacan indigenous villages, protestant groups created a balance to local bosses' power (*caciquismo*), alternative identities and roles for women and youth, and more abilities to adapt to modern capitalist markets. With a few exceptions (i.e. schooling, collective works), protestant groups in Atzalan and elsewhere have been rather sceptical about getting involved with civic institutions and local government.

<sup>210</sup> Chayanov (1966) pointed out that co-operatives fulfil capital's need of centralising peasants' production, regardless of their political façade.

<sup>211</sup> Paradoxically, higher prices for coffee strangle collective action.

(climate) are the basis for a prominent presence of highland peasantries worldwide. At the same time, the inability of modern technologies to entirely supplant labour - and brake the increasing presence of small-scale coffee producers - influence decisively labour regimes and price formation in coffee markets.

In the third section of the chapter, the overlapping of cycles affecting the coffee market was used as an explanatory hypothesis to overcome the shortcomings of linear modelling of mainstream economics and better understand the conflicting interactions of different actors of the coffee market. While peasants react in a rather procyclical way, entrepreneurs and growers act with more independence from short-term cyclical trends, thanks to specialised institutions. Cyclical price slumps recurrently eliminate 'inefficient' commercial producers of all sizes, but traditional coffee cropping systems are more resilient and – under certain conditions - sustainable.

In the last section of this chapter I analysed the subjective factors that help explain the position of small-scale producers. Through the analysis of small producers' strategies we found three particular components that are deeply rooted in peasant livelihoods: local knowledge and rationality, social networks and bargaining with the state.

First. It takes a long time and skill to master mountain ecosystems to adapt coffee to the vagaries of local microclimates. Natural conditions shape coffee systems of production,<sup>212</sup> providing the material basis for differentiated peasant livelihoods. In the case of Mexican tropical mountains, peasant communities have recreated Mesoamerican cultures and productive wisdom. They have associated coffee with traditional crops like maize, allowing small producers to soften the impact of price slumps. In this way coffee markets are shaped by peasants' livelihoods, social networks, cultures and politics, explaining why coffee producing basins worldwide share certain characteristics. However, peasants' knowledge and *stewardship* of coffee is hardly recognised through market incentives. Knowledge goes through a complex process of formalisation, whereby those who have the institutional means to rate it (through cupping, certification and proprietary rights, and sheer marketing) finally appropriate the "hidden qualities" of *peasant* produce. It would be nonsense to grade *peasant coffee*; still the best coffees in

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<sup>212</sup> One of the failures of orthodox Marxism is understanding ecology as a given object of human rational activity. Although, Marx in his early writings considered that transforming the nature and material conditions of production, humans transform themselves (see Mouzelis, 1979; Giddens, 1997), "Deep Ecology" advance a more holistic argument (Capra 1996).

the world come from shade-grown plantations, traditional or exotic varieties (non-HYV), selectively picked cherries and rustically-processed single-origin small batches.

Second. Social networks provide small coffee producers a framework to solve important problems such as access to land, exchange labour, knowledge sharing and market information, safety nets and marketing coordination. The intensive use of land and labour are key components of peasant strategies, not without tensions that are regulated through social sanctions. The dispossessed poor in peasant communities are those with restricted access to these social networks (disinherited or family-less, limited Godparenthood and high-status kin relationships, and interfamily violence).

Third, the international coffee market is a *political* market, marked by high levels of state intervention (if not regulation). Chapter 2 showed to what extent coffee production has always been a development policy priority for Mexico. Coffee and agrarian conflicts have been very much associated, but land reform has not always been the solution to social tensions. State *influenced* producer organisations along with market institutions (laws, regulatory standards and also informal arrangements) have commonly solved the coordination problems generated by a labour intensive and geographically dispersed crop. Therefore, bargaining with state agencies has been a central component of coffee markets, as described in chapter 3. The interaction between peasants, rural elites and processing and export companies is mediated by the state. In the 1990s, such bargaining changed considerably the agenda from land grants and price setting towards income support and alternatives for sustainable rural development on the highlands.

At the same time, more or less corporatist or independent organisations and leaders from different backgrounds, ideological bent and commitment to peasant communities have mediated bargaining with state agencies. Local bosses, political factions, religious groups and local organisations can enhance or weaken social networks, issues that are discussed in the following chapter.

## CHAPTER 5

### RURAL *ELITES* AND BUSINESS STRATEGIES IN THE TLAPACOYAN REGION

Research on *caciquismo* made it clear that power structures played an important role in shaping markets (Bartra 1976; Warman 1984; Paré 1982 and Frederich 1986). Social anthropology showed caciques as a historical product, which could be traced back to colonial times, when old elites were subjugated and incorporated as part of a system of indirect rule. However, the most traditional forms of power in indigenous communities have more to do with post-independent (XIX century to the present), rather than pre-Hispanic, Mexico (Aguirre Beltrán 1952 and Korsbaek 1996).

In their attempts to modernise rural Mexico, post-revolutionary policy-makers borrowed from anthropological insights and embarked on a crusade for integrating traditional communities into a modern Mexican nation-state. In the 1970s the state launched a more radical initiative to overcome these structures. The main targets were rural marketing structures within important agribusinesses (sugar cane, tobacco, barbasco, coffee, etc.). The main regulatory vehicle employed was a wide network of state agencies (marketing boards, funds and many other types of state enterprises). A condition for state intervention was encouraging peasant organisation as never before, this time based on agribusiness and commodity chains. If on one hand, state agencies weakened traditional intermediation structures (debt-bondage and traditional monopolies were considerably reduced), on the other, they created new spaces for intermediaries and widened the political field for caciques. A similar phenomenon happened with the neoliberal restructuring of the coffee sector in the 1990s.

By the mid-1980s the political class had come to realise that the state was incapable of successfully organising peasants. Both, *politicos* and technocrats arrived at the same conclusion, but based on very different assumptions and policy consequences.<sup>213</sup> The Salinas administration (1988-94) cut down CNC corporatist rights over the state budget, though it did not challenge political clienteles, nor did it implement other democratic

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<sup>213</sup> In a personal communication, Beatriz Paredes, Agrarian Reform Under-Secretary (May 1985) underlined the failure of state policies in delivering development and democracy to rural areas, as well as the crisis of the CNC structure.

reforms in the countryside. This administration, in fact, reformed the corporatist structure trying to modernise the CNC management with former leftist leaders and independent organisations involvement in backing government's policies (Harvey 1994 and Gledhill 1996).

Many studies on coffee (Early 1982, p. 78; Nolasco et al. 1985 and Salazar et al 1992) tend to simplify the way small producers integrate in commodity markets overstressing the *exploitative* role of *caciques* and merchants. While there are some regions in which in fact monopolistic conditions, debt bondage and semi-slave labour exploitation continue, in most coffee producer regions there have been important changes. In the first place, because coffee producers have some room for manoeuvring that has to do – in the absence of market competition - with social balances (moral sanctions and prestige economy) and individual tactics (pre-emptive measures); second, because intermediaries quite commonly play not only economic roles (i.e. collecting coffee), but political and social ones as well; for instance they can perform leading and coordinating functions, allocating time and personal resources to political representation and to negotiating public services (in municipal or even state offices); and they can also be high-status individuals (collective fiestas sponsors; *compadres* to many families, etc.); and lastly, because intermediaries and *caciques* can hold of traditional knowledge and expertise in dealing with private market agents or state agencies.

The chapter builds on the story of land reform and state intervention through a coffee board (the IMC), laid out in Chapter 2, the emergence of dysfunctional organisations unable to represent small producers' interests, as shown in Chapter 3, and the way these have sustained an important presence in coffee production based on both intrinsic coffee market's constraints and peasant family strategies, in Chapter 4. This chapter argues that important features of traditional rural structures have survived most attempts of modernisation because their main agents (*coyotes*, *caciques*, growers, millers and buyers), the organisations they represent and the strategies they pursue lower transaction costs, both economic and political, such as those associated with the business cycle, know-how and conflict. Factors such as the prevalent regimes of payment to producers, intermediaries' commissioning, operational schemes, and the underlying expertise on how coffee value is formed, exercise great influence on particular business strategies. Although markets set a price ceiling, many other things depend on bargaining power, expertise and specific constraints.

### 5.1 Coffee intermediaries' strategies

The IMC set a paradigmatic operational scheme among small coffee producers. Table No. 11 shows that they copied several practices used by intermediaries like forward credit and strategic positioning of purchasing centres, in order to counter their influence, creating a vast network of purchasing centres; UEPCs, Support Centres, Regional Delegations and experimental camps without parallel in rural Mexico.

Table No. 12

INTERMEDIARIES VIS A VIS IMC'S INSTITUTIONAL 'BEST PRACTICES'		
	<i>Intermediaries</i>	<i>IMC</i>
<i>Credit</i>	Forward purchase (in kind and cash in dry season and before harvest)	Forward purchase (inputs and cash 2-4 times a year, including slack season and pre-harvest)
<i>Contract form</i>	Informal, including debt bondage and social obligations	Informal, solidarian collateral through UEPCs
<i>Purchasing centres</i>	Local networks operated by <i>coyotes</i> with a revolving fund	Same local networks, but operated by UEPCs and IMC staff
<i>Payment form</i>	Cash	2-4 instalments (cash and kind)
<i>Price incentives</i>	No	<i>Alcances</i> (final price differential)
<i>Other services</i>	'Help' with credit in case of need secured by harvest produce	Free seedlings, technical assistance, life insurance, development projects

Source: Nolasco 1985, fieldwork 1995-96.

In a decade and a half, the coffee parastatal set 'best practice' benchmarking that still formed a standard in the late 1990s in coffee producer regions: Purchase guaranty and up to 4 cash and in-kind credits and after-sales compensation, delivery of subsidised inputs to the communities, free technical assistance. For many years producers felt uneasy if 'their' organisations did not fulfil these expectations. Intermediaries had first adapted such mechanisms to control and attract peasant production. Through the years, money-lenders, merchants and *coyotes* not only exploited peasants, but played functional and to some extent legitimised roles (what could be called *elite* roles) in peasant communities. They adapted their business strategies to the peasants' cyclical shortages of cash before harvest and during the dry season, and their needs for insurance in cases of illness and accident, and for trading surpluses of food staples in exchange for manufactured products. They located in geographically strategic points to collect harvests efficiently at the entrance points to the *sierras*, in 'rector centres' (central town

markets). The IMC first struggled to understand and then to overcome this embedded coffee marketing system.

Even at its peak, collecting more than 40% of the national harvests in 1982-83 (and almost the total in primarily *minifundista* regions like the Atzalan sierra), the IMC could not displace intermediaries. Intermediaries accommodated to new circumstances. How to explain such resilience? Though the widening gap between rural societies and the cities is an important factor, I argue that local intermediaries perform essential economic and cultural roles in embedded rural markets. They are better equipped for maximising the use of commercial capital, increasing turnover efficiency by shortening the cycles of purchase-sell-purchase. This is explained by two factors. First, they are linked to big buyers, so they usually have no shortage of working capital, or problems for selling coffee immediately. Intermediaries are backed with a purchasing or revolving fund, enough to buy all the coffee they can transport in one go, and paid usually straightaway in cash, to the extent that 'trusting' relations build up between buyer and 'coyote'. Sometimes (particularly, at the beginning of the harvest) coyotes invest their own savings and profits, financing the regional buyer when there is a need to 'bridge' a purchase.<sup>214</sup>

The advantage of intermediaries is their capacity to offer *cash for coffee on the spot*. Peasants do not hesitate to sell at lower prices to 'coyotes' as they are chronically short of cash and arrive at the harvest with debts and postponed consumption. The bargaining power of intermediaries is such that sometimes they default on informal 'contracts', manage to operate several collectors and trucks using buyers' money, and sell coffee to whoever pays better prices, not necessarily those who provided them with working capital. Buyers know these tricks and sometimes they get rid of the most cunning 'coyotes'. Gathering a 'trusted team' is a time consuming process. It requires concessions from buyers to intermediaries: long lasting working relationships; competitive commissions and price premiums; preference on cash payments; credits in case of need and a considerable interaction. On the part of intermediaries, there occasionally appear incentives to leave coffee trading. There are good and bad harvests. In times of low prices - and narrower margins - some try to accommodate their capital in smaller local markets - i.e. buying oranges and plantains ('white bananas'). Many

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<sup>214</sup> James Putzel found among 'Chinese traders' in the Philippines similar features to these coffee intermediaries. He argues their ethnic identity is not the only factor that accounts for such economic behaviour, which has allowed them to flourish, but other factors related to market functioning in peasant societies (personal communication, 20-June-1997).



more without their own trucks and capital, would have no other choice but to migrate to find a job in nearby cities, just as *ejidatario* producers do.

Buyers often cast a blind eye on the practices of ‘coyotes’ because they have no means of supervising so many purchasing spots and transactions in a short time. It would be costly and of limited use, because it is almost impossible to account for capital *ownership* once it is already converted into coffee. Intermediaries become indispensable to buyers, both for economic and socio-political reasons. They multiply the purchasing power of capital in an environment of imperfect competition.

*Cultural detachment* and *specialisation* is a second advantage of intermediaries. Local intermediaries penetrate areas unfamiliar to buyers, using their stigmatised presence for business purposes. *Coyotes* do what in the collective consciousness of producers appears to be “dirty work”: waiting long hours in communities, paying the lowest possible prices to producers. Generally speaking, intermediaries make use of different tactics to maximize their cut, but their behaviour varies a great deal if they belong to the community they are buying coffee from, or if they have kinship relations with particular producers. The degree of collective organisation among small producers can also influence intermediaries’ room for manoeuvre. In communities with local organisations buying coffee the levels of competition and information on prices are much higher.

The presence of coyotes is thus legitimised bearing the cross of stigma.<sup>215</sup> Apart from keeping their profits secret,<sup>216</sup> intermediaries build up local connections offering slightly better deals to key people and ‘friends’ in the community. For instance, sometimes they accept damaged coffee with no or minor discounts, wait until a late hour for a delivery, or buy drinks for peasants.<sup>217</sup>

Intermediaries also exploit their cultural disengagement upwards, for they stretch the limits of a ‘trusting relationship’ with ‘urban’ buyers, pushing commissions up. They appear to be loyal, even thankful and submissive to buyers’ directives on price margins, routes and type of coffee sought; but that is only part of their game. Intermediaries receive a ceiling price to buy, which includes a commission margin, both for transport

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<sup>215</sup> The negative clichés about ‘coyotes’ reflect institutional features of this rural market: the local coffee buyer has not been legitimised as other businesses have, like retailing or collective transport; further transactions are not transparent.

<sup>216</sup> There was a case in which the opposite happened, one of Topete’s *compradores* showed off his wealth through boastful suits, but this is exceptional for it easily leads to stronger moral condemnation and even eviction (it has happened in SPA and other communities).

<sup>217</sup> Interview with Efrain Leon, Topete’s *comprador* from El Equimite.

(*flete*) and for the collector (*receptor*); below that ceiling price formally the intermediary would be saving money for the buyer, but the fact is that most of those 'savings' are usually appropriated by intermediaries. Successful intermediaries perfect their skills and save profits to buy tools and gain independence. Many intermediaries remain local buyers (*coyotiyos*), and profits usually finance a domestic economy physically near to producers.

'Coyotes' have several ways of increasing their profit margins:

a. *Reducing the current price for berry coffee.* If there is competition in a market place this is more difficult but still possible by direct or indirect means. They can alter weights, charge unfair discounts or simply lower the price if there is no competition. They may even establish a *cartel* when other buyers are known to them and can be trusted (that is, have the same room for manoeuvre), for most organisation's collectors have no interest in this practice, as they are paid a fixed wage. Cartels are temporary due to many difficulties in sustaining them in better connected towns and in the best coffee producing areas, where more competitive markets operate.

b. *Free-riding on buyers.* This takes two forms: First, raising fees. Arguing tight competition, intermediaries bargain a higher ceiling price from their buyer patron. Additionally, they can mix lowland with highland coffee - of higher quality and price - and bring the bulk to the market as highlander coffee. Second, coyotes may use a third party's capital to make deals of their own for particularly profitable lots (i.e. when they strike a good quality-price deal or a favourable price turn).

c. *Higher turnover.* Less opportunistic intermediaries – with long term ties to communities - try to create economies of scale, give producers special bonuses on deliveries, integrate relatives in collecting points and even add their own savings to increase working capital and turnover.

'Coyotes' marketing expertise and social distancing allow them to play both roles, community leadership and economic intermediation. Many local leaders started their climb out of peasant status as *coyotes* (as will be seen later in this chapter) to become local leaders, as they convert outside knowledge and marketing expertise into "political capital". But there are some leaders who – having profited from local organisations - start intermediary businesses; thus, converting political experience and contacts into economic opportunities. To the extent that these two forms of "social capital" are

fluently exchangeable, we can say that market and political intermediation are not completely different things. This mutability is a key to understanding local politics and some of the most pervasive constraints on collective action.

Theoretically, margins for profit making are very narrow for local organisations in Atzalan, because peasants have not developed the prospective idea (strategy) of building up collectively held assets, like upgrading processing and transport facilities or establishing an accumulation fund for 'their' organisations. If a profit is made, a moral obligation dictates that *money* has to be distributed within *the community*, regardless of business considerations. It is no coincidence that both independent and corporatist coffee organisations have to deal with this social sanction, which is more than a moral dictum; it is a social claim and a pre-emptive attitude. While Ojo de Agua's pulping centre redistributed small amounts of money and organised a barbecue among members,<sup>218</sup> in the case of SPA's co-op, profits were reinvested in improving co-op assets. Though leaders also organised the annual barbecue for members, they managed to get a vote of approval to reinvest profits in their processing plant (repairs and conditioning). They legitimise vote induction this way:

'If we check with producers what to do with profits, they will never accept the idea of reinvesting in mill's machinery and facilities.'<sup>219</sup>

Why do buyers not attempt to integrate even *more* directly with communities? As has been suggested, it is not necessarily more advantageous for several reasons. Alternative schemes have been tried without success. Some involved either hiring personnel or entering contracts with local organisations. But in this region, coffee business transactions take a long time: coffee harvest and wet milling takes around 200 days when run under profitable conditions: collecting coffee from small producers is a time-consuming and skilled activity, and as noted, stigmatises the purchaser.<sup>220</sup> Permanent staff tends to lack the flexibility needed to wait long hours and to move intensively back and forth while remaining socially detached from producers. There is also a risk of getting involved with producers against buyers interests, for instance in terms of relaxing quality controls or making weight and price concessions. There is also a risk that staff would make money out of producers and buyers to their own benefit (as intermediaries do anyway), cheating on weight receipts, inflating transport costs and

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<sup>218</sup> Interviews with R. Barreda (17-Mar-1995) and T. Navarrete (10-Feb-1995).

<sup>219</sup> Interview with Serafin Quiroz (16-Mar-1995).

<sup>220</sup> The cultural image of *coyotes* represent a *moral* sanction to traders (*traitors*). See Evers (1994) for a historical analysis of the use of ethnic identities for business purposes.

coffee weight losses, in order to improve commissions. This is just what happened to IMC employees, when the UEPC failed to appoint its own collector and supervise the process themselves.

Some local organisations in Atzalan commissioned one of their members to collect coffee, in Equimite, Loma de las Flores, and Tlacolulan. They had comparatively good results. Nevertheless, problems did arise, in some cases because the collector did not find his job worthwhile compared to the time he had to spend. For instance, Roque Landa, in El Equimite, was responsible for managing local purchases of SSS members in 1994-95, but he was not happy with his commission and in turn did not satisfy producers with the fee of N\$20 per quintal, which was set in advance to finance the operation of the local collecting point. Thus, producers were not favourable towards a purchasing centre that leaves payment similar to that offered by private buyers. As a Tlacolulan producer put it:

“...it is too much work to run a purchasing centre: we have to work long hours, worry about getting good deals; and at the end we had to sell at a price no better than *coyotes*’. It is an *albur* [gamble], and you cannot always get it right.” (Gaudencio Claudio, 21-March-1995).

Despite this outcome, buyers from Tlapacoyan made little contact with local organisations. The buyer may have tried to avoid clashes with regional organisations (FRS-Azotal), which were better clients than local ones. But still more important was the buyers’ stereotypes of producers as unreliable, lazy, and politicised. They avoided getting entangled with local politics for other reasons. When I asked both grower-processor Topete (Loma Bonita) and the Herrera brothers (buyers in Tlapacoyan) if they were willing to trade with producers on a longer term basis, considering higher quality controls and economies of scale could be obtained (and leaving politics aside); they both answered they were ready to introduce price incentives for producers.<sup>221</sup> This proved that although there are basic conditions to internalise more advanced and equitable price structures, this has not happened.

## ***5.2 Political and economic functions of ‘caciques’***

Factional politics feed back on state intervention, the logic of which is to centralise a community’s representation for bargaining over service delivery (Bartra 1993; Friederichs 1989). Those who establish the right connections and gain access to

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<sup>221</sup> Interviews with Rolando Topete and Laureano and Jose Herrera.

information that allows them to reach decision-making offices are able to benefit the most. The painful process of bargaining over public services for rural communities – from education and health to roads and credit – provides leaders with better chances to learn about the outside world. Local leaders occupy posts and get experience in dealing with local and federal organisations, as well as with market agents. However, co-optation of local leaders by the political system slows down the process of *peasant elite* formation.

Since the XIX century, politics in Mexico has been based on elite alliance-making. The federal state was built on such an elitist basis, rather than through democratic representation or civic contracts. Apart from the political and cultural traditions inherited from the Spanish colony, this trend is also associated with social inequality and weak ‘civil society’ structures (political parties, unions, clubs and interest associations), which otherwise could mediate between a powerful state and ordinary people. There has been a wide gap between a very heterogeneous civil society and the ruling *elites*. This empty social space has been filled by caciques and all kinds of middlemen.

After the Mexican revolution, the corporatist structure set up by Presidents Calles (1930-34) and Cárdenas (1934-1940) gradually incorporated those *elites* into the political system in a subordinated way. They formally represent class interests (peasants, urban workers and the so-called *popular* sector), but once incorporated into the CNC-PRI structure they can be recruited to the regional and state-level (very few to the national level) circles of the political *elite*, mediating with the groups they originally came from. This benefited both the political system and elites’ own interests (Skerrit, 1996; Knight, 1992; Guerra, 1988 and Córdoba 1974).

Paradoxically, the Mexican political system, which co-opts leaders amongst intermediaries and caciques – who are not necessarily the same –<sup>222</sup> has also made them targets of state policies. Until recently, state agencies have assumed intermediaries were responsible for the exploitation of peasants and growing inequality of rural societies, and one of the underlying causes of underdeveloped agriculture. By labelling most market agents as intermediaries, coyotes or caciques, the bureaucrats neglected the

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<sup>222</sup> While intermediaries, in general, refer to market brokers (and profit takers), their economic power is based on important functions such as financing and centralising peasant production, managing risk and moral hazard, etc.. Caciques, on the other hand, are, above all, local bosses who enjoy a privileged position in the community, either legitimised or sustained by means of force or economic power or both.

functions they played in dealing with delicate trade-offs between the communities and more modern agents and structures in the market.<sup>223</sup>

Intermediaries not only absorb 'transaction costs' in commodity chains with an important participation of peasants, but also, particularly '*caciques*', have privileged contacts with state agencies, politicians and *rancheros*, and knowledge on how to 'get things done'. Even if motivated by 'self-interest', they may also perform functions of leadership, 'representation' and sometimes genuine defence of community and local people's interests.

These 'cacique' leaders specialise in the workings of the state. They have come to know the bureaucratic maze and have accumulated insight and information about programmes and sources of funding. Some of them become professional intermediaries – as was frequent in Veracruz - and have proven to be resilient against state attempts at modernising social representation in the countryside.<sup>224</sup>

In the communities of *Atzacán* local leaders start a political career by serving in low-ranking posts in the local government or *Ejido* Commissariat. Time-consuming 'commissions' and cash expenses are a heavy burden, which most people try to avoid. Therefore, the connection between wealth and political status is two-sided. Caciques are regularly among the better-off ejidatarios, and by assuming representative functions they can legitimize their economic advantage. However, they are allocated political responsibility (in local government and agrarian leadership) because they are more likely to perform more efficiently than those less well endowed.

When, in 1960, the IMC extensionists arrived in San Pedro Attepepan to disseminate new techniques, they talked first with the *ejido* elite. These were the same better-off ejidatarios who have long controlled the most important posts in local politics. Sometimes by appointing local bosses formally - as Municipal Delegates or leaders of local organisations - or informally (through status and *de facto* authority in solving community conflicts), *ejidatarios* avoid the risk of violence and ensure some sort of *laissez faire* peace. Because the *cacique* does not depend on his political activities to make a living he has more chances to make a 'good leader'. This was the case in

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<sup>223</sup> During the 1970s the leftist-nationalist paradigm that dominated development thinking and policy making, promoted replacement of intermediaries by state agencies (Labastida 1976).

<sup>224</sup> A comprehensive effort was carried out through Local Committees and Regional Funds, both created by the Solidarity Program.

Chaparro Grande, Quilate Nuevo, Anayal, Loma de Las Flores and Paguahueca, where many *ejidatarios* agreed the cacique leaders were performing reasonably well, and there were no accusations of gross corruption. Local leaders often had retailing or a coffee wet processing business, in addition to their share of the *ejido* land.

Any conflict is a motive for ‘caciques’ to act and sell their ‘intermediary expertise’ to both, bureaucrats, and their peer *ejidatarios*. Caciques gained a new lease of life from Solidarity’s new community-led spending and its ‘poverty alleviation’ policies. Peasant communities have no conditions to produce complex, representative *elites*, so caciques have played that role. The political classes prevent peasant discontent, inducing ‘representatives’ to institutionally channel and shape peasant demands. In normal times peasant leaders are lured to subsidiary political careers within regional and federal political groups. The more they ascend the political hierarchy of umbrella associations (local deputy, marginal Municipalities, or whatever commission behind a desk in the cities) the more dysfunctional they become in terms of representing peasant interests.

### ***5.3 Caciquismo and local coffee leaders’ careers***

The interweaving lives of two local leaders – Jose Luis Arcos (JLA) and Serafin Quiroz (SQ) - both very influential in Atzalán, illustrate the process whereby regional elites and their power structures of *caciquismo* relate to lower layers of local leaders. Table 8 summarises these two life histories in order to compare the relationship of regional with local *elites* and with the ability of peasants to further their interests. The trajectories of these two influential local leaders share several things in common: their origin (both were San Pedro Altepépan locals and both of their parents came to settle in San Pedro as land claimants, though from different backgrounds and with different outcomes) and a deliberate link between their political and economic activities (politics was seen as their only way out of what they considered a hard, constraining life of the *ejidatario* descendants in this part of the sierra).

Table No. 13

COMPARATIVE ELEMENTS IN TWO LOCAL LEADERS' LIFE HISTORIES*		
	Jose Luis Arcos Lopez	Serafin Quiroz Tepancatl
<i>Ascendants</i>	Migrated from neighbouring town of Altotonga, Puebla	Migrated from the cold highlands of Chiconquiaco sierra
<i>Family background</i>	His grandfather was a Spanish-origin hacendado. His father joined early land claims in SPA, but was also a wealthy merchant, who left the ejido after grabbing more than 100 ha. He remarried when JLA was still a child, so JLA only inherited a small landholding.	Poor landless family who were early land claimants; they have remained ejidatarios, and have profited from agrarian politics.
<i>Key jobs and life experiences</i>	Lived outside the community; undertook jobs in Atzalan Municipality; made money as middleman; organised the coffee SPR 'La Reforma' and ran for Atzalan Municipal Presidency with popular support (1994).	Bought ejido land when young; led movement for ejido individual rights redistribution (land had soon become monopolised); long career from local posts to CNC regional organisations and Atzalan Municipal Presidency.
<i>Economic position and status</i>	Accumulated land holdings and trucks; access to massive institutional credit; appropriated La Reforma beneficio and FRS' coffee machinery; in popular disrepute in 1996.	Acquired ejido lands for daughters; profited from income support programmes; SPA's co-operative finances his political career; he is unwanted but still tolerated as local 'cacique'.
<i>Business strategy</i>	Accounting skills and merchant discipline; multi-skilful ranchero; abandoned community and peasant identity; became rich using coffee producers' and public resources.	Wife runs household economy; long but dysfunctional political activism; move back from regional politics to local coffee co-operative leadership; 'politics' is still the basis of his peasant-like livelihood.



	Jose Luis Arcos Lopez	Serafin Quiroz Tepancatl
<i>Political career</i>	Classic PRI 'popular sector' CV with an array of posts; allied Atzinta group; his candidacy in the 1994 local elections was very popular (but he offered to step down in exchange for political gains, i.e. he sponsored the arrival of Solidarity programme); promoted factional loyalty and patron-client relations.	Traditional CNC leader with appointments in local and state level organisations; has tried to ally with regional CNC factions unsuccessfully; took advantage of the appearance of UE 'Jose Cardel' from late 70s to 80s; leads SPA factional politics; preaches peaceful negotiation of conflicts.
<i>Coffee crisis juncture</i>	Capitalised on Solidarity relief programmes; learnt new jargon and adapted to new institutional rules; outpaced peasant leaders.	Capitalised Solidarity on relief programmes to reactivate SPA's co-operative, but remained attached to traditional CNC structure.
<i>Impact of Solidarity Programmes</i>	Adapted to new solidararian discourse (i.e. repayment of loans); used entrepreneurial skills to run FRS-A and Saving Cases; became national leader of Solidarity Saving Cases.	Hesitated at first between unfamiliar PNS rules and traditional <i>cacique</i> bargaining; finally opted out to uphold local leadership, coffee co-operative, and traditional CNC activism.
<i>Grass-roots support</i>	Patron-client relations in La Reforma; rallied communities during the 1994 election; then relied on bargaining with local factions (exploits his position in the Roads Trust). Later became unpopular.	Isolated from wider alliances; relies on local rule and contingent junction with other leaders; exploits a critical attitude towards JLA and FRS. He was weakened but still managed local powers.
<i>Regional relations</i>	Participated with Atzinta group and Tlapacoyan PRI's popular sector; well known among rancheros, Solidarity officials, and Tlapacoyan coffee buyers.	Associated to Barreda's AAS, but under subordinated terms; he has many -dysfunctional- contacts in CNC and LCA in Xalapa

\* Based on in-depth interviewing with both leaders, December 1994 to March 1995, and February to April 1996.

### *The case of José Luis Arcos: a successful accommodation*

Jose Luis Arcos (JLA), according to gossip, increased his wealth considerably by taking advantage of his position as regional leader (Roads Trustee, FRS and CRS of Azotal), in contradiction to the general perception of relatively no corruption among leaders. The difference in this case is that JLA rejected community as the framework of his livelihood and opted for regional politics.<sup>225</sup> After he became a regional leader, JLA moved to El Avion, built a country house and successfully kept representation powers without being held accountable to his community; there was practically no community pressure on him. Despite many instances in which he was a political representative, Jose Luis always focused on his long-term personal businesses.<sup>226</sup>

Of Spanish origin, José Luis Arcos López's grandfather had a big rancho in Mecacalco, ruined by the Revolutionary armies. He moved northwards where he settled down to produce tobacco, sugarcane and *aguardiente* (sugarcane spirit) and where his father, Rodrigo Arcos, met a young tobacco *ensartadora* taking her to El Equimite, where JLA was born.

Rodrigo Arcos was one of the wealthy ejidatarios who - after the ejido was granted - accumulated a 100 ha of ejido common lands. When redistribution took place 60 ha were taken from him. For a short while he united with land claimants, but later settled as landholder and merchant. After his father abandoned his family, JLA was successively raised in different households and towns, becoming familiar with diverse environments and people. Having no prospects of land inheritance, he undertook a modest job in Atzalan Municipality as a bus driver.

As a civil servant, JLA observed local politics closely and made acquaintances among the PRI rank and file. But soon he got tired of mistreatment from bosses and his lack of prospects for advancement. He made a breakthrough as a *coyote* selling oranges and other agricultural products.<sup>227</sup>

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<sup>225</sup> Although JLA rose to regional politics by leading a local organisation (SPR La Reforma), peer coffee producers from that community took no part in decision-making.

<sup>226</sup> Since JLA offered his backyard as a place for installing the processing plant El Avion, he knew it was likely the FRS Azotal would live a short life and had more chances of buying at a discount the valuable *beneficio*. When he became the Roads Trustee he was already owner of several vehicles, acknowledging the strategic importance of the rural road network for business making in the highlands, where he owns many coffee, banana and orange fields, as well as an ambitious tree plantation project.

<sup>227</sup> JLA still owns and makes business with one trailer (30 ton) and an old lorry (6 ton), which transports coffee and road works materials. He also owns two compact cars.

Later on, he launched a coffee organisation, where he started his political career. In the mid-1980s, after the IMC's troubles started, he jumped to the coffee business organising the SPR La Reforma Cafetalera.<sup>228</sup> With a small office in Tlapacoyan, 'La Reforma' integrated JLA's kin and fellow producers of the highland community:

"We were working with the Rural Bank paying back every single year. We used to get the credit on time and distributed it in equal shares without bothering for instalments and paperwork. The harvest was sold together, discounting outstanding credits and interest, and profits distributed. The problems started when the frost hit us (1989) and then with Solidarity programme, because they came to give money for free. Now people are getting used to receive money without interests, and even try not to repay income support. When the IMC retired and transferred its *beneficios* we took one drier of 60 Qq. When prices were very low we started to produce small amounts of roast and ground coffee, and registered our own brand". (Interview with JLA, 12-Nov-1994)

JLA's ranchero and merchant family background, as well as his early mobility across different communities helped him to disengage from communal life. He did not have to waste time and effort in the CNC's agrarian hierarchy, locally monopolised by a powerful political faction (Urbino Arcos and his *compadre*, god-father, Serafin Quiroz). Instead, JLA followed the PRI's 'popular' sector path to local politics and started a new faction, which successfully adapted to 'Solidarity politics'.<sup>229</sup> He also pursued a regional leadership role. His familiarity and contacts with the outside world enhanced his ability to 'get things done' for *several* communities. He took the strategic initiative of setting up the Roads Trust, making regional alliances with lowland rancheros, merchants and local caciques. Finally, he always kept an eye on personal businesses while doing politics; this was a means for accumulating wealth. After all, JLA returned to Atzalan communities because there was no better place for him to do business.

### ***The case of Serafin Quiroz: the retreat of a traditional cacique***

The case of Serafin Quiroz, old cacique in San Pedro Altepépan, is of a different nature. After a long political career and considering the high regional posts he held, Serafin made very little money. Despite his keenness to secure personal gains out of every position and state programme in which he participated, Serafin only accumulated wealth

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<sup>228</sup> SPR, stands for Rural Production Society (in Spanish), that is a form of local organisation which included ejidatarios as well as private landowners.

<sup>229</sup> The Salinas regime (1988-1994) introduced the PNS - Solidarity income support for the poor - to soften the effects of structural adjustment. Along with this 'new way of doing things', the old corporatist privileges over public spending were partially withdrawn. New rules to access Solidarity funds were formally set up: proven grass-roots support; ability for local development projects design; individual targeting. This did not displace the discretionary power of the federal agency to allocate resources, but somehow there was much more competition between them (Díaz-Pineda 1992; Dresden 1994).

in land (around 60 ha.), which he left to his daughters to avoid further discontent from *ejidatarios*, as he remained the typical eternal ejido representative (taking turns in almost every post of the *Ejido* Commissariat). His career was fairly inefficient, both for him and for the *ejido*. When he was Municipal President, he was incapable of attracting development projects (not even a classroom, people say). He was a heavy drinker and spent his 'political commissions', time and money, but with very poor results.

Member of a poor peasant family (of Nahuatl origin), Serafin Quiroz Tepancatl's father was among the first tenants and, later on, land claimants of El Equimite. He was one of the first coffee producers to make long trips to Plan de Arroyos to sell his *bola morteadado* coffee, taking the 10-12 year old Serafin with him. There Serafin's father bartered with the wealthy merchants of the region. The young Serafin associated coffee with these opportunities for exchange and movement. He tried artisanal bakery and lime production, but none of them proved worthwhile. Soon, he took an opportunity to buy his first coffee finca.

After that, Serafin did not stop extending his landed wealth, thanks in no small part to his privileged position as agrarian representative and ejido authority, i.e. to his access to public resources and interaction with state agents. In 1962 Serafin was one of a dozen producers first willing to try the new techniques the National Coffee Council's extensionists were introducing. He allocated 2 ha to modern coffee cultivation, with levelling curves and a more dense arrangement of improved coffee varieties.

But Serafin's springboard was no doubt agrarian politics. In a state like Veracruz, where the PRI's *peasant sector* exercised strong leverage in government, opportunities abounded (Heather Fowler 1979 and Skerit 1996). Serafin's political career was one of a traditional, grass-roots peasant leader, who started with modest *ejido* and community posts, from *cuartelero* (low ranking civil guard) and chief policeman to top agrarian appointments at regional and even national level within the CNC structure:

I was in the Regional Peasant Committee (CRC-CNC) [as Delegate at the end of the 1960s] and there were serious problems in our ejido. The President of SPA's Ejido Commissariat was shot dead with a bullet in the head. People wanted me in that post, because since I was chief policeman in San Pedro Altepépan I always tried to conciliate, and convince trouble-makers through talking, instead of messing about with big guns. I think that is why I have been leader for so long. When my fellows asked me to be President, there were ejidatarios with up to 90 ha!, and some 20 to 30 people were 'working' [as tenants and jornaleros] with the *compañero* (fellow, partner). Then, I said 'there has to be an economic



redistribution' [i.e. new land distribution]. If we are to *harm ourselves*, do it at least without putting the land at risk. ... I talked to these better-off people: look, if you have 80 or 90 ha, take only 10 ha - what is lawful - let us all have land and do business with us instead. They understood, and the redistribution went ahead in 1973-74. Fortunately, at the same time there was this cattle raising credit scheme from the Rural Bank. Some producers got hold of this opportunity and others ended up selling their animals to the same persons who had taken over their land. In terms of land we are equal, but not in business...<sup>230</sup>

**Table No. 14**

**MAIN POSTS HELD BY SERAFIN QUIROZ**

Position	Date	Local	Regional
Auxiliary to SPA's Quarters' Chief (cuartelero)	1955	X	
Chief of SPA's Police Quarters	1956	X	
Auxiliary to SPA's Police Commander	1957	X	
SPA's Municipal Agent	1960	X	
SPA's Police Commander	1963	X	
Representative of SPA's Executive Agrarian Committee	1963	X	
President of SPA's Primary School Parents Society	1966	X	
Delegate to Altototonga's Peasant Regional Committee's (CRC-CNC)	1967-69		X
President of SPA's Ejido Commissariat	1968	X	
Member-Delegate of SPA's local coffee organisation (UEPC)	1972	X	
Shadow Councilor of the 'Jose Cardel' Ejido Union	1975		X
Unique Trustee of Atzalan Municipality	1975 - 78		X
Youth Action Secretary of Altotonga's Peasant Regional Committee	1978 - 80		X
Unions Association at the Plan de Arroyos ARIC	1978 -		X
Co-operative El Equimite's President of the Administrative Council	1978 -	X	
Altototonga Peasant Regional Committee's (CRC-CNC) General Secretary	1983 - 85		X
Atzalan Municipality President	1985 - 88		X
Treasurer and Vocal of Atzinta's Administrative Council	1991		X
President of SPA's Tele-Secundary School Parents Society	1991 - 92	X	
SPA's Solidarity Local Committee (CLS) Delegate	1992 - 93	X	
Administrative Council Member of the Azotal Coffee Regional Fund (FRC-A)	1992 - 93		X
President of SPA's Solidarian Local Saving Case (CSAL)	1992 - 93	X	
Secretary of Azotal's Regional Solidarian Saving Case (CSAR)	1992 -		X
Treasurer of SPA's Primary School Parents Society	1992 -	X	
Treasurer of SPA's Ejido Commissariat	1994 -	X	

**Source:** Interview with Serafin Quiroz, 28-Dec-1994.

From this Table (No. 15), we can see that Serafin started a political career and became a kind of *professional* local representative. He could jump to the influential Regional

<sup>230</sup> Recorded interview with Serafin Quiroz in the San Pedro Altepepan beneficio. January 15, 1995.

Peasant Committee (CRC), entering regional politics within the official party (PRI). At the end of the 1960s *ejido* lands were already concentrated in the hands of a few families, who had advantages for exploiting common resources over the rest of *ejidatarios* (bigger families, money, working animals, contacts with merchants). Serafin Quiroz capitalised on community pressure to redistribute *ejido* lands, allocating individual parcels (of 10 ha approximately) to each *ejidatario*. This gave Serafin a good opportunity to increase his political authority and deepen his roots in agrarian politics. This is an interesting difference with other regional leaders, closer to *ranchero* status and formally more educated, who disengaged from local politics as soon as they could set foot in the regional and national agrarian hierarchy, as in the case of JLA noted earlier, and also that of Urbino Arcos - JLA's cousin - and of Pedro Ramirez, all of them Atzalan leaders who could ascend through the CNC ranks - to the local Cattlemen Association, 'Jose Cardel' Ejido Union and up to the Barbasco and Coffee Producers Unions - without the need of ever coming back to their local constituencies.

Although SQ reached Atzalan's Municipality office, a seat usually reserved to the regional elite, in fact this post was by chance 'given' to him by the then Governor of Veracruz. SQ was linked in turn to all influential regional factions: Almanza<sup>231</sup> and Atzinta groups, and also to ARIC Plan de Arroyos, before Gabriel Barrera took over (see below). The Municipal Presidency crowned two decades of almost militant political participation in posts of *regional* relevance. By unanimity, his townspeople think he did a poor job, more so because he 'could not bring about a single benefit to SPA'.

Not only in my interviews, but in meetings of all sorts, SQ talked at length about his multiple encounters with top officials and his high profile in several political events. *Influyentismo* politics (the use of personal contacts to have things done – especially through the corporatist system) is still very pervasive in rural Mexico. For isolated communities contacts and information about the outside world were vital. And they are still very important, although people have much more exposure to the media and life in the cities since the 1980s, due mainly to migration and the expansion of electricity.

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<sup>231</sup> Led by Pedro Ramirez, the Almanza group formed 'Jose Cardel' EU and then became national leader of ARIC Libertad, a large organisation that controlled barbasco production, but also produced coffee, oranges, cattle and pepper. They enjoyed support from the CNC hierarchy and the Agrarian Reform Minister Paredes.

#### ***5.4 System of favour exchange and co-optation of peasant leaders***

Two interesting trends about these ways of doing politics are worth comment. First, there is an intense interaction between peasant communities and the federal and state governments through the CNC ranks, which produces a thick crop of agrarian leaders. 'To get things done' (*gestionar*) has permeated collective expectations of rural groups ever since the revolution. From public service delivery to credit and technical assistance for agricultural projects, communities have made continuous efforts to have access to public resources. This has meant that communities have had to appoint suitable fellow peasants to develop the skills for securing every kind of support from government. Not everybody feels he can or wants to invest time and neglect his own business for the sake of the common good. Usually the opposite happens. Once someone shows a minimum of efficiency and willingness for performing jobs of local governance, it is not difficult to see that person perpetuate his position in office. *Caciquismo* performs to some extent this leadership function.

Second, the large rural bureaucracy fulfilled its functions side by side with the agrarian hierarchy, in a symbiotic fashion. Leaders facilitated the entrance of the state bureaucracy to communities, endorsing IMC programmes, in exchange for recognition of their leadership, personal status, benefits and favours (allocation of higher expected harvest and hence credit quotas; and gifts from IMC stocks, including manual pulpers, sprinklers, machetes, seedlings, etc.). Over time, these patronage relations became coded and institutionalized in a system of complacency, unwritten rules of political behaviour and duties between officials and leaders; the exchange of loyalty for favours.

From 1973 on, the IMC extended its regulatory functions and organised small producers in UEPC. The coffee board showed unparalleled economic and political power. The more productive capacity and financial success the coffee board achieved, the higher became its political profile and the demands from the political class, in terms of both coffee revenue and political influence. The IMC kept control over local and regional leaders and promoted their careers for mutual advantage. At the same time, the coffee board monopolised processing infrastructure and had a strong - though changeable - influence on coffee purchases. There is evidence on how the IMC put barriers to entry of new organisations when the 1975-76 coffee-boom encouraged the first producers' attempts to break IMC's control (much earlier than ARICs). When, in the 1980s, the IMC was not able to stop the ARICs fast growth, first in Misantla and then in

Tlapacoyan and Plan de Arroyos, in a typical corporatist fashion, the coffee institute and the CNC agrarian bureaucracy co-opted them with special favours and concessions, such as over-inflating their coffee stocks for export permit purposes and preventing the emergence of new organisations.

At the end of the seventies more than a hundred San Pedro Attepepan *ejidatarios* bought the local *beneficio humedo* (then a 40 Qq/day wet mill capacity) and created “El Equimite” co-operative to access credit and markets. Producers first struggled for IMC approval to gain access to Banrural credit. Finally, the IMC accepted on condition of renting the *beneficio* - as happened in Plan de Arroyos with other *beneficio* owners - but without paying fees to the SPA producers. In the early 1980s, SPA producers observed the expansion of the ARICs’ coffee businesses and tried to launch their own regional organisation, including small landowners, but did not succeed. At first, the CNC bureaucracy opposed the creation of overlapping organisations in the same region, since the Ejido Union ‘Jose Cardel’, and ARICs Tlapacoyan and Plan de Arroyos already had influence in the Atzalan communities. Besides, IMC officials discouraged any competition with its gigantic Atzinta plant (in Tlapacoyan), even from a small wet processing plant in a distant sierra community. Moreover, small and medium landowners also did not want to get involved with *ejidatarios*.<sup>232</sup>

Apart from its regulatory functions (coffee stocks certification and administration of the export quota permits), the IMC had a direct influence over thousands of UEPCs, which organised the vast majority of small producers. In such monopsonistic conditions, this organisation had the means to prevent the integration of an active national producers’ organisation, with a strong lobbying capacity. As in the case of every major agribusiness regulated by the state (sugarcane, tobacco, barbasco, etc.), the CNC organisational structure contemplated a National Coffee Producers Union with regional branches in the main producing regions. But those Unions were political instruments, which were granted public resources and political posts in the PRI (formerly the official party). Their national and regional leaders were appointed by the PRI structure, not by coffee producers and, consequently, they were loyal to federal leaders, not to their constituencies. The CNC’s Coffee Unions relied on the IMC’s economic and political sponsorship to get a seat in the IMC’s Marketing Committee and in every coffee forum, as well as to get export permits (until 1989). The CNC’s unions never had grass-roots

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<sup>232</sup> ‘IMC officials who operated the Atzinta *beneficio* wanted us to remain coffee berry producers’, Serafin Quiroz, Dec. 28, 1994.



support or links with the former UEPCs or new local coffee organisations, as was the case of Veracruz's Coffee Producers Union, led by Urbino Arcos for many years without due electoral process, lacking representation of any coffee constituency from Atzalan.<sup>233</sup>

Between the IMC and *its* UEPCs there was no other intermediary organisation, to establish a regional level of representation. On the contrary, in many ways, the Institute promoted UEPCs' dependence on IMC deliveries, technical assistance and political patronage. The close relationship of IMC staff with the UEPCs started with the important functions of its delegate (*socio delegado*). He was in charge of UEPC matters (members' census and accounts) and had to be regularly in close contact with the IMC Regional Delegation and its local Support Center staff, with whom he arranged delivery schedules (credit, inputs), attending every meeting called at the IMC headquarters. Delegates were trained in the IMC experimentation camps in modern coffee cropping techniques (pruning, ground levelling curves, use of agrochemicals, identification of coffee illnesses and plagues) and were supposed to pass on newly acquired skills to UEPC associates. This was a valuable reward in two different ways. To begin with, all expenses were paid for by the IMC and peasants had a lively experience far away from their communities along with many other delegates and coffee experts. Moreover, being *socio delegado* conveyed a high status to a leader in his community. Technicians and staff treated UEPCs delegates with deference on field supervision trips or at meetings at the IMC headquarters.<sup>234</sup>

The IMC created the UEPCs as a means of increasing its regulatory power over big growers and intermediaries, giving small producers access to institutional credit. In this way they could expand their coffee purchasing centres, make them operative and fully replicate the coffee market structure (forward credit/repayment in kind cycle). See Chapter 2 for a discussion on the role of the IMC on promoting rural organisations.

The IMC, as well as many social organisations, undermined caciques' and intermediaries' role in local development, on the grounds that they exploited peasants

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<sup>233</sup> Interviews to Serafin Quiroz, San Pedro Altepepan, Dec. 28, 1994; Miguel Ugalde, Martinez de la Torre, Feb 19, 1995; Antonio Concha, Tlapacoyan, Jan 25, 1996; and Jose Luis Arcos, El Avion, several interviews in January 1995.

<sup>234</sup> This side of the IMC legacy has not been well assessed as all attention has been on its tendency to exercise unilateral control. It is alive in the memories of ex-UEPC members who expressed mixed feelings about the coffee organisation, including a widespread sense of loss and idealization of IMC's golden years, when 'true technicians' were trusted and 'before politics wrecked the IMC'. Out of all interviewed producers only a handful remained critical of the IMC performance and self-critical too.

and prevented them from forming democratic organisations. State agencies and NGOs have not realized there are at present not many options of democratic representation in rural communities. Even leftist and so-called independent co-operatives 'have to' rely on the same kind of local bosses to carry out their agendas.

Differences in practices and discourse do matter, but *caciques* adapt themselves to new political winds. Solidarity introduced such a recycling of traditional leaders in Atzalan, including the so-called *dinosaurs* (old ruling party's corporate leaders), who rapidly embraced Solidarity's 'efficientist' discourse. The emergence of more democratic, grass-roots leadership was an exception, associated to internal community dynamics, rather than promoted by practices of the Solidarity programmes. These political dynamics tend to propel rural *elites* towards the periphery of the political class, into would-be urban politicians with urban lifestyles and manners. In some cases they remain in rural towns, but with a more urban or urbanized *ranchero*-type livelihood.

The lives of local and regional leaders show that *caciques* use peasants' needs as an excuse for promoting their own interests. Their success depends on political positioning and links with outside rural and urban political groups, led by people who are 'connected to the top'. *Ejido* *caciques* focus on 'getting things done' and obtaining as many variants of income and production support as possible from state agencies, including those designed for co-operatives, unions and other associational schemes. In this way they get privileged access to public resources to finance their political careers. The political system lured them into a fairly dysfunctional political career in which their peasant cultural profile remains a stigma and a limitation rather than an instrument of identity, as in the cases of M. Caro and S. Quiroz who were promoted to regional top posts without constructive results.

Previous contacts outside their communities (with merchants, politicians, etc.) were vital to these local leaders. By the late 1990s, violence played only a minor role in factional politics, while community became the major setting of competition among dominant groups within the *ejido*. Hegemony of one or several families in each community prevailed. As discussed in Chapter 4, religious groups have counter-balanced their power establishing a distance from the politicised field of *caciques* (local authority and *ejido* elections, public posts, development projects, etc.), where their competitive edge lies.

Alliances of all kinds unfold around these dominant groups, and they are customarily expected to fulfil community duties: formal and informal community representation; legitimisation of their power through bestowing favours and offering political parenthood and close friendship; and higher contributions to community development projects. Some communities have been more successful in appointing caciques with a 'positive' contribution to make in social bargaining, innovation and protection, while in others the main outcome is corruption and dysfunctional would-be regional leaders.

This portrayal of caciques as *elites* has tried to illustrate the tension among different facets of caciques. Attention has to be paid to the dynamic interrelation between peasants and caciques, social obligations and individual power. Becoming an intermediary is one of the main ways of advancement for the few well-off rancheros and merchants, but also for some fortunate peasants who learnt basic arithmetic and writing, and find the way to gather working capital to get started in the coffee business.<sup>235</sup>

But rural communities usually have different resources to legitimise economic differentiation. Allocating well-off fellows with leadership duties is one trading-off expedient. The community benefits from the expertise, time and resources of the well-off, although peasants also have to pay, accepting local boss rule and free-riding. Prestige economy is another expedient - fairly well studied by anthropologists - by which people usually get access to a small share of the profits of the rich; here the latter are paid with a higher status, more or less proportionally to their spending (Korsbaek 1990; Cancian 1976 and Greenberg 1981).

The relationships between *caciques*, peasant communities and the state have been under-researched. *Caciques* can be effective local leaders and entrepreneurs as well as creatures of the corporatist, rent-seeking system. They are the expression of a process of

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<sup>235</sup> Sexton (1986) and Finney (1990) described among Papua New Guinea's Gorokans similar characteristics during the 1970s and early 1980s. Local bosses gathered savings from relatives and kinspeople to invest in trucks and pulping facilities. That was the headway to the coffee business, not only to make money but also to achieve higher prestige. The brief Australian colonial administration encouraged (legitimate) business initiatives among natives, especially during the 1960s. Since independence (1975) business groups were promoted by the state, particularly coffee blocks for the collective and professional management of the coffee plantations taken over from white expatriates. Unlike the young PNG, in rural Mexico economic success could not always be translated into political capital (sometimes not even *capital* as such). Anthropologists have debated about the role of moral obligations (cfr. Foster's idea of 'limited good' and studies on envy). Although Finney and Sexton suggest the *preadaptation* of Gorokan 'tribes' to business making, they also show evidence that those individuals that ignored social obligations were able to move on (that is why some of them avoided trade stores and others even migrated). But the cultural and institutional environments are very different: While the Mexican state 'protected' the peasantry from market pressures, the land reform added an interventionist framework in *ejidos* life.

elite formation in peasant communities, a process of internal differentiation, but also of integration in markets and in a wider distant national society. Isolated, dispersed and simplified peasant communities have no suitable framework for complex local governance. Instead of creating incentives for democratic local governance and enforcing monitoring, the Mexican political system historically internalised rural factional politics, promoted clientelism and political careers for personal advancement, weakening loyalty of local leaders to their communities and any continuity of more complex local elite formation.

### ***5.5. Business strategies of coffee rural elites***

Contrary to what we would expect from a vertically integrated commodity in a rather small regional market, in the coffee market of Tlapacoyan different business actors cohabit with heterogeneous economic strategies and market arrangements. The way the business-making practices of buyers and processors internalise the particularities of coffee production and involve small-scale *ejidatario* producers in the Tlapacoyan region (discussed in chapter 4) has strongly shaped the coffee market. Their business strategies show the imprint of peasants, their economic behaviour and asymmetric position in the market, as well as the requirements of export markets, binding together these two worlds of coffee. Dealing with peasants and with big exporters offers many profit-making opportunities, but also constraints, the management of which depend particularly on access to credit (usually in the form of advance purchases or revolving funds), intermediary networks, specialised knowledge of the coffee business and entrepreneurial skills.

Appendix 5 presents the strategies followed by five of the most important coffee growers and buyer-processors in the Tlapacoyan region and summarises an analysis of how these strategies interpret and shape the relations between peasants as coffee producers, clients, subalterns, poor and troublesome neighbours and subsidised competitors. All five of them belong to the same coffee elite because they have business relationships and frequently act as a group, mainly *vis a vis* federal and state authorities, although they still compete against one another. Two of them – Antonio Concha and Gabriel Barrera – are members of well-established coffee merchant families (arriving in early XX century). Agustin Bello and Rolando Topete belong to a second generation of coffee entrepreneurs, linked to Senator Topete's coffee plantation establishment in the mid-1950s, which channelled state resources to the then isolated hillsides of Loma

Bonita and San Carlos. Only Laureano Herrera can be considered a representative of a new breed of coffee businessmen (speculators without roots in the coffee region, either as merchants, or as growers).

While three of them have coffee lands, owning plantations was *not* a strategic asset for any of them, while possessing processing facilities (all five) or access to foreign credit (three) were clearly strategic. Technical expertise and price formation proved to be complex issues. More than possessing *the* right economic strategy, each grower enjoyed specific competitive positions. The key problem for them was how to obtain profit from their particular competitive edges to enhance their businesses *in the long term*.

Despite high levels of economic integration of the coffee market, it is interesting to note how different business strategies and forms of integration emerge. It is common to hear that there are not secrets in the coffee business, but paradoxically everybody also recognises that in the coffee trade as easily as one can win big money, one can lose it.

*Agustin Bello* has set the standards of a successful coffee grower in Atzalan. In 1960 he established a *beneficio* and improved empirically – by trial and error - the wet process. In 1955 he got started with the *typica* variety; changed in 1960 to *bourbon* and to *mundo novo* in 1965, two varieties Teziutlan growers introduced in the region. He changed to *caturra* in 1968 - taking advantage of the first improved varieties promoted by the IMC - and later on to *garnica*. After the 1989 crisis, he renewed 40 ha of his plantation, waiting for the cycle to bring back good prices, thus recovering from huge losses when the 1994 price recovery finally came. His knowledge of coffee cycles and cattle grazing -as means of saving and investing coffee surpluses - have characterised Bello's *ranchero* strategy.

His chances of expansion were twice frustrated. First when the government expropriated 100 ha. he had just bought, unaware they had been already claimed by peasants. Second, and more severely, when he was not able to capitalise his processing plant, the machinery and technology of which had not been upgraded since the 1960s. Bello did not blame the IMC intervention, since he acknowledged it benefited all growers and *ejidatarios* in particular, and did not eliminate competition:

“You could always buy coffee. After producers paid their loans to the IMC, they used to sell coffee to us. We kept up with IMC's prices and were always able to compete. Our advantage was to pay in cash.” (Interview, 2-Feb-1996)

While medium size growers like Bello flourished from the 1960s through the early 1980s, in part due to support from state agencies (fertilisers, credit), the price crisis of 1989-93 signalled their decline. With high input, labour and credit costs, the Bello family could no longer afford to operate as buyers on a competitive scale and keep up with processing plant repairs. In 1994-95 they bought coffee for ARIC-PA but they did not benefit, as competition - especially with Topete - narrowed their profit margins.

Even with good prices - like in the harvest 1995-96 - the Bello brothers entered a survival stage, experimenting with *typica* variety and trying to adapt to harder times. Their relationships with local *ejidatarios* from Azotal and Cuatro Caminos communities seriously deteriorated. Agustin Bello requires from harvest workers good picking performance and imposes tight monitoring in the field and at reception of the cherries. These requirements led to a clash over the payment regime, for *ejidatarios* believe that pay at piece rate is unfair; they think that the quality of their work is of higher value ('nobody does it even in our own *fincas*', as one producer put it). In the eyes of producers, the problem of effort, quality and fairness of wages are a set of issues related to local traditions and values. As long as high quality coffee from Tlapacoyan was not recognised *in the region*, costs of selection were not compensated and consequently, Bello's good cropping and processing standards were somehow misplaced; while he did not get adequate price incentives, he transferred to *jornaleros* no incentive at all. The Bello family mainly sold to ARIC-PA (the only agent with full dry processing facilities), which actually selected export quality and traded directly to the USA, receiving price incentives according to quality standards. Instead of introducing a new best practice - and a stronger long-run competitive position - Barreda (the buyer) chose to keep most of the premiums for ARIC-PA (meaning him-self).

The *ranchero* is the only agricultural group that considers quality standards in their strategies. The Bello family synthesised an expertise in coffee cropping and wet processing, taking into account the cyclical behaviour of the coffee market (they were the only ones to plant during the slump). Paradoxically, the *ranchero* coffee producer in Atzalan is an actor in retreat; they could not make their voice heard in the middle of an *ejidatario* milieu, lacking financial support during the crisis. Local labour and monitoring costs have also put pressure on their strategy, to the point that the Bello family had to look elsewhere to hire cheaper and more disciplined labour. Rising prices of inputs like fuel and spare parts, as well as wages, increased the operating costs of Bello's San Carlos finca. After the 1994 recovery, credit remained very expensive and

competition increased. This meant for them, narrow profit rates for processing, and having to give up cherry coffee purchases, concentrating only on their own production. As Herrera put it,

“...there are cases of coffee growers in this region (he was talking about Bello) that after 20 or 30 years of being active in this business go on with the same *beneficio*, without improving (processing technology).” (Interview 5-Feb-1996)

*Rolando Topete*, the Tlapacoyan elite’s *renegade* entrepreneur, continued running Loma Bonita coffee plantation inherited from his grand uncle.<sup>236</sup> Rejected by the old coffee elite in Tlapacoyan, and ‘betrayed’ by former tenants – who should have been associates – he tried to integrate a modern plantation and an efficient processing facility, in order to surmount the limitations of both the traditional coffee elite and *ejidatario* producers. Short of funding – the 1989 crisis left him in arrears – he was victimised by speculators in Xalapa, until he was sponsored at the beginning of the 1990s by one of the new successful coffee exporters (Armando Escarcega).

A combination of funding and *in situ* operations gave Topete the upper hand in commanding a strong team of *coyotes*. Lured by Topete’s competitive commissions and low journey costs (Loma Bonita is halfway to both, low and highland Atzalan producer communities), *coyotes* under his control imposed monopoly practices in isolated communities. Other buyers had not gained permanent entrance and in 1995-96 the Azotal Solidarity Regional Fund (FRS-A) only operated two pulping centres,<sup>237</sup> while producers decided to hire theirs.

Apart from this advantage, Topete’s good processing plant allowed him to expand in Atzalan very quickly, even quicker than his organisational structure could support (a very improvised family business, running with permanent repayment delays to *coyotes*, water shortages and high turnover of employees). Topete’s conflicting background as a landed heir, his fast coffee business growth (more of an exaggeration than a grounded, sustainable truth), and confrontations with FRS-A leaders gives him a social stigma and even disrepute. His approach to people made no concessions to local manners (particularly to envy and moral sanctions to wealth). After disappointing efforts to

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<sup>236</sup> See Chapter 2 where I introduced Topete’s story.

<sup>237</sup> When cherry coffee fetches higher prices – buyers have good contracts or demand and competition among buyers is strong – financial needs for operating a wet *beneficio* are very high. In 1995-96 such were the conditions of the local market in Atzalan and the activities of the FRS-A almost came to a halt, while local organisations frequently found it more secure to hire their pulping centres (El Quilate Nuevo, Norberto Aguirre).

associate with producers, he avoided contact with locals. His success and his personal image (to which he adds riding a powerful cross motor bike), result in a shocking presence to local people, who think of him as rude and foreign. His own *coyotes* transferred people's antagonism from market traders to Topete, blaming him for the low prices they offer in some communities, and they did not hesitate in disclosing Topete's unreliable payment regime.

Topete himself resented the tense environment for his long-term business, and was planning – idealistically - to move to the highlands, to an isolated spot where he could set up a modern coffee plantation with state-of-the-art Costa Rican technology (plain-sun, high densities). At the same time his wealth and the ranch's manor still impress leaders.<sup>238</sup> Topete started to trade with exporter Piñero,<sup>239</sup> under unfavourable conditions (with a return margin equivalent to only 1/8 of his own), but after four years, in 1994-95, he moved to Armando Escarcega (ESCARCESA), who offered much better financial terms.

*Laureano Herrera*, the successful new merchant, started as a petty seller of roast and ground coffee bags. An old acquaintance of Herrera's grandfather, Escarcega started to finance him and his brother in 1988. After learning the coffee business the hard way as did Escarcega, the Herreras expanded consistently, becoming one of the main coffee traders in Tlapacoyan, second only to Barreda.

The technicalities of Herrera's business were straightforward. He mastered a strategy of competitive returns to scale, exploiting price margins, and running high-risk operations. Two conditions were essential for him: high capital turnover (he enjoyed the backing of a big exporter), and a competitive price based on accurate knowledge of coffee cost structure. He was one of the 'lucky' speculators during the peso crisis, for he had plenty of coffee – priced in dollars - when the December 1994 devaluation took place. Accustomed to a fixed price for big volumes of coffee (around one thousand sacks), he made high profits when the price moved upwards though he also risked high losses. That is why he would close transactions and sell very quickly. From those extraordinary profits of the post-recovery period, he expanded his processing plant, and planned to establish a small quality control lab.

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<sup>238</sup> It is revealing, JLA copied the façade of Topete's house porch in Loma Bonita.

<sup>239</sup> Piñero was well known for his frauds during the early 1990s, when brokers and TNCs started to arrive and invest in the liberalised Mexican coffee market. Interview with Rolando Topete (2-Feb-1996).



Characteristic of Herrera was his austerity. Even his competitors respected Herrera's hardworking schedules. He rejected the common practices of Tlapacoyan merchants - late opening times, mid-day and weekend nap closures, and extravagant conspicuous consumption. Instead of speculating in real estate and buying comfort, the Herrera brothers invested profits in expanding their business.

In terms of dealing skills, Herrera realised the importance of 'loyalty' to establishing trading partners. It is worth mentioning that FRS leaders have a close relationship with Laureano Herrera, and thought of him as a last-resource buyer, whenever they were not able to find a better contract outside Tlapacoyan. But apart from Herrera's flexibility in giving a premium in particular deals, he was well known for his *approach to bargaining*. He knew the informal language to convey guarantees of trust (calculator-in-hand, Herrera would instruct them on price structure and draw a line showing when price stretching 'is possible' or not); he demonstrated respect and recognition for the 'social role' of the FRS; in short, he invested in relationships of trust with FRS leaders and community representatives, and it paid off.

It is not possible to think that Topete, Barreda or even Concha and Bello, could abandon their *ranchero* status and urban outlook to deal in horizontal ways with peasant leaders, nor would they pass on information for free. Although Herrera did not care about Tlapacoyan merchants stigmatising him, he was perfectly aware of the business requirements, the tight constraints of high interest rates, the risks of not analysing day to day actual coffee yields against price and cost structures, and of dealing with uninsured loads of coffee. While he did regular business with Escarcega, he developed an alternative marketing channel with a Tulipan company in case Escarcega would not offer good enough prices.

*Antonio Concha*, with a *dysfunctional* mixture of coffee expertise and political experience (see below), had started his latest coffee business in 1994-95, over the price recovery but found it difficult to overcome the legacy of his involvement in the mismanagement and corruption of the former ARIC Tlapacoyan. He tried to rebuild the business he had virtually abandoned when pursuing a political career a dozen years before. Short of capital, Concha entered a subcontracting deal with FRS Tlapacoyan and Plan de Arroyos, which suffered from Concha's difficulties in developing and cementing relations of trust. Although he tried to be open and fair, his lack of expertise was such that there were not enough guarantees to satisfy leaders' anxiety of being

trapped. He tried giving advice and training to a FRS technician whose loyalty was later put into question by leaders.

The technical side of Concha's business was very well grounded in the social capital created from three generations of coffee merchant activity. He attempted to add to this experience by sending his daughter and two sons to an elite private university, *Tecnológico de Monterrey*, although only one of them decided to work in the coffee business, processing quality control. Early in his life, he learnt what he considered the coffee merchant's rules of thumb (Interviews, 20/27-Jan-1996):

- Field knowledge of producers' cropping culture and a coffee quality that varied greatly according to the community.
- Impact of weather changes on actual yield (heat and rain increase cherry flesh and dead weight, while a cold climate increase bean yield, and so on).
- Full control of accurate weighting of the raw material: "as my business is buying and selling, I do not leave the scales to anybody else", he said.
- Double-check the actual price margins ("you have to work out your coffee price from exchange rate and stock market price movements").

He closely followed received wisdom, and went on integrating all of it together into what he called a '*ponderado flotante*' (floating weighted index). For half a decade he made hundreds of composite tables correlating the behaviour of market prices with actual yields during the harvest by micro-region.<sup>240</sup> As he remembered,

"I was a successful coffee trader for 30 years (I started to sell coffee since 10 years old), but it was not enough for me. There was the need of putting the IMC *in order*. I knew everything about coffee, but I learnt a lot from an American broker who taught me that 'the real business lies in beans blending'".

*Gabriel Barreda*, an old merchant modernised, successfully avoided the fate of other buyers and merchants in Tlapacoyan, due primarily to his agile political activism with Solidarity officials (see below). After achieving complete integration - from primary production to dry processing, the only operating plant with that machinery - and building contacts with American brokers, in 1995 Barreda launched *Asociaciones Agroindustriales Serranas (AAS)*, a holding company that quickly centralised the main

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<sup>240</sup> I was able to review some of them in his personal yearly diaries, the latest of which was 1988.

coffee investments of the region, including those of FRS-A. Operating with strict business strategies ('cost equilibrium point', relatively high coffee prices with heavy discounts on defects; operation on captive markets with wide profit margins), in two cycles AAS became one of the ten main coffee exporters, and the first *gorda* pepper (non-cultivated) exporter in Mexico. While it was only regional enterprise to reach export markets directly, it failed to spread down the rationale of market-led incentives.

Although Barreda complained about 'opportunists' and 'newcomers' who came to profit from the upturn in prices, he moved from the social field of the old merchant elite, and came to share more elements of the new merchant entrepreneurial-minded elite, who rationalised the coffee business in an unprecedented way. As Herrera said, everybody is competing against Barreda, who set the price in this region. AAS and its main coffee business branch (ARIC-PA) buy much of the region's coffee, exercising an influence on producer prices.

Behind apparently technical issues like price regimes and operating areas, all of these businessmen have to make delicate choices such as building up stable relationships with producers and local intermediaries, as well as winning high quality coffee producing areas from competitors. Three closely interrelated features, characteristic of the coffee business, constrain the relations of the coffee elite with producers: (1) particular forms of integration between different segments of capital (productive, commercial, financial, national and international); (2) a regime of price formation which leaves very little room to reward quality and develop product differentiation; and (3) a very difficult process of negotiating value added along the productive chain.

#### ***5.5.1. Different forms of integration to capital***

The level of integration of production units in the region has been a critical factor in reaching a competitive position in the coffee market. It allows agribusinesses a steady flow of raw material, and more important, quality control to respond flexibly to demand patterns. Production units in this region are only indirectly integrated to the market. There is no contract or any other long-term arrangement. Due to the heterogeneity, dispersion and low productivity of predominantly small growers in the region, capital has focused on how to channel production *in bulk*. No serious efforts have been made to enhance quality controls for raising regional production value.

Selection and grading (by shape, weight and colour) is mainly done in dry processing plants by mechanic and electronic selectors at the stage of golden (green) coffee. Except Barreda (ARIC-PA and AAS), no one established a full dry *beneficio* in the Tlapacoyan region (FRS-A is still setting up a new one, not yet operational). Why have processors and buyers not attempted to vertically integrate with small growers, by means of forward purchases, contract agriculture or any form of association? They have tried to do so in the past, but did not succeed for different reasons. Among the most important:

Money lending started to become obsolete as a result of increased competition among merchants and newly established processors in the 1960s. The introduction of improved varieties and of processing plants, encouraged small producers of *natural* coffee or *bola* -bonded by debts to merchants and lenders - to become *free* cherry coffee producers. When official credit was made available through the IMC in the early 1970s, private money-lending disappeared and forward purchases never widely reappeared.

Buyer-processors' attempts at integration. When Topete tried to run Loma Bonita *fincas*, at the end of the 1980s, he offered former tenants full land ownership in exchange for their coffee production. But small producers failed to fulfil the informal associative agreement, because they thought they were already entitled to Loma Bonita lands (unsuccessfully claimed from the Agrarian Reform Ministry).

At the beginning of the 1995-96 harvest, when Concha started operating former ARIC Tlapacoyan *beneficio* and was short of working capital, he proposed a hiring deal to FRS Tlapacoyan. Victims of their own mistrust, FRS leaders signed a disadvantageous maquila contract with Concha (at N\$50/Qq and a very low fixed yield, of 258 kg/Qq).<sup>241</sup> FRS leaders learned from this negative experience and moved their business to Herrera, with whom they bargained for a more advantageous processing subcontract (N\$45/Qq at a yield of 257 kg/Qq). More than schemes for integrating producers, these deals were short-term dealings between FRS leaders and buyer-processors. The latter aimed at solving a chronic working capital deficit and under-utilisation of the processing capacity (and high fixed costs).

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<sup>241</sup> Subcontracting can be arranged at actual yield or at a fixed yield. The theoretical rate of conversion of fresh cherries into parchment is 245 kg per quintal. Many factors may alter this rate either upwards (against producers' return) or downwards (in favour of producers' returns). So, it is important to work out what the actual yield will be.

TNC forms of integration. Mercon's branch Cafes Tulipan, was the seventh largest coffee exporter in Mexico (1995-96). It operated in Tlapacoyan buying parchment coffee mainly from merchants and organisations, without entering the cherry market and processing. In 1994 the company began purchases in Tlapacoyan and have since invested in building relations of *trust*, a reputation of fair weighting, recognising actual yield and delivering immediate cash payment.

The other buyer of parchment is TIASA, an affiliate of Atlantic Coffee, which devised an alliance with a local group of leaders to run Atzinta processing plant (240 Qq/day capacity). More than a market-led move, the associative arrangement, apparently, was designed to displace the political group and gain a long-term strong position in the only region in Mexico without the damaging coffee boar-worm.

The scale of operations, capital turnover and the level of integration define different competitive positions in the market, either as buyers or processors. In any case, the key component of a successful strategy is closeness to those who control capital, which means timing, delivery, sufficient amounts and favourable repayment terms of working capital. All buyers, from local coyotes to brokers, know this well enough. After the IMC stopped financing small producers (1988-89) and banks reduced their coffee credits - and increased interest rates (1989-90) - the region lost financial independence. Most coffee buyers and processors went bankrupt, and banks struggled to reschedule payments in order to recover part of their coffee loans. Even Banrural (the rural state development bank) was unable to finance medium private growers at a discount rate. The four FRSs in the region (Altotonga, Tlapacoyan, Plan de Arroyos and Azotal) were the only agents with liquidity in 1992-93 when the coffee crisis reached its bottom, and until the price recovery appeared in 1994.

With the coffee crisis of 1989-1994, the old coffee merchants lost their relative financial independence based on access to development credit and subsidised inputs. Their main competitive advantage under a regulated market (cash payment to producers) was also undermined. If the IMC withdrew, institutional sources of credit did so too. To the extent that integration with transnational financial markets represented the only available alternative to scarce and expensive credit,<sup>242</sup> a *new* merchant elite - linked to

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<sup>242</sup> While credit has been considered the key problem in underdeveloped agriculture in general (Chakravarty 1989), for coffee cropping it is crucial, due to the maturity period of new plants (3-4 years); the constant need for renovation (decreasing returns per plant start at 8 to 15 years depending on the system); and the cyclical behaviour of the market, because during crises the cost of factors is defined by

brokers or TNCs branches, and furnished with more *rational* entrepreneurial strategies - took the lead in Tlapacoyan. These diverse impacts were expressed in a clash between the old merchant elite (of 'old ancestry' according to Concha, or 'of tradition' as Barreda says) and a new elite, of successful 'parvenus' (as Barreda labelled them, though he became one of them).

As Appendix 5 shows, the Tlapacoyan coffee elite has integrated more or less directly to international financial and industrial capital through brokers and TNC branches operating in Mexico (Mercon's Tulipan; Volcafe's Becafisa; and Atlantic's TIASA). Brokers have channelled coffee from the Tlapacoyan region through big exporters located in Xalapa and Coatepec, the main green coffee trading centres in central Veracruz, usually on a Free on Board (FOB) basis in Veracruz seaport. In this market prices for parchment coffee are higher than in Tlapacoyan, which is why producer leaders are always looking for a better deal in Xalapa and Coatepec. The major problems are transport costs (100 km of rough, curvy and insecure roads) and the risk of sudden price changes. At the same time exporters buy coffee from the Tlapacoyan region from local trader-processors. Trust is very important to sustain informal forward purchases, which is the main form of credit (to finance regional and local buyers). If they have ongoing businesses, exporters pay in advance around 50% of the value of coffee, fixed according to the New York spot market, and cashed as a revolving working capital fund. It is at the beginning of each harvest when Tlapacoyan buyer-processors and exporters negotiate. There are changes during the harvests among buyers and exporters, following the mutual evaluation and the conditions of financing imposed by exporters. At the end of the season exporter and buyer-processor settle operations.

### ***5.5.2. Regimes of price formation***

Depending on their strategic position in the regional coffee market, buyer-processors face price formation in different ways, though two in particular have been historically typical: (1) producers efforts to add value to coffee cherry; and (2) merchants attempts to integrate through contract agriculture or other forms of vertical backward integration. Since overproduction became a structural feature of the coffee market in the XX Century, growers have been encouraged to build a stronger price strategy processing cherry coffee. Producing parchment, they protect beans from physical deterioration and compulsory sale to intermediaries. Small producers – individually considered - have no

bargaining power in the market and that is why they have attempted to integrate vertically through co-operatives to undertake parchment production. In this way, moving from local to the regional market, they try to overcome intermediaries and low prices for cherry coffee. What has been promoted by independent organisations as 'an appropriation of the productive process' - internalisation of transaction costs according to the institutionalist jargon of Williamson (1985) - is in fact a claim against what is perceived as excessive returns to intermediaries and processors. Among the reasons why this project has not always been successful, the lack of technical expertise and *efficiency* in managing economic resources (economies of scale, productivity, quality and a competitive cost structure) are most important.

In the case of Atzalan, apart from weather constraints (excessive humidity makes the sun-dry process difficult for small producers in the Gulf region), the over-capacity in processing among wet *beneficios* has cut down profit margins in this productive activity, making it increasingly difficult for producers to integrate forwards. Better-off *ejidatarios* and *rancheros* who owned or controlled pulping centres - mainly promoted by the IMC - abandoned primitive infrastructure due to the combined effect of the long price slump in 1989-93 and the transferral of IMC processing facilities (which meant the creation of 5 new wet *beneficios* in the microregion of Atzalan). Growers facing a flat price market do not have incentives for coffee *quality* maximisation. The only opportunity left open to them is to choose among the prices of alternative buyers, when available.

There has been another historical movement in the opposite direction, from merchant capitalists who try to integrate backwards to coffee cropping and processing.<sup>243</sup> For merchant-processors, their business strategy has consisted in exercising control over producers through different mechanisms: credit and forward purchases (mainly in the past), monopolistic positioning in local markets, corporatist arrangements (the captive markets of ARIC and FRS), or building competitive positions (control over good quality producing communities, networks of experienced intermediaries, competitive processing costs, etc.). During price slumps - and depending on bargaining power - merchants have passed on to producers an important part of the losses.<sup>244</sup>

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<sup>243</sup> See the demise of coffee haciendas in Colombia by *Bogotano* merchants during the 1930s (Palacios, 1987), as well as in central Veracruz, Mexico, by the parallel process of land reform and merchant capital subordination. In Atzalan this process is still going on.

<sup>244</sup> See the case of Venezuela during the 1930s (Roseberry 1986), and more recently the speculative wave

In the late 1990s, due to increased competition, buyer-processors had to maximise their profit margins through faster capital turnover, more efficient processing, trading and book keeping (with the introduction of computing, professional accounting, increased concern about actual yield assessment and financial costs). Those with access to capital had different options, but none of them appeared to be interested in integrating vertically to agriculture, except in the cases of Bello and Topete (Concha reduced considerably his *fincas* and their relative importance in his business strategy).

Bello, without a financial sponsor and no conditions to access institutional credit, abandoned coffee purchases from small producers altogether in 1994-95. He concentrated on minimising production costs as much as possible (labour, agro-chemical inputs, fuel), and maximising returns through quality (good cropping and processing techniques, and monitoring of harvest). Bello's old wet *beneficio* became an extension of his strategic coffee cropping business.

Topete, in turn, focused on maximising wet processing margins, which meant getting the right volume of cherry coffee, offering competitive prices to producers and commissions to *coyotes*. Operating with low profit margins and covered against price swings (provided he sold all his coffee to Escarcega, his main source of finance) entailed a risk that he preferred to manage, giving up speculative gains. On the other hand, Topete compensated low processing margins with relatively high returns to his own plantation's coffee, cultivated with modern technology.

In the case of Herrera, the price margin strategist, high capital turnover represented a rule of thumb. For a newcomer to a corporatist market, countering the strategy adopted by the bigger player (Barreda) proved to be very successful. As a consequence, Herrera set very competitive prices for producers, displaying good dealing skills. Another component of Herrera's strategy consisted of expanding his area of activity to overcome the constraints of tight competition in good quality or nearer producing areas (the battle was only sustained by big competitors: AAS vs. TIASA). Although according to other coffee merchants, Herrera's strategy seemed to be crazy, in fact he managed high risks using first-hand market information and very efficient price formation concepts. It is important to reckon that Herrera is the only case in which pre-emptive strategies were superseded by a superior understanding of price formation. It is not surprising that he



was the only merchant with plans for setting up a quality control lab (to assess actual yields fast and accurately).

Although Barreda set a *de facto* reference price, since the volume he traded was higher than any other buyer in the region, AAS and ARIC-PA systematically discounted the final price paid to parchment coffee producers. Assessment of quality was done after the transaction was agreed, and yield gains were not compensated to producers. As long as most of the coffee Barreda traded came from associates, he used the 'corporate financial discipline' argument to legitimise such practices. AAS clients were offered high prices in each deal, but final settlements generally presented discounts, which they had to accept as AAS' shareholders, an argument that few seemed to agree with. That was the case of SPA co-op and the FRS-A, which complained that Barreda charged them with rather arbitrary discounts, higher than those of private merchants, and delayed payments sometimes for over a month, transforming sales into consignment and unwilling financing for AAS. The full implications of a more balanced and fair price formation practice have not been assessed. Concha's discovery of an *ex ante* equilibrium point based on the knowledge of cost-factors, opened the possibility for a more efficient price incentive structure, which could represent a more efficient method to counter-balance interests and break with a long-established practice of bulk quality and a flat price market.

However, conditions for different market practices depend not only on knowledge and the technical conditions for applying it. *Elites* have to develop business institutions that materialise, legitimise and reproduce such practices. Why have merchants preferred to maintain secrecy over coffee business knowledge rather than build up market institutions? It is very difficult to find a satisfactory answer. However, it is well known that the stigma placed on merchants reinforces social seclusion, as long as business making remains a discretionary practice among traders. Moreover, Concha's case reveals why corporatist organisations and the political system have been reluctant to reform the coffee sector. The cases of both Topete and Concha show that producers can seize opportunities of association with grower-processors.

Conditions for institutional build up in the sector existed in Tlapacoyan since the IMC financed small producers (without collateral) and introduced the principle of a price incentive (*alcances*). The IMC distributed forward credit to finance agricultural jobs and respond the major demand of peasants - for credit at harvest time. It used a similar

mechanism as the Colombian rebate, introduced to allow producers to benefit from final profits (*alcances*). Nevertheless, this mechanism was corrupted on three accounts. First, the reference price was homogeneously calculated without recognising regional quality differences. Second, the IMC introduced artificial cost concepts in the price and prevented producers from participating in the administration of coffee incomes and from acknowledging profit margins. And third, *alcances* functioned as a compensatory mechanism, whereby the IMC gave producers a premium, independently of quality evaluations and distributed on a generalised basis. This way, instead of a performance-related incentive, *alcances* became an expected “profit”.

The first ARICs were also able to introduce new market practices, but preferred to use extraordinary profits politically, sometimes for personal purposes, reproducing IMC’s vices and generating new ones. Barreda’s AAS synthesises the historical experience of ARICs and coffee merchants in the region, achieving full vertical integration in the coffee producing region of Tlapacoyan. AAS did not fully profit from the rich practices of other buyer-processors (reviewed above), nor did it transfer market price incentives to its associates and to its business rationale. In spite of being the most mature business, AAS did not build on Concha’s expertise in assessing cost factors *ex-ante*; nor the ability to efficiently exploit price margins (Herrera’s strategy). As Concha defined it, Barreda did not become a broker, but became subordinated to brokers. Had he become a broker he could have himself connected producers up into export markets and spread competitive market practices downwards.

### **5.5.3. Social divide between producers and merchants**

Under extremely heterogeneous agrarian structures, with numerous small producers settled along wide areas in many coffee-producing countries, a certain level of centralisation of production, processing and policy-making is needed. Given the agricultural complexity and the labour intensive nature of coffee cropping, some level of decentralisation is unavoidable as well.

Historically, small producers have not overcome their primary producer character (even worse, in Atzalan most of them are *cereceros*, cherry coffee producers). Given a heterogeneous and disperse production, buyer-processors have guaranteed coffee supply through *coyotes*. Successive efforts at organising *ejidatarios* within co-operatives and other government-induced organisations have failed to deliver clear advantages to

producers. Co-operative organisation could have been the most efficient way of gathering production and building up social capital - as in Colombia or Costa Rica (two successful cases of quality coffee exporting countries) - had caciques and political leaders not captured the benefits of support programmes. Such experiences have fed back on producers' scepticism towards associations and their recourse to bargaining on a communal or individual basis. This social divide made it difficult to develop a more sophisticated 'coffee culture' among small producers, with a wider understanding of the regional market and a richer and more diversified institutional framework.

The coffee elite in Tlapacoyan gained political experience at the national level and began dealing with big exporters and brokers. Generally speaking, they have chosen to profit from the 'backwardness' of peasants, their lack of technical knowledge about coffee quality and price formation, rather than increasing the size of the cake.

Coffee businesses still reveal the social and cultural structural gap between merchants and peasants. The extraordinary exception of Topete's initiative to pull local small producers into modern coffee business through a partnership, proved at least his lack of insight about how best to breach that social gap. Topete put the blame only on small producers' envy and distrust, and failed to acknowledge the complexity of changing embedded values and perceptions. Topete preferred not to deal personally with local producers and left the *dirty work* to *coyotes*. Herrera used a peasant-like approach to trust building with producer *leaders* (reciprocity values, informality, openness and flexibility), but he did not attempt to enter new forms of exchange, except by investing in his own business. Concha was not keen about small producers' organisations, but when he agreed with a FRS on a subcontracting deal he was playing his game, for he was temporarily short of working capital.

The rational search for market competitiveness will eventually lead merchants to create more efficient exchange arrangements (and lower transaction costs) with producers. Though new practices have not fully appeared yet, there is already evidence of increased awareness among buyers and processors:

- Price incentives that at present benefit only merchants linked to exporters and brokers, remain unknown to producers.
- Transparent bargaining of price components, basically actual yield and quality attributes, is still constrained by gross subjectivity and excessive price cutting.

- Development of quality markers and incentives (according to origin and type of coffee) to gradually overcome load-mixing practices.

It is still not clear whether the existing spots of good quality coffee would make selective cherry picking and processing worthwhile. Concha and, to a lesser extent, others began maximizing tradable volumes, raising coffee quality loads to export standards by mixing good quality coffee. They were not adding value by making special lots, differentiating products or developing a brand or regional blend of higher attributes. Implicitly, competition among buyers to get hold of good quality spots has given local producers some kind of a premium (smaller or no discounts at all). The very moment a scheme to collect quality coffee can be put forward, the information of price incentives would leak to producers, who would start making claims over those premiums.

All these elements would eventually reach producers, speeding up market segmentation and to some extent producers differentiation, a process the IMC arrested by transferring resources from good quality coffee producers (highland communities and producers who had mastered long-standing cropping and processing techniques) to low quality producers (mainly communities in the marginal mid- and lowlands and second wave *ejido* grants to new-comers without knowledge about coffee, usually sponsored by the IMC).

As long as the new FRSs and leaders do not attempt to fill those knowledge and institutional gaps, producers will make little use of market mechanisms to improve returns. Their bargaining tactics follow exactly the opposite direction. After a long slump, small producers have not compensated for many years of neglecting their coffee *fincas*, except from the use of fertilisers and weeding, but they have engaged in no major plant rehabilitation or renovation. Far from a radical change in the socially accepted standards of cherry picking, old practices are still widespread: picking wholesale dry, over-ripe and non-ripe cherries, coffee leaves and other foreign matter.

There is little horizontal competition among processors, since little subcontracting takes place in this region. Most growers either sell their harvests in cherry or after processing them according to the infrastructure they own (up to *escurrido* – drained - coffee if they only have a pulping centre; or up to parchment coffee, if they have the full wet mill). The subcontracting market has not developed despite the over-capacity of wet

processing generated by the IMC transferral in this region. The inexperience of potential clients, apart from fear and distrust of merchant-processors, has prevented the practice of subcontracting, and its potential capital efficiency gains. Given corporatist practices and lack of accountability, subcontracting coffee lots from particular communities, could have introduced new checks on the performance of FRSs, forcing their wet *beneficios* to achieve private sector standards.

In a more mature market there should be little differences in *maquilas* – processing contracts - as long as competitors tend to adopt homogeneous quality standards and processing cost structures. This imperfect processing market has survived after surplus capacity emerged in the region for several reasons: (1) Most producers sell their cherry coffee right after the harvest and are not interested in partnerships; (2) consequently, producers were rather indifferent towards the low processing and marketing performance of FRS-A's, for they care only about the price for coffee (everything else is secondary); (3) FRS quality standards are so low as to encourage medium growers or small landholders into subcontracting arrangements; (4) With few exceptions, buyer-processors are not interested in promoting subcontracting with unreliable ejidatario leaders.

There are two general possibilities for an efficient price formation. The first one is to lower the price for each factor according to market competition and bargaining power (producers' cherry coffee, intermediaries' commissions, buyers' transport and processing costs, and credit interests). Cyclical variations of coffee prices, distrust, asymmetric power relations and heterogeneity of actors have made long-term alliance-type arrangements complicated. Expectations of extraordinary profits from the final price of coffee, particularly during booms, have generated strong incentives for other actors to join in the distribution of the coffee surplus. Merchant *elites* mobilised capital – in part state resources channelled through political activism - to gather coffee and control processing plants; traded goods and delivered services to peasant producers.

All buyers and processors oriented their strategies to realise a value hidden in coffee, usually out of reach to producers (even when they process their own parchment). Cherry coffee is paid anticipating a yield trend, which buyers work out depending on where and when they are buying. All buyers protect themselves from loss by assuming a pre-emptive discount margin, wider or narrower according to competition. Private buyer-processors have failed to induce small producers into more competitive practices raising

awareness of demand patterns, delivering price incentives, passing on technical assistance and input services that could widen the room for superior contractual relations. On the contrary, 'their' business is to *detach* from any reciprocal obligation and regular exchange, finding profit margins in the intermediation chain, mixing different qualities of coffee to *pass* a minimum standard. As peasants are ready to bargain on a moral and binding basis, buyer-processors use intermediaries to escape social pressure, and evade any contractual arrangement.

The second alternative has been to *flatten* market price distortions and internalise the price formation process, while keeping market incentives in sight. Colombians did this by transferring coffee surplus from booms to slumps (in a coffee fund) and building up a Federation of coffee co-operatives with powers to enforce quality norms along the coffee chain. This created the long-term contractual framework for alliance making within the domestic market (considerably stable prices and high returns for producers), and an outstanding quality consistency and price incentives for Colombian coffee. But this has required a mixture of high levels of market research and coffee expertise, on one hand, and a great deal of lobbying power and the use of state regulatory functions – transferred to the Coffee Producers Federation - to collect coffee taxes and monitor export quality standards, on the other. Despite sophisticated explanations,<sup>245</sup> part of the success was due to a sound management of anti-cyclical and regulatory 'economic institutions'.

### ***5.6. Regional coffee elites and the organisational dynamics of the coffee sector***

The concept of 'socio-economic field' from organisational theory suggests that the aim of all public and private enterprises is capital accumulation. In this game, players make arrangements to legitimise profit-taking rights. As the main flows of investment capital move profitably, actors and institutions try to accommodate by new arrangements, and remain market players. Downing (1988) applied this analytical framework to the coffee sector in Mexico, arguing that in reaction to IMC regulatory intervention, private processors and exporters did not react by raising productivity and competitiveness, but chose to act politically. This has been a very Mexican way of big buyers and exporters for playing markets. In a slightly different way, introducing politics more into play, we

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<sup>245</sup> Almost every modern social theory has tried to explain the Colombian success in coffee: from the macroeconomic discipline of institutions; passing through the inter-regional and inter-class social balance that provided the two-party political system; the entrepreneurial drive and the democratic impact of the predominantly small landholder structure of the coffee sector. (Pizano and Chalarca 1997 and Bates 1997).

are following this track in understanding why coffee leaders systematically defeat peasant interests, while on the other hand merchant-entrepreneurs do not easily give up political advantages.

The regional elite took advantage of state promotion of 'social organisations' among the rural poor. For the *ranchero* elite there is often no other way of doing business beyond the regional level but through federal and state governments' support. At least since the revolution, local *elites* in Martinez de la Torre, Teziutlan and Tlapacoyan have struggled to access preferential services and concessions from the state. Old coffee merchant families in Tlapacoyan have felt the competitive pressure from the big poles of attraction, Martinez and Teziutlán.<sup>246</sup> Contrary to what has happened in these bigger centres, Tlapacoyan has depended considerably more on coffee incomes, because this town has functioned as a traditional market place for the coffee producing region. Besides, the main coffee businesses - buyers and processors - have their *beneficios* and regional offices there, making Tlapacoyan the coffee market-place of the region. High coffee prices mean a steady flow of incomes at least for half a year and an increase in peasants' consumption. In 1993, after four consecutive bad years for coffee, Tlapacoyan was a dying place. With the first cycle of good prices in 1995 employment picked up, retailing stalls and bars were again busy and peasants were wandering around with some money to spend.

Although *ranchero* families have a diversified economy - cattle, plantains, coffee and citrus - coffee production is still very important. The coffee boom of the 1970s and the expansion achieved through federal spending in the 1980s - by the IMC and other development agencies - represented a turning point for the old merchant *elites* of Tlapacoyan region, less engaged with the diversified economy of Martinez de la Torre. At the same time, this socio-economic change increased the expectations of better-off peasants and *rancheros* of the sierra. Old coffee merchant families, would-be entrepreneurial elite, entered politics in order to overcome market constraints and take advantage of a revitalized coffee sector. Meanwhile, the local leaders and some IMC officials - still performing political roles - seized the opportunity of privatisation to do business in the coffee sector.

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<sup>246</sup> See Chapter 2 for the historical account of this conflict.



Table No 15

STRATEGIC ACCOMMODATION OF THE RURAL ELITE IN THE COFFEE SECTOR. TLAPACOYAN REGION, 1970-90		
	From merchants to politicians	From local leaders to 'social businessmen'
<i>Typical cases</i>	1. Antonio Concha (ARIC Tlapacoyan); 2. Gabriel Barreda (ARIC-PA/AAS)	<i>Atzinta group</i> : they were both, leaders like Israel Garcia and JLA and also ex-officials-turn-politicians, like M. Ugalde and J. Gabino
<i>Social origin</i>	(AC) Old coffee merchant family in Tlapacoyan (now weakened); (GB) Old coffee merchant family in Plan de Arroyos (now weakened);	<i>Leaders</i> : 'Caciques' from Atzalan and Tlapacoyan communities. Ex- <i>IMC officials</i> : middle class professional employees.
<i>Main reason for changing political and economic strategy</i>	<i>Under IMC (1970s and 1980s)</i> : Regulatory constraints curbed the coffee business, but also created negative incentives to play the system (corruption); <i>After the IMC (early 1990s)</i> : Salinas' restructuring weakened the corporatist CNC and parastatals. At the same time, the IMC processing facilities were passed on to 'social organisations', along with generous Solidarity subsidies.	<i>1970s and 1980s</i> : New agrarian laws promoted ejido unions and ARICs, and parastatals expansion in the sugar, coffee, barbasco and other agribusinesses, generating incentives for a crust of local leaders to become professional intermediaries. <i>After IMC</i> : Displaced by Salinas' restructuring, they used accumulated technical and political skills, to seize IMC's processing facilities and Solidarity resources.
<i>Power bargaining</i>	ARIC in both cases, incorporating SPR and ejido communities as captive market and political clientele	<i>Several formal associations</i> : <i>Unión de Crédito del Golfo</i> , UE "José Cardel" and the USPR "Atzinta" (which holds the coffee plant). As for JLA: he controls the FRC-Azotal
<i>Conjunctures of political change</i>	<i>1982-88 onwards</i> : IMC weakens and the room for profitable coffee exports widens; <i>1989-93</i> : IMC withdrew and the ability to create new alliances with Solidarity bureaucracy was decisive.	<i>1988-92</i> : The corporatist structure was weakened and the IMC transferred its processing plants to the so-called social sector. Solidarity support revived part of the traditional <i>elites</i> and promoted new components.
<i>Accommodation and new business strategies</i>	(AC) ARIC Tlapacoyan broke, lacking the regime's support. Concha left politics and went back to rebuild his farming projects: cattle, coffee, and bananas. He associated to an ecological tourism business. (GB) Managed to ally with Solidarity bureaucracy, survived the crisis and became the main coffee exporter in the region. Funded AAS to get rid of the 'social sector' and attract new capital. He improved management and integrated with American brokers.	The Atzinta group split over power: a) JLA withdrew, stuck with Solidarity and succeeded to lead the FRS-A. He took advantage of FRCs crisis and property entitlements vacuum and set the conditions for appropriation. b) M. Ugalde with the ARIC Marver (limes); and c) Atzinta group. Make a living from deceiving organisations and a fraudulent association with TIASA (which is interested in their failure).

AC= Antonio Concha; GB= Gabriel Barreda; JLA= Jose Luis Arcos (main leader of FRS-A). EU= Ejido Union; ARIC= Collective Interest Rural Association (of both, ejidatarios and private small landholders); USPR= Rural Production Societies' Union; FRS-A= Solidarity Regional Fund of Azotal

Source: interviews to all related leaders. See Appendix 8.



The previous table (No. 16) sketches what happens to two of the main actors in the coffee market of Tlapacoyan. On one hand, local coffee entrepreneurs, who become increasingly involved in party or corporatist politics and, on the other, traditional leaders and representatives who make forays into business activities.

These two cases illustrate the process whereby the Mexican state deflects entrepreneurial potential from agricultural activities to political rent-seeking, severely undercutting the development of expertise, associations, human capital and networks of trust deeply rooted in the dynamics of the local economies. Both Antonio Concha and Gabriel Barrera were members of the coffee producing elite and both entered politics through a new form of organisation known as ARIC (Collective Interest Rural Association).<sup>247</sup> These organisations were used by coffee *elites* not by accident. There was already discontent with the way the IMC was managing the coffee sector: the ever increasing bureaucracy and wastefulness in gigantic *beneficios* (like in Atzinta); corruption in the allocation of export permits; and problems for producers being paid their *alcances* (differential between reference payment and final price). ARICs promoted the association between *ejidatarios* and big grower-processors, making possible vertical integration and more efficient concentration of small producers' harvests. But more important, ARICs were able to receive directly the price differentials (between the domestic and the international price) that the IMC was capturing.

#### ARIC Tlapacoyan and Antonio Concha: a ranchero, coffee entrepreneur and politician.

When the ARIC Tlapacoyan (ARIC-T) was launched, Concha joined it as Manager, due to previously acquired experience as a coffee processor-exporter. Even though the price differential diminished considerably from 1982 onwards, ARIC-T was able to buy three wet *beneficios* (one of them Concha's) and a dry-one (the only one in the region). By the mid-1980s good prices set the conditions once again for an incredible expansion of ARIC-T based on booming exports of coffee, *gorda* pepper - traditionally collected from the wild - and Persian limes. In 1986 coffee exports to the US expanded and ARIC-T opened a marketing office in San Antonio, Texas (Gala Corp.), and at the same time, ARIC-T was managing the regional distribution franchise of Fertimex, the state fertiliser monopoly (with 3 trailers, 21 trucks and pick-ups). In 1989, before going bankrupt, ARIC-T had 1500 members from 10 ejidos and 8 SPR, and 92 full-time staff.

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<sup>247</sup> At the end of the 1970s the new *Ley Agropecuaria* tried to create conditions for boosting investment in the depressed primary sector and breaking the political divide between ejidatarios and landowners, allowing their joint organisation into the new ARICs. See Chapter 3 and Hoffmann (1992).

Just as the IMC did with the coffee surplus, ARIC-T was investing in basic infrastructure projects and became the main political patron in the region. Since the mid-1980s Concha understood the role of intellectuals while ARIC-T expanded and threatened to go out of control; he then formed a group of advisors with two professionals, former FIRA economist advisor Luis Lara and American consultant George Ben.

Based on ARIC's success, Concha went on with his political career<sup>248</sup> and tried in 1987 to lead the CNC's Coffee Producers National Federation. In doing so, he had the blessings of the political class in Veracruz (Governor Gutierrez Barrios group) and CNC national leaders, but the federal group around the then powerful Budget and Planning Minister Carlos Salinas successfully backed Leyver Martinez (a coffee leader from Chiapas) for the Presidency. Nevertheless, Concha was appointed General Secretary from where he took, in 1988, several coffee policy initiatives.<sup>249</sup>

While he was ARIC manager, he enjoyed success and his influence in the CNC ranks increased. As a member of the IMC's Marketing Committee, Concha's expertise influenced the design of new strategies and sound policies for the coffee sector. According to Concha, the IMC put producers' leaders at odds with industry representatives, 'who just needed to give us a slap'; and his proposals to organise the transferral under associative schemes with the IMC were dismissed by the ruling group. Something similar happened when he served as Deputy for Veracruz and FNPC-CNC Secretary, for his ideas on how best to restructure the coffee sector were seen as personal advances.

Although Concha was aiming for a high office, he 'accepted' the position of Local Deputy for Tlapacoyan District under Dante Delgado's Governorship (1988-91). Once he was elected, he widened his group adding political elements to it: Israel Sanchez, as 'public speaker' and Miguel Ugalde, ex-IMC official, as 'co-ordinator'. Concha's group was then very active with several projects not only on coffee and citrus, but on rural

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<sup>248</sup> He had been Tlapacoyan Municipal President; Marketing Secretary of the Agrarian Communities League of Veracruz (LCA); General Secretary of the Citrus Producers Regional Union in Martinez de la Torre; and had also several appointments in government offices as CNC's representative (SARH, IMC, Rural Bank, etc.). (Antonio Concha Deputy Archive, Project's Executive versions; and interviews with AC).

<sup>249</sup> The most important ones were to free FREC's funds (125,000 million pesos) for the harvest 1988-89; change the national coffee marketing system; give majority to producers' representatives in IMC's Technical Committee; and bring back the IMC to its original attributions, promoting associations between producer organisations and the IMC, instead of the plant transferral scheme (which finally prevailed). Antonio Concha Deputy Archive, Project's Executive versions; and interviews with AC.

infrastructure and CNC's financial restructuring, taking on board the ARIC-T collective action and agribusiness experiences.<sup>250</sup> At its peak, Concha's group expanded its influence to ARIC Marver, oriented around citrus exports in Martinez de la Torre.

But it was too late for him. President Salinas cut back the state's regulatory functions, subsidies and traditional support for the corporatist PRI structure, picking an outsider to 'restructure' the CNC (Hugo Andres Araujo). The combined effect of the 1989 coffee crisis and Salinas' economic and political restructuring led ARIC Tlapacoyan to bankruptcy and prevented Concha from going further with his political career. According to Antonio Concha:

If at first, the IMC and Banrural 'protected' ARIC Tlapacoyan (overinflating our coffee stocks to get higher export permits and credit), when Salinas took office things changed, even our friends in the CNC and Veracruz Government did not back me. I was playing *socialism*, and did not realise the changes that were taking place, until it was too late (interviews with AC).

The Tlapacoyan ARIC's processing plant was repossessed by Banrural, and remained closed for 5-6 years, until Concha bought it back from the Bank in November 1994. He made it functional in 1995 and by 1996 it had a processing capacity of 18-20,000 Qq per cycle. This way, Concha got back to business as a private entrepreneur, although he had a subcontracting deal (*maquila*) with FRSs Tlapacoyan and Plan de Arroyos during the cycle 1995-96.

Even though Antonio Concha used the fast success of ARIC-T and his accumulated knowledge of the coffee business, his high-flier political career was based on traditional loyalties in the agrarian corporate structure (CNC, FNPC, LCA). Salinas' new ruling group shattered it and Concha could not adapt. He had no grass-roots support, nor sound alliances within the new groups (Solidarity for instance). All he attempted was to rebuild his *ranchero* businesses, taking advantage of his accumulated wealth and his family's capital.

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<sup>250</sup> The details of these projects are worth review, for they entailed a kind of self-transformation project for the CNC's corporate structure. The main projects were: 1. A system for coffee production control at all stages, from reception to warehouse storage, eliminating losses and excessive intermediation; 2. A Citrus Institute based in the former IMC experimental camp and linked to new processing infrastructure in Martinez de la Torre (abandoned); and 3. A new system of Peasant Contributions to improve CNC's funding on the basis of its ability to increase agricultural prices for peasant harvests. Antonio Concha Deputy Archive, Project's Executive versions; and interviews with AC.

Physician Gabriel Barreda joined ARIC Plan de Arroyos (ARIC-PA) immediately after the coffee crisis. The Barreda family were old merchants and coffee buyers in Plan de Arroyos, dependent on highlanders' product. Before the road to Tlapacoyan was built in the mid-1980s, Plan de Arroyos became an isolated area, subordinated economically to Tlapacoyan and politically to Atzalan.

Barreda saw how Salinas' regime was severing the old corporatist structure and took advantage of it. During the first two harvests ARIC-PA confronted losses and the organisation went bankrupt. Although Barreda was not a coffee *producer*, he entered the scene alongside tenants his family had in El Progreso, and who were members of ARIC-PA. He first became Manager in 1985 and later on President of ARIC-PA's Board (and continued as such over the next three periods). The same year he helped to reschedule Banrural outstanding credits and facilitated the use of the Barreda family's processing infrastructure. By 1986 they built their own beneficio (with a processing capacity of 180 Qq) and a warehouse with credit from Banrural/FIRA.

Although ARIC-PA was affected by the 1989 slump and frost, they also took full advantage of the market space left by the IMC in the region since the 1988-89 harvest. To achieve this, Barreda had to stretch his abilities for alliance making and lobbying, for - as was the case of ARIC Tlapacoyan and others - they were singled out as an elite organisation by the Solidarity federal and regional bureaucracy.<sup>252</sup> At first they were not considered eligible for Solidarity income support, nor for taking part in IMC's infrastructure transfer.

The Barreda group was 'nearly' isolated by the INI-Solidarity state bureaucracy and traditional CNC-PRI Tlapacoyan groups. However, thanks to personal bargaining with Solidarity federal officials, Barreda was able to enter the coffee emergency actions and every Solidarity coffee programme in Tlapacoyan. At the bottom of the coffee slump and speculation (1991-92), Barreda became a Solidarity activist, promoting income

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<sup>251</sup> Based on interviews with Gabriel Barreda, Alberto Andrade, Antonio Concha and Felix Barrio, Hoffmann (1992) and Baez (1993).

<sup>252</sup> Since first emergency programmes during autumn 1989, federal officials picked what they saw as grass-root organisations, leaving out what they considered corporatist ones. Among the latter, ARICs were prominent for its record on corruption and mismanagement. Even CNC's Ejido Unions were sometimes discarded, at least in the first stages. Later on, the corporate structure, Governors and the same federal bureaucracy relaxed criteria for entrance (INI-Solidarity Support Program for Small Coffee Producers in Veracruz, 1992. Hernandez 1992; Hoffmann and Olvera 1993; Dresser 1992).

support repayment and backing the constitution of a Solidarity State Coffee Fund.<sup>253</sup> His major move was to host Solidarity National Week in Plan de Arroyos, a rather secondary coffee producing area if one considers other more productive and politically influential zones of central Veracruz. In this national meeting President Salinas addressed coffee, pepper and vanilla producers, all of them beneficiaries of the PNS.

Barreda's effective lobbying fulfilled its purpose (to save ARIC Plan de Arroyos from the same fate of other ARICs). Then he went back to business, integrating big producers and organisations in Tlapacoyan, Altotonga and Plan de Arroyos, into a regional coffee and pepper exporting firm: *Asociaciones Agroindustriales Serranas* (AAS).<sup>254</sup> With centralised business-like management in Barreda's hands, AAS increased profits and became the main exporter of pepper in Mexico, and the main coffee buyer and direct exporter in Tlapacoyan (controlling around half the regions' production capacity of 100,000 Qq of parchment coffee and a turnover of more than 20 million dollars a year).<sup>255</sup>

Gabriel Barreda remained loyal to his roots (merchant and coffee processing family), through successful bargaining for support from the state, particularly from Solidarity. He never pushed his political engagement beyond the coffee business' needs during the crisis; and even at the peak of his activism, he did not embrace a political career. He broke a political siege against him, bargaining with federal officials, to whom he provided advice on coffee matters, and some personal favours.

#### The case of the 'Atzinta group' and the disintegration of the old *elites*.

The role of traditional leaders in the coffee business has not been very successful either. Traditional leaders from the agrarian corporate structure have failed to become entrepreneurs, even if they showed great abilities to survive Salinas' restructuring. They ended up divided, grabbing the remains of several organisations ('Jose Cardel' Ejido

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<sup>253</sup> At the bottom of the coffee crisis, the most important regional coffee organisations in Veracruz - beneficiaries of the Solidarity Program -, met in Coatepec, (February 12, 1992), and agreed on: to promote repayment of Solidarity credits (future programmes relied heavily on this) and debt restructuring; demand subsidies for primary production, training on managing *beneficios* and further vertical integration with the grinding and roasting industry; create a Solidarity State Coffee Fund and transform Solidarity into a Ministry! Some observers talked about 'solidarian leaders' and 'solidarian entrepreneurs', as a new type of actor, emerging from Salinas' modernisation strategies (Baez 1993).

<sup>254</sup> Interview with Serafin Quiroz and Nicolas Hernandez. See Appendix.

<sup>255</sup> Interview with Alberto Andrade, SPR Tasolapa, 19-Jan-1996.

Union; the credit union UCREGO; ARIC Marver and Atzinta, most of them in terminal crisis, indebted, lacking grass-roots and clear state support).<sup>256</sup>

Once Concha's group was weakened, the ARICs indebted and state support withdrawn from them, Miguel Ugalde and Israel Sanchez seized the opportunity of integrating the *Union de Credito del Golfo* (UCREGO), a new associative figure promoted by the Ministry of Agriculture (SARH) at the beginning of the 1990s. They led Tlapacoyan CNC-PRI ranks into this newly created space, aiming at CNC's share of FIDECAFE<sup>257</sup> coffee credits and IMC's Atzinta plant, about to be passed on to the social sector.

Barreda and SPR Tasolapa leader Alberto Andrade (his ally in the neighbouring Altotonga region) initially joined them, reaching posts in the credit union, but soon resigned along with other leaders who realised how Ugalde and Sánchez ran the union for personal purposes.

In 1992 the transfer was concluded, and although Atzalan local leaders (Serafin Quiroz and José Luis Arcos) figured in the first Atzinta Board, through manoeuvring Sánchez took full control of it the following year, and they had to step down. Sánchez administration was a failure despite making deals with transnational coffee enterprises, Volcafe and TIASA. Banrural took shares from Atzinta as a way of payment of outstanding debts, and gave Atzinta new credits for the cycle 1995-96. TIASA proposed an association scheme for running the plant as an insurance for repayment. Indications of how Atzinta was run confirmed the suspicions of several buyer-processors that all that TIASA wanted was Atzinta bankrupt, in order to take it over (as happened elsewhere in Veracruz with other *beneficios*). There were not only 'crazy' price wars between Barreda and Atzinta in Plan de Arroyos (cycle 1995-96), but also stolen parchment coffee from Atzinta had been offered on the black market. The main leader, Sánchez, was successfully sued by the former Atzinta President, and in an attempt to avoid losing control over Atzinta, Sánchez bribed representatives.<sup>258</sup> Although the

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<sup>256</sup> Surprisingly, the last coffee programme in the region, which financed the purchase of modern Colombian pulpers, made eligible two of the Atzinta group organisations (UCREGO and UE Jose Cardel). Alianza para el Campo/Covercafe, Programa de Transferencia de Tecnologia Industrial, November 5, 1997.

<sup>257</sup> The former FREC savings – a fund created from an export tax to finance coffee retentions under ICA's quota system – was finally freed in 1991 after two years of pressure from umbrella organisations. A coffee trust was created: FIDECAFE, and Bancomext managed it delivering marketing credits to CNC, UGOCP, CNOC and other organisations. In the case of the CNC, 5 Credit Unions were created with that money: 2 in Chiapas, and one each in Puebla, Oaxaca and Veracruz. Most of that money was never paid back.

<sup>258</sup> JLA was offered a pick-up as a repayment of his shares (worth around 20 million pesos) and his right to return to his post, illegally taken away (interviews with Biologist Alfredo Celis, TIASA's appointed

‘Atzinta group’ actually disappeared, Ugalde and Sánchez tried again to engage in leadership/business making. Ugalde moved to Martínez de la Torre and tried to reactivate ARIC Marver in 1994, once citrus prices had recovered. He adopted a new discourse preaching about social entrepreneurship and condemning state intervention in producer organisations, because “it failed to pass on to peasants an efficient productive culture”.

The Tlapacoyan agrarian factions received transitorily two leaders from the old merchant elite (Barreda and Concha), acting upon the structures set by the regulatory coffee board (IMC), which entailed more difficulties than opportunities for the local *elites*.

Piña, Concha and Barreda managed to link their respective family capital with peasant production through ‘social organisations’ (ARICs), achieving with this new space important advantages over previous trading schemes. First, they made evident the high profitability of vertical integration up to export markets on a wider scale (a niche exploited usually by TNCs, brokers and state boards). Second, they modified the terms of the relation between capital and peasants (traditionally top down: merchant elite/producers), opening it to an apparently more horizontal, partnership-like relationship. Although producers’ loyalty and commitment was not clear, they succeeded in channelling state credit and preferential support, allocated only to ‘social organisations’. A crucial circumstance was the programme to transfer IMC processing plants to social organisations, for they could channel support from state bureaucracy and represent again a peasant clientele.

### ***5.7. Conclusions: elites, business strategies and coffee markets***

Capital integration was the only strategy to overcome the coffee crisis but it was marginal for all the elites in primary coffee production. Only some grower-processors kept running medium-size plantations (Topete and Bello). Profitability of coffee cropping went down and many medium-size growers with processing facilities were the first to move either to milling and trading, or to give up coffee altogether. Only those with access to a dry processing mill and able to deliver graded green coffee (washed unhusked beans) had access to export markets. Among local producer organizations and buyer-processor businesses in Tlapacoyan, only Barreda’s Asociación Serrana

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Manager to Atzinta; Antonio Concha; Nicolás Hernández and several other Atzinta’s intermediaries in Atzalan. See Appendix 8).

Agroindustrial (ASA) owned a full dry mill and was able to directly reach export markets.

TNCs were inclined to buy parchment coffee in Tlapacoyan from local organisations and buyers rather than going all the way down to communities and *fincas* in order to collect coffee cherries. Buying parchment in bulk was less risky and sometimes more profitable than buying coffee cherries locally. Margins in primary processing were very low because the market was overcrowded with wet mills and pulping facilities. Their main competitive advantage was purchasing power and economies of scale. One of the key components of the TNC business strategies buying parchment coffee in Tlapacoyan was the delivery of credit at cheaper rates than other competitors in the local marketplace. They had international sources of finance with almost unlimited funds at lower rates and longer terms. In fact, these credits were advanced purchases, which gave TNCs the upper hand in terms of integrating small producers and buying at more competitive prices.

Regional buyers preferred to collect coffee cherry and parchment to pass them on to exporters in Tlapacoyan as well as in Xalapa-Coatepec. They had the knowledge and skill to choose the communities with the best coffee, bargain with small producers and make extra profits with high-yield and quality coffee purchases as well as faster capital turnover. Even with small margins they were usually very efficient in buying, processing and selling.

Coffee coops focused on collecting and processing members' coffee and on selling parchment at the best possible price. They were unable to go further in the coffee chain (producing and exporting green coffee, or roasting considerable amounts of their own stocks). They made margins only with wet processing and finding the best selling deals. Volume, quality and timely deliveries were always their main constraints. Despite enjoying government subsidised financing, they were far more inefficient than private millers in capital turnover.

If we look at profit margins they were rather different for each agent. Some local and regional buyers kept speculating to strike extra profits with low-price purchases, hoping to sell at a higher price (Topete, Herrera, Bello and Concha to some extent). Particularly for local intermediaries (*coyotes*) their primary advantage consisted in manipulating social contacts, running purchases on their own with someone else's money and



exercising a monopolist control over isolated communities. Some experienced millers (like Concha and Topete) had a stronger advantage on quality and yield assessment or transport efficiency and economies of scale (sometimes also making additional charges on defects and manipulating actual yield and weight to their advantage). On the other hand, the main “social” organisation, ASA (in fact a private holding company manipulating coffee unions), benefited from its captive clients (formally “members”), and was able to sustain corporate control over local coops through patron-client relations and the delivery of subsidised credit. Finally, TNC branches followed more formal and transparent practices in terms of weight, yield and quality assessment, apart from paying at shorter terms, however, they applied more complicated proceedings, like sample inspection and tasting, filling in of forms, and issuing bank cheques. More importantly, they were tougher in bargaining for defect discounts, loss of bags, office hours, etc.

None of these strategies applied full international best-practices, but they showed a great diversity, technical innovation and social interlocking. Each strategy had consequences in terms of social interrelation, competitive advantages and disadvantages, failure points and downward-upward integration to specific markets. None of them had clear incentives for quality, multi-annual contracts or other schemes to build up trusting relationships. TNCs performed purchasing strategies according to national guidelines on a day-to-day impersonal basis. Flexibility to go about bargaining and ability to speak “producers’ language” gave local and regional buyers a great leverage. Turnover was however the master key to the most successful strategy. Buyer-processor-exporter business ESCARCESA (Armando Escarcega and his buyers Topete and Herrera) was able to run an efficient scheme of low-margin fast-turnover purchases backed by an American importer who provided large funding with no interest.

All these strategies had failure points that eventually became barriers to sustaining competitiveness. Cherry buyers were always struggling with peasants’ tricks (foreign matter in coffee bags) and the yield problem (some varieties had more pulp than beans). Grower-buyers had limited purchasing capital and were always struggling with running high fixed costs (big harvests in their own plantations and high prices forced them to reduce purchases from small producer). Almost all buyers faced pre-emptive tactics from producers reproducing a vicious cycle of distrust, cross-cheating and inefficient transactions (coffee quality and aggregate competitiveness suffering throughout). Coops were unable to gain loyalty from associates and were always pressed into paying high

prices for cherry (in cash), and they had little experience with wet processing, managerial and marketing skills. If we add staff swindling and lack of incentives to fix-commission intermediaries, we can understand why their turnover was much slower than private buyers and why they all went broke. TNC branches had their own problems, some of them associated to local coops (TIASA-Atlantic Coffee) or local buyers (Concha-BECAFISA). The experience with the alliance TIASA-Atzinta was particularly negative. Both sides ended up in legal conflicts over accounting and overdue credits (and the ownership of Atzinta mill, used as collateral).

Table No. 16

## COFFEE ELITE STRATEGIES IN THE TLAPACOYAN REGION, VERACRUZ 1995-96

	G. Barreda	A. Concha	R. Topete	L. Herrera	A. Bello
1. <i>Origin and starting point in the coffee business</i>	Member of an old merchant family in Plan de Arroyos, reactivated ARIC-PA in 1985	Member of an old merchant family. Moved from trading coffee (1950s to 1970s), to lead ARIC Tlapacoyan (manager in 1982)	Inherited senator Topete's estate and mill (Tlap). In 1988 established fincas and a new <i>beneficio</i> . Learned the trade from Concha	In 1986-87 started as 'coyote' of Escarcega, and as buyer from 1989-90 on	Migrated from Mecacalco, Altotonga, bought cheap forest lands to invest in coffee (1955)
2. <i>Formal training</i>	Physician (UNAM)	None	Agronomic Engineer (UACH)	None	None
3. <i>Organisational business form</i>	ARIC-PA's manager in 1985; set up AAS in 1994	ARIC Tlapacoyan (1981-89), then informal family businesses	Informal family business (Loma Bonita ranch and fincas)	Informal, recently Cafes San Jose, S.A. (1994)	Informal family business (San Carlos ranch and fincas)
4. <i>Integration to agriculture</i>	No	Yes. El Encanto ranch 35 ha. Sold 2 fincas. Also has 25 ha of Dom. bananas; and 25 registered cattle.	Yes. 75 ha coffee finca with caturra. Also cattle	No	Yes. Grower with 110 ha. Also cattle
5. <i>Labour contracts</i>	No	Yes, both, permanent ranch workers and peons in harvest	25 permanent mill and finca workers (trained and with high wages) & 500 temporary peons.	No	Seasonal outside peons by piece rate and simple accommodation
6. <i>Processing capacity 1995-96</i>	Drying train: 800 Qq/day, 100,000 Qq all cycle	Drying train: 120 Qq/day, 18,000 Qq all cycle	Drying train: 200 Qq/day; Pulping: 130 ton/day	Drying train: 420 Qq/day (7 dryers of 60 Qq each); Pulping: 100 ton/day	Drying train: 60 Qq/day (use only 30 Qq/day due to water scarcity); Pulping: 3-4 ton/day
7. <i>Subcontract fees and Processing costs (maquila) 1995-96</i>	N.d.	Subcontract at N\$80/Qq (claimed actual costs of N\$50/Qq)	Subcontract at N\$50/Qq (N\$30/Qq are claimed actual costs)	Subcontract at N\$45/Qq (N\$20 actual costs; N\$10 cover risk, N\$15 interests and profit).	Subcontract at N\$40/Qq
8. <i>Production* (Qq parchment)</i>	55,000 (from which exported 145 lots);	N.d.	12,000	25,000	600

	<i>G. Barreda</i>	<i>A. Concha</i>	<i>R. Topete</i>	<i>L. Herrera</i>	<i>A. Bello</i>
<i>9. Integration to brokers</i>	Directly to American brokers	Directly to Becafisa (Volcafe) and Reicaf	Indirectly through Escarcega	Indirectly through Escarcega	No. Sells mainly to ARIC-PA (Barreda)
<i>10. Financing</i>	Credits in US\$ (Libor + 5); brokers, and associates' financing in kind	Forward purchases (Becafisa and Reicaf)	American brokers through Escarcega's** revolving fund (interest-free)	N\$1'200,000 from Escarcega's** revolving fund (interest-free); and N\$300,000 from Banrural	Own savings (from coffee and cattle ranching)
<i>11. Operating area</i>	Plan de Arroyos region, Tlapacoyan and Atzalan piedmont and highlands	Altotonga highlands mainly (Temimilco, Altotonga) and a cushion buying point in El Naranjo (PA), in case of freezing in the highlands.	Atzalan piedmont and highlands	Cherry: Tlapacoyan, Atzalan, Hueytamalco, Jalacingo and Altotonga; part of Misantla. Parchment: pulls out 5,000 Qq from Totonacan Sierra	Local. San Carlos Ranch fincas.
<i>12. Operational strategy</i>	ARIC-PA subcontracts its wet mill to cut down fixed costs. AAS operates with strict costs passing discounts on to producers	Selection of quality coffee by origin and season's yield performance. Subcontracts maquila to FRS (Tlapacoyan and PA)	Located in the foothill of the producing zone; main buyer, pay higher prices for gaining volume	High turnover and economies of scale. Expertise in dealing.	Process mainly own cherry coffee and small surpluses of ejidatarios
<i>13. Intermediaries and marketing points</i>	No. Buys to FRS, local organisations and medium growers, in Plan de Arroyos and Tlapacoyan	5-6 coyotes mobilised back and fore in his trucks. Also buys in his Tlapacoyan plant	8-10 independent coyotes, who mobilise in their own pick-ups	20 coyotes with their own vehicles and Herrera's. Also buys coffee in his store and new plant at Tlapacoyan	No
<i>14. Payment scheme to producers</i>	Pays against actual yield, imposing discounts. Delays of 2 weeks or more.	Cash	Cash, although delays of 2-8 days are common	Cash	Cash
<i>15. Type of coffee traded</i>	Buys mainly parchment and sells gold coffee	Buys cherry, drained and parchment; sells parchment	Grow caturra, and buy cherry and drained coffee	Buys cherry, drained and parchment coffee; sells parchment	Grow caturra mainly

	<i>G. Barreda</i>	<i>A. Concha</i>	<i>R. Topete</i>	<i>L. Herrera</i>	<i>A. Bello</i>
<i>16. Access to market information</i>	Direct access to NYBOT. Insights from American coffee industry.	Teletext and insights from brokers (Volcafe and Reikaff)	Depends on checking price twice a day with Escarcega	Teletext and constant check of margins with Escarcega	Relay on other private processors and buyers
<i>17. Processing technology and quality controls</i>	Traditional wet process and full dry train and electronic classifiers. No controls of origin, nor technical expertise in assessing coffee quality.	Traditional wet process. Well designed plant (two-levels), but old. Control of origin and daily yield control at each processing stage.	Traditional wet process. Mill's good mechanic order. Good dryers with energy-saving gas system. Full train and small roasting and grinding machines.	Traditional wet process. Plant utilisation to full capacity. Empirical expertise on beans quality, but not control of origin. Daily control on actual yield.	Old mill & traditional wet process (sun-drying). Empirical expertise; good washing and fermentation. Own method for assessing yield (based on 10kg).
<i>18. Management and administrative technology</i>	AAS operates as a holding with highly centralised management. AAS has professional accounting and fiscal advisor. Administration is fully computerised.	Own method to assess cost equilibrium point, based on cross-correlations of price, exchange rate, costs of production and seasonal variation of coffee yields. Use computer.	Improvised and centralised management. Loose accounting. No control on processing and financial losses. Existing computer just store records.	Divided processing and administrative management. Strong accounting and control of strict 'price costs' (maquilas, credit, expenses), and daily control of actual yields.	Centralised management, based on coffee business experience. Basic accounting, but tight production costs discipline
<i>19. Market niche</i>	No. Although realises export quality	No. Selects quality coffee, but has to operate with available qualities to reach export volumes.	No. Sells bulk parchment without controls of origin and quality	No. Buys almost everything: cherry, escurrido and parchment coffee.	No. Sells bulk parchment, and escurrido when capacity lacks
<i>20. Competitive advantages</i>	1. Bigger buyer (price regulator) 2. Imposes equilibrium point and strict costs ex post; 3. The only dry mill and scale of operation to access export markets	1. Expertise in assessing equilibrium point ex ante and selecting quality coffee; 2. First-hand information from brokers gives higher protection in dealings.	1. Lower transport costs (plant close to producing communities); 2. Processing efficiency and economies of scale;	1. Strong funding, economies of scale and high turn over; 2. Efficient price setting and competitive dealing .	1. Vertical integration and anti-cyclical knowledge (investing during crisis); 2. Good wet process; 3. Energy savings (mixed sun-drying and wood fuel).

	<i>G. Barreda</i>	<i>A. Concha</i>	<i>R. Topete</i>	<i>L. Herrera</i>	<i>A. Bello</i>
21. <i>Risk management</i>	Minimise through tight price policy and ex-post cost equilibrium	Minimise through sophisticated ex-ante cost equilibrium	Minimise through setting price to small lots (130-150 sacs)	Speculates and cut down high risk through fast capital spinning	Minimise with counter cyclical strategies, self-financing and quality coffee cropping
22. <i>Competitive constraints</i>	1. Cost of money; 2. Price of cherry coffee (due to competition); 3. Dissatisfaction of associates with payment methods, and unaccountable practices.	1. Lack of capital and outstanding debts 2. Sub-utilisation of processing capacity.	1. Over-consumption and scarcity of water; 2. Lack of quality controls and coffee losses; 3. Distrust raises staff costs, commissions and prices to pay.	1. High risks not insured (price drop, assaults); 2. Depends on broker's funding on an informal basis.	1. Labour supply and high monitoring costs; 2. Old plant with limited processing capacity; 3. No use of credit (he retired from buying).
23. <i>Overall business strategy</i>	Focused on maximising returns to capital (coffee and pepper) and minimising risk	Focused on quality control from buying to processing (coffee cropping is subsidiary)	Tend to focus on wet processing profit margins (crop coffee himself to secure supply)	Focused on realising profit margins in the coffee trade (speeds up processing and selling, cutting down high risk)	Focused on realising a coffee cropping rent (processing is subsidiary)
24. <i>Adaptation to restructuring</i>	1. Allied PNS, got a dry train and rescheduled debts; 2. Took advantage to grow and launched Asoc Agroind Serranas (holding);	1. Sold fincas, rescheduled debts and recovered his mill. 2. Focused on processing and marketing. Reactivated other businesses	Got involved with El Barzon debtors movement. Repays according to capacity (defined discretionarily)	Took advantage to grow (in 1994-95 went from 2 to 7 dryers).	Retreated to self-financing; experiment with 6 ha of typica variety for further renovation
25. <i>Expansion plans</i>	Try to strengthen its position: main pepper exporter and one of the 10 first coffee exporters nation-wide.	No. Will intercrop coffee and banana. Experiments with composts for banana and cattle food. Co-invest in a eco-turism project.	Yes. Will increase density to 2,800 p/ha with 45,000 Garnica F-16 (40 Qq/ha) and projects a modern highland plantation.	No, 1995-96 was of 'survival', although he has plans for installing a quality control lab.	No (he thinks is time of maintenance rather than expansion)

\* Figures for 1995-96 cycle

\*\* In 1995-96 Armando Escarcega Fugigaki (ARESCA, Xico, Veracruz.) had 14 coffee dryers (a total processing capacity of 840 Qq/day); operated with a credit of 6 million dollars, buying 10,000 Qq of parchment coffee a day from 400 suppliers. With exports of around 125-150,000 bags, he was perhaps the second coffee exporter at national level.

Source: Fieldwork and in-depth interviews to R. Topete and L. Herrera, 2 and 5 Feb. 1996.

## CHAPTER 6

### COMPARATIVE PERSPECTIVES ON COFFEE INSTITUTIONS AND ORGANISATIONS

In pulling together some of the main analytical perspectives of this thesis (the role of elites, the strategies of producers, the impact of property rights and sound coffee organisations and sectoral institutions), this final chapter will use the insights of the case study of Atzalan, Veracruz, and the discussion of the international coffee market in Chapter 4, to draw comparative perspectives between Mexico, as a failed coffee sector restructuring case, and Colombia, as a successful case of both, institutional continuity and market oriented policy change.

The development of the coffee market witnessed a radical change during 20th Century. Being a plantation crop of colonial origin, the 1930s slump put an end to big estates and extensive systems of exploitation. While, the oligopolistic position of Brazil could not stop the impact of changes on the coffee market, it postponed their effects, benefiting a producer country, Colombia, that understood the underlying long-term weakness of the Brazilian monopoly and the opportunities opened to free-riding.<sup>259</sup>

The post-war period saw a huge increase in coffee demand. Coffee exports were seen as a key element to provide the African colonial administrations with hard currency. Coffee boards and state agencies proliferated. Over-production in the 1960s led to increased regulation of the international coffee market. At the same time, international regulations globalised coffee boards and state agencies (*institutos* in Latin America and *caisses d'estabilization* in Francophone Africa).

In Appendix 7, I compare the trajectories followed by Colombia and Mexico in building up and managing the coffee sector in order to assess the cornerstones of different institutional arrangements. The institutions that have contributed most to shaping the coffee markets in these two countries are anti-cyclical institutions. There is an underlying reason: coffee is a perennial export crop and long-term competitive advantages have to be based on crop productivity, quality and market positioning.

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<sup>259</sup> See Bates 1997b

Those countries that tightened budgets on coffee R&D and basic infrastructure, withdraw credit, neglected coffee plantations and relied on sectoral transfers at every single price slump cannot afford a sustainable coffee sector, nor a sustained market position in the international coffee market.

### ***6.1 Market formation and institutions***

While the coffee market in Mexico was promoted by the government in late XIX Century (to the benefit of landed elites) and more clearly in the mid-XX Century (to the benefit of ejidos and landowners), in Colombia the late expansion of the coffee market was based on big landowners and merchants. Land reform was avoided and the predominance of a small producers' sector was the result of market adaptation in the last three decades. While in Colombia entrance to (and even exit from) the coffee production has been strongly regulated, in Mexico entry and exit remained unregulated and coffee expanded far beyond suitable lands. In Colombia coffee has been not only the main "income-generating natural resource management strategy" (cfr Bebbington 2001), but a *hegemonic* crop for more than a century, while in Mexico was perhaps strategically important for less than three decades (1960s to early 1980s).<sup>260</sup>

### ***6.2 The key anti-cyclical institutions and organisations***

By the end of the XIX Century Latin-American coffee *elites* had realised that the cyclical behaviour of international coffee markets affected investment and long-term competitiveness. In 1906, Brazil drew up the Valorisation Scheme. In Colombia, stabilisation was also considered the answer to ensure long periods of sustained investment. It was well known that long periods of price stability under the quota system and domestic price control encouraged growers to invest in plant renovation and technological modernisation (for Colombia see Ortiz, 1973).

With direct involvement of the government the *Federación Nacional de Caficultores de Colombia* (FNC) developed a set of interlocking coffee institutions, which altogether

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<sup>260</sup> I consider hegemonic crop a crop system of strategic relevance in the economic structure of a region (employment, infrastructure, surplus creation, vertical and horizontal cascade effects), by which this crop influences resource allocation and price factors formation. It is also hegemonic because of its impact on business opportunities, social expectations, functional organisations and economic institutions. If the hegemonic crop sustains this character through long periods of time, it also influences the formation of power structures and state organisations, as well as the system of social interaction, bargaining and alliances. In this case it is common to find either a powerful elite who monopolises this hegemonic crop and prevent entrance, or state agencies that capture the market. A balance of private-state actors' interests is rather unstable. For the case of sugar see Mintz 1986 and for coffee Paige 1997.



explain its high levels of efficiency. They created *Almacenes de Depósito* (warehouses with grading and certification services), the *Caja Agraria* in 1931 (which became a coffee bank), and a R&D centre in 1939 (Cenicafe). Of particular relevance was the National Coffee Fund (1940) and its ability to tax coffee exports and directly use collected funds - based on the so-called *parafiscalidad* regime<sup>261</sup> - in public goods provision in coffee producing municipalities. The rationale of stabilisation of domestic prices, and seizing booms for massive plant renovation led to strategic consistency.<sup>262</sup> Introduction of HYV and plain-sun cropping technology allowed producers to take full advantage from the 'bonanza' period (post 1975-76).

As a collective tax, directly administered by the FNC, the Coffee Fund allowed massive investments in infrastructure and continuous plant renovation, particularly during price booms. The second half of the 1970s was decisive for Colombia; had they not invested in plant renovation and infrastructure in the late 1960s, they could not have profited from the unprecedented rise in prices. This timing was needed by actors in the top coffee organisations right down to those in the coffee fincas.

IMC officials were to some extent trying to copy the successful "Colombian model". In the early 1980s Mexico copied the Colombian *Fondo de Café*, but it was an isolated measure and some years later the federal bureaucracy mismanaged and consumed these funds. Again, since the latest price slump (2002-3), the Mexican government introduced a compensatory mechanism based now on producers' savings.<sup>263</sup>

My data on Atzalan show that apart from price stability, it took massive federal investment in the late 1970s and the first half of the 1980s to ensure peasants access to

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<sup>261</sup> A World Bank sponsored country study (Giovanucci et al 2002) call into question this regime and the whole coffee institutional framework in Colombia, "coffee funding cannot supplant state funding of public goods". This study advised the coffee tax paid by producers to be low, stable and fixed through time, use collected funds in market research and promotion and channel state funds through regional coffee coops.

<sup>262</sup> Bates (1997c:45-53) argues that the Colombian coffee sector offers a paradoxical case, in which the state has promoted exports and transferred export tax collection to the FNC, which in turn assumed the delivery of public goods in the form of development projects in the coffee producing regions. Contrary to what happens in African countries (exploitation of agriculture by the state and redistribution of coffee surplus outside the sector), in Colombia -says Bates- there is an efficient public coercion within the coffee sector as long as the FNC -a public/private organisation- performs like an economic institution, not a political one, because it uses its coercive powers to promote long term profitability. He found the explanation in *politics*, that is, electoral competition allowed coffee producers room for manoeuvring, autonomy from the state and a power that they used to solve problems emerged from market imperfections.

<sup>263</sup> Retention Scheme enforced by the government but made out of producers' contributions per quintal of coffee sold. When prices in the "C" market (NYBOT) quote above 100 dollars per 100 pounds, retentions are deducted and deposited in a Trust, and when prices drop below 80 dollars price compensation applies.

new varieties, higher densities of coffee per hectare and inputs. Nevertheless, full modernisation was never achieved. Before the price collapse of 1989, peasants had given up operating the *Instituto Mexicano del Café* (IMC) technological package, and have since re-adapted the coffee groves to associated patterns.

In all Latin American countries institutional arrangements have benefited an unequal structure of property and access to resources. However, the Colombian case suggests that less inequality does not prevent high levels of competitiveness. On the contrary, apart from the provision of food staples and cheap labour, small coffee producers have contributed to finance the development of infrastructure through direct and indirect taxation on coffee, an issue that has been greatly neglected in scholarship and policy debates (Roseberry, 1995). It is true, as Bates (1981, 1983, 1989) has insisted, that medium and big growers took the lead in organising the coffee lobby.

In Mexico, the IMC tried very late to introduce a stabilisation fund, but given the lack of autonomy, coherence and accountability, when it finally did, the fund was ineffective. Contrary to Colombia's case where public and private agencies reinforced one another, in Mexico the IMC weakened the private sector organisational process, eroding the long-term prospects of the coffee sector in two major respects: first, there were no checks and balances on parastatal performance, nor strong leadership in the growers' organisations. And second, producers lost contact with market trends and price incentives.

### ***6.3 Price formation and structure of incentives***

In Colombia, the state did not seize the coffee surplus, for the coffee elite had strong bargaining power, and at the same time was not at odds with the political class. A long-term compromise led to a sustainable balance of power in setting the coffee agenda. Society financed the coffee sector through devaluation during price slumps. But in the late 1980s, Colombian officials and intellectuals started to challenge the allocative efficiency and long-term risks of such a strategy. After the coffee crisis and the privatisation of coffee organisations, even the Colombian political class started to change the coffee agenda, though without a clear consensus after decades.<sup>264</sup>

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<sup>264</sup> Diego Pizano, President of the Central Bank of Colombia, personal communication, April 1996.

The particularities of the Mexican case have been discussed throughout this study. It is worth summarising that the political system deepened the underlying inefficiencies of the IMC. Though there is evidence of fast growth of the Mexican coffee sector based on direct intervention and massive investment, it mainly benefited medium and big growers, particularly those with access to export markets. While the IMC tried to introduce 'international best practices', Mexican realities were not suited to such practices. Heterogeneous agroecological areas, a polarised rural social structure (particularly where indigenous peoples were still bonded to merchant capital) and a skewed access to credit and resources. Under such circumstances IMC's homogeneous schemes were deemed to fail; income support for the disadvantaged indigenous producers meant excessive profits for some and price premium losses for others.

In Mexico, the coffee sector was never considered in the modernising strategy of the ruling *elites*. During the golden years of the import substitution industrialization (ISI) agenda, 1950s to 1970s, coffee was only important as a cheap source of currency. Structural adjustment of the 1980s and 1990s send coffee to oblivion. There has been not a single strategic attempt at a comprehensively redesign of public policies in this sector. However, massive subsidies have prevailed to alleviate poverty and prevent unrest in politically sensitive growing areas. When financial crisis come up (1982-83, 1994-95) opportunistic short-term credit programmes also emerged to capture hard currency.

#### ***6.4 Efficiency and competitiveness of different institutional arrangements***

There is no conclusive evidence of long-term sustainability of different systems of production, since many factors influence their performance. Historical analysis points to the great flexibility of family units to allocate labour, produce food stuffs and resist cyclical crisis; and the social conflicts arising from property rights inequality (land reform threats and claims on distribution gains). The less unequal the access to resources the more stability the coffee sector could enjoy in the long run.

Partial evidence on soil depletion and energy efficiency analysis points to the vulnerability of modern unshaded technologies, and increased reliance on agrochemicals to compensate for fertility loss and higher pest resistance (Nestel, 1993; Toledo, 1995). The extent to which some of the Colombian haciendas disappeared in the 1930s because of the slope washing that created 'soil rivers' (Palacios, 1980) has not

been satisfactorily assessed. The post-crisis coffee market scenario deepened this adverse ecological impact of modern technologies (the loss of shade for fire-wood was a world-wide reaction in peasant regions). A counter-trend emerged in the USA in favour of 'green' coffee cropping, i.e. shade grown and bird-friendly coffee.<sup>265</sup> In this case the indirect evidence has to be complemented with more complex models that take into account agroecological formations (differential carrying capacity) and overall agricultural practices during long periods of time.

Sensitivity models suggest that big plantations are more vulnerable under low price conditions and where there are no subsidies for inputs (Villaseñor, 1991), precisely the conditions Mexico faced during the structural adjustment and the coffee slump era of 1989-1994. Classic studies in economic history and political economy of the coffee market have established the factors that account for the quick growth of this agribusiness at the turn of the XX Century, up to the end of the quota system (Ocampo & Botero 2000, Kalmanovich 2001), such as the change in consumption patterns and lower transport costs and the experimentation with labour regimes and marketing networks to reach economies of scale. The crisis of the 1930s and the end of the Second World War radically modified the structure of the market. The booms and slumps and a chronic overproduction shaped new institutions at the turn of the century. The financial crisis of the 1980s and market-led strategies accelerated this process.

Institutions can only be evaluated in the specific circumstances of the international market and of each producing country. My comparative review of these two countries reveals that success or failure can only be explained by the specific combination of structural dynamics and collective actions. The ability to build coffee institutions to face collective problems such as credit, means of communications, and supply of labour, were historically the first basis for merchants and growers to act collectively and use the power of the state. But the capacity to adapt such initial institutions to a moving market was just as important, for new patterns of consumption, technologies and market opportunities did arise. As Bates (1989) has pointed out, initial economic institutions can be positively modified through changes in property rights and market incentives.

Apart from suitable institutions - which are *just* enabling arrangements *vis a vis* specific market structures - it has been critical to seize market opportunities to reach competitive

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<sup>265</sup> Rice & Ward (1996). Recently, environmental services have been added to the list coffee certification labels, like the payments of carbon certificates to diversified-tree shade grown coffee plantations (related to World Bank's Prototype Carbon Fund and the Kyoto Protocol, 1997). See Pineda et al (2005)

positions. This occurred in the 1930s when Colombia and Costa Rica profited from Brazil's problems, again in the boom of the 1970s, which benefited Colombia in particular; in the 1980s when Indonesia exploited the parallel market; and in the 1990s when Vietnam and Brazil took advantage of the world crisis to expand output. These cases illustrate situations in which free riders are likely to appear. Most of Third World producing countries got locked-into the quota system of negative incentives (high cost structures, wide profit margins, big bureaucracies, corruption in allocating export permits, free-riding on other countries' quota and black market), and were not in the least prepared to face new market conditions.

Apart from seizing flows of coffee surplus, it has been more important to manage social claims on them. In Mexico the political class, and the corporatist leadership, have often misused coffee surplus to generate electoral consensus and loyalty. In contrast, Colombia promoted higher productivity in the sector and a more efficient use of coffee incomes thanks to a mix of market-led policies and quasi-state intervention through the FNC in key regulatory areas (infrastructure, R&D, marketing, and certification). This has been possible through an interlocking of coffee elites, as well as an authoritarian efficiency, making a strong case for long-term competitiveness and 'institutional efficiency'. This is not, however, a straightforward problem, especially when considering horizontal and vertical linkages of the coffee sector with the rest of the economy, or social distribution effects. How long is the long-term? While Mexico bet for social peace and employment, top officials and leaders enjoyed privileges. They compromised the long-term efficiency of the sector, in order to guarantee short term 'social stability'. It is not an accident that the coffee crisis brought violence to the Mexican mountains, while in Colombia de "eje cafetero" is not as affected by guerrillas as other regions. A new international economic and political environment forced Brazil and Colombia to give up monopolistic policies; they also started to diversify former coffee lands, reducing subsidies and transfers to the coffee sector, justified as national priorities in the past.

The accountability of state coffee organisations has been vital to provide a 'learning and self-corrective ability', characteristic of institutionalised organisations. In the absence of accountable representation, bureaucratic structures generate their own interests and dynamics, as in the case of Mexico with the IMC in which the 'political cadre' overtook technicians in terms of numbers and decision power. The IMC and the coffee strategies chosen by the ruling class were not accountable to coffee producers, generally divided

and voiceless. Price setting in any regulatory framework can quickly become a complex exercise where inefficient costs are hidden. The larger the number of intermediary instances introduced, the more room for corruption and price taking agents, not only within state organisations but also in the private sector. The creation of a strong coffee lobby in Colombia, and the permeability of the political system and the federal bureaucracy to its interests, created special circumstances that were not present even in Brazil (Bates, 1997). The coffee elite was willing to generate a national market niche and incorporate it to this venture. The coffee elite leads the FNC, a private association and participates in the boards of several state organisations (not necessarily related to the coffee sector). An interlocking of the coffee elite, the political class and the academic intelligentsia provided a *non-state* monitoring of the coffee business, something that never took place in Mexico.

The choice of market strategies and state interventions involves a complex set of issues that depend on the social structures that have emerged in each country. In a country like Mexico, where there has not been a strong private producing sector of growers and industrialists, the state had to create the conditions to build up a national coffee market from the 1950s through the 1970s. Moreover, Mexico had and still has an extremely polarised social structure, with an unequal regional landscape, where a big peasantry and numerous indigenous peoples have become minifundista coffee producers. Facing such a scenario it was not unlikely the political class going ahead during the 1960s and 1970s with intermediating agribusinesses with parastatals, in order to cushion social conflict. Mexico has been famous for allowing peasants room within the IMC's operational arrangements, and at the same time securing the interests of big growers, exporters and industrialists, with exactly opposite strategies. These recipes guaranteed a great deal of conflict, and high operating costs to the parastatal. The resulting accommodation can be called a 'general pre-emptive strategy', where every one disagrees on almost everything except from free-riding on others.

The long-term consequences of creating social spaces for different economic rationalities have not been properly understood (i.e. vertically integrated agribusiness vs. rural livelihoods). Since the 19th and early 20th century most of the big players of the coffee market made historical choices about land entitlements, repressing land reform movements that solved several conflicts and gave a clearer profile to key formal and informal institutions and organizations, like political parties, agribusiness and co-operative organisations (see Barrington Moore 1966 on the relationship of the political

system and landed *elites*). Mexico had a violent revolution and a conflictive land reform process that was not clearly defined, nor quickly finished, and remained an object of strong social conflicts in rural areas right into the XXI Century. The ruling elite sustained national consensus around a 'populist/ISI strategy', severely compromising the window of opportunity to generate an upward moving force in rural areas - based on the differential expectations of peasants and urban groups.<sup>266</sup> The success of the Colombian case was apparently based on the interlocking of the coffee elite (merchant, growers, exporters) and the political class, displacing direct TNC intervention, but preserving a close understanding and use of the international commodity and capital markets since the 1930s (the domestic market was always very limited).

The institutional coherence of the coffee sector can be evaluated by two types of economic institutions:

- a) Coffee institutions engineered by the ruling classes, arising from 'special interests' that *regulate* markets and usually become object of legislation and reforms to the state apparatus (i.e. unions, boards);
- b) Coffee institutions that *emerge* from sedimented market structures, exchange and customary social contracts among market agents (i.e. funds, auctions).

The efficiency of the state's 'economic machine' in Mexico relied heavily on the bureaucratic apparatus as a whole. Parastatals did not have financial autonomy,<sup>267</sup> and were not accountable to market agents (producers, consumers), nor to an independent Congress, which could set targets and evaluate performance according to both market and social welfare criteria. In some periods the IMC drew on coffee returns to finance its expansion, but occasionally it also drew on the federal budget, particularly during price slumps. In any case, it failed to fund *the coffee sector*, according to the IMC's regulatory functions, *actual* administrative costs and the market value of its economic activities (cherry harvest, transport and milling). That the IMC had self-financing

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<sup>266</sup> Hobsbawn (1994) points out that rising expectations in the peasantry generate stronger economic claims. Research on the history of several commodities in Mexico (tobacco, barbasco and coffee) has confirmed that 'rural development' can more easily take place if ruling elites use this historical gap to increase agribusiness profitability and capitalisation. Once peasant producers become aware of the unequal terms of trade and/or unfair price formation, social movements emerge. When they did not realise the nature of those unequal structures, other farmer groups, students and urban middle classes have come into the picture (Diaz Pineda, 1986 and 1991).

<sup>267</sup> The Organic Law of Federal Administration ascribed each parastatal to a sectoral authority, which formally set up functional attributions and restrictions. The Agricultural Ministry (SARH) used to set targets for the IMC and had representatives in the Board of Directors. The Treasury, in turn, controlled foreign currency, debt and income.

capacity was proven during the second half of the 1970s, when it managed to generate a surplus fund, just making use of the futures markets.<sup>268</sup> It has been pointed out that most of the market institutions in the field were captured by merchant/growers, who represented the 'best practice' available in the socio-cultural horizon in Mexico and even Latin America. However, the upper institutional crust (parastatals legal framework and centralised control of them, credit institutions operating schemes and property rights, Presidentialist and corporatist political system) prevented a more efficient outcome from those arrangements, and a better adaptation and tuning of coffee institutions and organisations to the dynamics of the international market.

While some institutions and organisations promoted greater rates of saving and investment in the coffee sector (clearly the Coffee Fund and other integrated services in Colombia), in Mexico the whole set of organisations dealing with the coffee sector failed to achieve institutional continuity in a changing market environment. It has been seen that anti-cyclical mechanisms of coffee organisations were vital to sustain long-term credit, due to the long-term maturity of agricultural capital and the constant need of plant renewal and R&D (as noted earlier, new coffee bushes take 3-4 years to produce the first harvest, and start a decreasing yield after 8 to 12 years, depending on variety and management). The key feature to guarantee stability is the institutional environment, although changeable consumer markets and competitive moves of producer countries frequently alter the logic of organisations. What were efficient state organisations during the quota system have proven inefficient under the so-called free market period. Nevertheless, the old ones provide the basis to find new solutions to old structural problems (cyclical behaviour of markets, price instability and risks), as well as new market trends (patterns of consumption, new processing technologies, etc.). The structural problems of producing coffee have not changed that much. What has essentially changed is the balance of power between market agents and the patterns of surplus distribution, and not the old 'labour' and 'yield' problems, which have embedded the coffee market for the time being.

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<sup>268</sup> This 'illegal' mechanism gave some room for financial autonomy (bridging the arrival of the always delayed federal budget), but also bureaucratic power, that generated great opposition within the ranks of the ruling group – a struggle that ended up with a suit against the IMC Director. Managerial initiative and economic success in a 'second-ranking parastatal' had no room in the priorities of the political elite. Other stories confirmed almost the same pattern (in the case of barbasco see Gereffi 1980 and Diaz Pineda 1991; for Tabamaex see Aguilera 1981, Jauregui 1984, Diaz Pineda 1986). Parastatals with 'red numbers' (indebted) were of no concern to financial officials, ready to extend generous budgets to sustain subsidies, bureaucracy and inefficiency.



Following Granovetter's (1985:487) argument on embeddedness, I conclude that economic institutions are not necessarily the more 'efficient solution' to 'economic problems'. These two terms of the equation are socially constructed, all 'attempts at purposive action' on the part of merchants and the farmer coffee elite (to solve problems of labour supply, credit, infrastructure, access to markets, etc.) were 'embedded in ongoing systems of social relations' and usually ended up as trade-offs between market and social structures (the balance of power among producers, merchants and entrepreneurs; of socio-cultural forms in the producing regions, and of social knowledge and technology). This account of coffee institutions and organisations adds to the embeddedness argument.

The business strategies of Tlapacoyan coffee merchant-processors, analysed in Chapter 5 reveal some of the subtleties of the coffee market structures. Vertical integration, theoretically an optimum solution to coffee supply, has not always been achieved, nor even pursued by most of the successful merchants and processors. This phenomenon has to do with the profitability of coffee cropping, given underdeveloped basic infrastructure, non-existent long-term financial support, labour supply problems and negative price incentives. Peasants have filled this gap, adapting their capabilities to the type of regional market created by the coffee elite. Capital integration, has then taken shape through intermediaries and merchant-processors, as well as through the ever-present producing organisations (playing not a different role). But, at the same time, this network of intermediation allowed access of small producers to financial capital (geographically dispersed groups, short-term contracts, no collateral). Many of the so-called market institutions constitute remnants of longstanding exchange relations. Producing a perennial crop commodity according to specific standards has imposed some more or less common rules that have been historically encountered with very different institutions and social actors. Thus, only to a very limited extent do economic arrangements provide 'the most efficient answer' to constraints.

### ***6.5 Coffee market, traditional technologies, social capital and knowledge***

Bates (1997) points out that the coffee market is well known and abundantly studied. Despite that fact, coffee statistics are unreliable in many respects and little is still known about social change at the micro level (technological change, cropping patterns, interrelations of coffee surplus with other farm and non-farm income sources). As discussed in Chapter 4, macroeconomic models are based on gross assumptions about

average technology and yields, while national statistics still lack a clear differentiation of coffee producers' total land and land allocated to coffee cropping and value added in the agricultural and industrial phases along the coffee chain (Junguito and Pizano, 1991; Díaz-Pineda, 1992).

Knowledge and statistics on coffee have been dominated by the national coffee agencies' own interests. Hence, the official stories of the respective countries portray success stories, which highlight how coffee has conveyed democracy, land redistribution, efficient institutions and managerial skills to each region. When the International Coffee Agreement (ICA) was in force, national level statistics were manipulated to cover up free riding, the unwanted extension of the coffee frontier (when diversification was highly needed), economic espionage, smuggling and black market and drug money laundering.<sup>269</sup>

Although the end of the quota system has eliminated the coffee black market and the 'institutional free riding' (or monopsonic competition under 'open economy' conditions),<sup>270</sup> the privatisation of international market organisations is not going to replace the national infrastructure for scientific research and improve socio-economic statistics. While the IMC concentrated on assimilating the best available technologies and practices (in particular from Colombia and Costa Rica, for evident similarities), it could advance research to a greater development stage (i.e., reproduction of normalised hybrids and introduction of byo-technologies, for example).

There has not been systematic research on the political economy of the *Mexican* coffee sector, except for short-term diagnosis of the IMC's small Marketing Department, unlike Brazil, Costa Rica, Colombia and Kenya where systematic research is undertaken. Based on standard market research and cost structure planning, the IMC generalised a national price structure (which considered technological packages), generating transfers

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<sup>269</sup> Not only are Mexican coffee statistics unreliable but also those of countries like El Salvador under military rule in the 1980s. The extent of Indonesian trading in the parallel market has not been documented.

<sup>270</sup> According to the distinction drawn by Ostrom (1996), the transition from open access unlimited resources towards limited access to scarce resources defines the difference between common resources and common pool resources. As the international demand for coffee is rather stable (tends to fall in some important consumer countries like USA, but increases in newly integrated ones like Japan), and cyclical crises have severely damaged the vulnerable economies of developing countries, the coffee market was managed as a CPR under the ICAs and still now tends to be managed to some extent as a CPR among the members of the retention scheme association (created after the ICA's economic clauses were no longer in effect). As Colombia and Kenya did in the past to Brazil, now Mexico and other small producing countries are free-riding on these association efforts (Bates, 1997).

from efficient producers to inefficient ones, mixing regional qualities, and cutting incentives for productivity.

As mentioned previously, the IMC commissioned an over-ambitious survey of the coffee producing regions from CECODES during 1976-79, co-ordinated by social anthropologists, which was not published until 1986 and had consequently hardly any impact in the decision making process, nor in the academic debate. Since the first official coffee institute was created in 1949, there have been few scholarly accounts of the institutional performance of the coffee sector. Even the IMC did not publish their analysis, except Villaseñor's classic *Caficultura Moderna en Mexico* (1987), more an agronomist's manual.<sup>271</sup> The withdrawal and relegation of most of the pioneering generation of Mexican coffee experts from IMC top posts by the early 1980s - including Villaseñor - signalled the decadence of the Mexican coffee agency, increasingly dominated by political agendas and politicians.<sup>272</sup> Except for extensionist leaflets on coffee cropping, the wealth of studies and research the IMC carried out (census, atlas, R&D) was little known outside this organisation. After a wave of studies of peasant movements in the 1970s,<sup>273</sup> little progress was made to understand the workings of rural coffee markets and *elites*, the internal dynamics of the IMC and the coffee sector performance in the context of the international market.

## 6.6 Social sciences and institutions

The main body of recent literature on the coffee sector has been produced by two small teams. The French CIRAD mission (social geographers, mainly) based in Xalapa City, Veracruz, who originally focused on agroecological issues in that region, but have produced original work on the role of rancheros, coffee basin ecosystems and biotechnologies. Universidad Autónoma de Chapingo's (UACH) research units CUESTAAM (an agribusiness research centre) and CRUO-CENIDERCAFE (a regional unit in Huatusco, Veracruz) have developed some of the few permanent lines of basic agronomic and coffee agribusiness research. Although UACH's agricultural

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<sup>271</sup> A unique testimony on IMC's policies as it was based on internal research and seminars.

<sup>272</sup> Former president, De la Madrid (1982-88) started to fund the CNC with the IMC budget (interviews with Antonio Concha, 25 & 27-Jan-1996).

<sup>273</sup> Mainly Marxist focused Social Anthropology and Rural Sociology, disciplines which registered the indigenous struggles against the IMC and cacicazgos, for price increases and regulation. See Pérez Castro 1989, Esteva (ed) 1983, Bartra 1993, Paré 1991b.

professionals have shown a wide focus and a sound concern on the coffee market, their work lacks a methodological bridge between their scientific enquiries on coffee cropping and the broader analysis of coffee market and state policies. Until recent years a small team has adopted an interdisciplinary methodology to assess coffee quality factors in depth.

In comparison, Colombia's strong tradition in Economics was fully incorporated in the FNC management, providing a macroeconomic perspective to strengthen producers' bargaining capacity. The same academic elite - graduates of the Universidad de los Andes' Department of Economics with post-graduate degrees at Princeton, Cambridge, etc. - have directed and represented the FNC and Colombian delegates to the ICO in London, as well as top officials in the central bank and the ministry of agriculture.<sup>274</sup> Moreover, coffee representatives with a background in Economics have been elected senators and deputies.

The bulk of the coffee literature in Colombia is dominated by Economics, even historic and institutional analyses are based on the economic history and political economy of the sector. Historically, the problems of labour regimes, price setting, public policy, market competition and allocation of resources in the coffee sector have been the object of public debate in Colombia, in government offices and Congress, academic publications and in the media.

In Mexico, sector statistics and professional analysis of coffee have been very limited. From the 1970s on, specialised reports of several organisations appeared: the IMC and financial organisations (FIRA, Banrural and Bancomext) were publishing market reports, mainly for internal use and in most cases not accessible to researchers. Most theses and academic papers carried out in Mexican universities during the 1970s and 1980s focused mainly on agrarian and other sociological issues, usually based on Marxist theories, lacking analytical depth and empirical research (access to IMC statistical series was very difficult). All the research, records and statistics produced by the IMC were essentially internal and were not very accurate. Politically sensitive files were always considered the property of each Director and were lost when they left office.

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<sup>274</sup> Universidad de Los Andes Department of Economics was set up at the beginning of this century and has remained central for higher officers in key positions in the financial sector of the government and the FNCC. See Palacios (2001) for an insightful essay on the role of elite economists in Colombia.

## **6.7 Conclusions**

Not all coffee institutions are purely market-led or regulatory arrangements, nor all coffee institutions were entirely successful all the time. The Kenyan auction system was an efficient mechanism for price discovery for a period of time. The National Coffee Fund was very successful as stabilization and anti-cyclical mechanism for some time. Likewise, the Instituto Mexicano del Café (IMC) was somehow successful at organising peasants and increasing exportable production (1 million bags each decade between the 1960s and 1980s). On the other hand, the role of coffee in the domestic economy and the society as a whole has changed more rapidly than coffee systems of production and trading. This change has been relatively slower in Colombia, and much faster in Mexico. Almost all types of economic institutions suffer from failure points that may in some context lead to economic inefficiencies, social conflict and institutional inertia. The ability of the coffee elites to shape economic institutions to sustain long term competitiveness, social bargaining, specialised knowledge and sophisticated support policies (anti-cyclical funding and bargaining favourable or at least neutral macroeconomic policies), are more important than the model or type of coffee economic institutions in itself.

The FNC has learned the discipline of grounding their demands and lobbying pressure on macroeconomic considerations. In Mexico – as seen in Chapters 3 and 5 - pressure groups' short-sighted politics dominated in coffee organisations and public programmes. Regional and national coffee organisations relied on political bargaining rather than sound macroeconomic arguments. While top graduates in Economics have advised the FNC's decision-making on price and marketing policies, as well as on long-term plant renovation and cost-efficiency strategies, in Mexico the financial bureaucracy has dealt with the coffee crisis with "neutral" policies (income support transfers, subsidised machinery and credit, and very limited marketing promotion) which lack a long term vision. Although some basic research was carried out in the 1970s and 1980s (soil studies, bio-technology and experimentation on new hybrids), they were a secondary concern and the scientific agenda was always postponed.

Even with some delay, in Colombia, the FNC, since early 2000s scholars and officials were able to discuss the need for overhauling most of the existent coffee organizations and in five years they have recover the lead in new market segments (specialty coffees).

In Mexico, the lack of even basic coffee statistics, not to say scientific research and thorough revision of two decades of coffee policy improvisation and sustained institutional capture – from one model to another - has led to mass labour migration, downgrading of coffee infrastructure and environmental degradation in all coffee regions. A commissioned study found a picture of disaster in the Mexican coffee sector: increased costs of production, loss of productivity and competitiveness, low value added of undifferentiated coffees, and considerable waste of public resources in inefficient subsidies (see Giovannucci and Juárez 2006).

As shown in this brief revision, to reach a competitive position in the international coffee market, efficient economic institutions are important but not enough. Almost all coffee producing countries are now embracing compensatory mechanisms, but with dysfunctional mechanisms given the current structural oversupply. Short periods of price recovery provide insufficient surplus to compensate for long periods of low prices. Without a proper understanding and management of coffee cycles and long term competitiveness factors (labour supply, quality, productive diversification, institutional design), as seen in Chapter 4, compensatory policies will only drain scarce public resources. Simple single “commodity” compartmented agencies are less and less able to govern complex markets.

In Chapter 5 I reviewed the critical role of elites to shape, improve and adapt or completely change institutional arrangements in changeable coffee markets. Elites are influential in the emergence of a framework for social interaction amongst coffee actors, to bargain sound public policies and set up flexible organisations able to produce knowledge and adapt technology for long periods of time. But as Chapter 2 and this one have shown, the state intervention has always been indispensable in the coffee market. In the final chapter I will conclude how all these dimensions can be put together to better understand the position of small producers in the coffee industry and figure out possible alternatives to the coffee crisis.

## **CHAPTER 7**

### **CONCLUSIONS**

In Chapter 1 of the thesis I laid out an interdisciplinary framework for analyzing contemporary peasants. Chapter 2 presented a case study of the formation of a small scale coffee producing ejidatario in Atzalan, Veracruz, through a historical review of the regional market formation and the impact of agrarian reform. In Chapter 3 I followed up the emergence of state-sponsored coffee coops and analyzed the underlying reasons why they were unable to represent the interests of small coffee producers and to generate a sound economic strategy to face the market. Chapter 4 examined the objective and subjective conditions of peasant survival in the coffee market, considering the natural conditions of production, the complex dynamics of coffee cycles and the peasant families' coping strategies. In Chapter 5 I introduced the analysis of the coffee elites and the influence of their economic strategies. Chapter 6 presented a comparative institutional perspective of analysis, taking Colombia as case of relative success and Mexico of failure.

In drawing together the conclusions to this study I first consider the overarching question concerning the reasons why peasants survive in the coffee sector in Mexico. In Section 2, I discuss the extent to which elites and their business strategies shape the market and why the lasting and badly managed agrarian reform has contributed to developing distrust and an inefficient coffee market. In Section 3 I reflect on some recent market changes and the new opportunities and challenges presented to small coffee producers. Section 4 presents theoretical conclusions emerging from the study, particularly on flexible forms of small commodity production, complex rural livelihoods and land endowments. In Section 5 I recap some of the institutional arrangements that play conflictive roles in the coffee market. Finally, I present a brief reflection on some recent coffee crisis issues raised in the literature, which only serve to reinforce my conclusions.

### **7.1 Peasants and diversified livelihoods**

In order to answer the question about why peasants have managed to survive, three closely interrelated problems have been taken into consideration throughout the thesis. First, land, the *ejido* and rural communities are a lot more than just factors of production. In line with Bebbington's argument about place formation, *ejido* communities provide organisational means that become especially relevant for peasant livelihoods in the context of loss of profitability in agriculture and particularly the structural crisis of the coffee economy. Access to land and labour arrangements have been closely associated to *ejido* membership. At the same time, *ejido* interactions and social obligations determine the workings of embedded factor markets. Small *ejidatario* coffee producers in Veracruz show economic strategies that contain a dynamic tension between market competition and cooperation, individualism and collective action.

Secondly, the price formation of coffee, although determined by international markets, involves a rich bargaining process among different regional actors that take part in production, transport, processing and marketing of coffee. Asymmetric power and access to information and productive factors strongly influence individual choices. Apart from objective factors (natural constraints to coffee production, geographic distances and obstacles, and transaction costs to access export markets), there are human, cultural, institutional and political factors that play an important part in explaining the "efficiency" of national coffee markets. While some producing countries have prevented land reform and encouraged private property on medium and large coffee estates, others like Mexico have led to an extensive small coffee producing sector. It is important how coffee producers and other market agents have historically assimilated and rationalised their social interactions, how the coffee market institutions have been built through actors' strategies and state intervention. As an example, I presented the case of price formation which is far from a mere interplay of demand and supply; instead it synthesises social expectations and pressures from all agents for increasing their respective share and challenging the share claimed by others. In this way, embedded peasants' practices and elites' business strategies in the Mexican coffee sector have resulted in a very inefficient institutional framework.

Thirdly, elites are important in rural societies because they establish a privileged link with peasants, both in the coffee market and in other areas of social interaction. Their strategies of accommodation *vis à vis* the state and powerful actors (agribusiness and



politicians at regional and national levels) have created opportunities for regional development, specialisation and integration in national and international markets. The fate of entire rural regions can be traced perfectly by following the political action of rural elites. I offered the historical perspective on a coffee producing region in Central Veracruz, whose local elites channelled federal and state resources, mobilised peasants and challenged state intervention in key economic activities. Elites are interlocked with peasant communities in many different and complex ways, not only through patron-client relationships and intermediation of commodity chains, but complex alliances (participation in marketing co-operatives and other types of social organisations and political action to get public services like road construction and maintenance). Elites' knowledge of coffee markets has an effect on business making and market institutions (contracts and grading systems, price formation, value creation incentives, and market structuring and development). In turn, peasant organisations and their economic strategies are strongly influenced by this elite framework. Elite business strategies influence, and are influenced by, these interactions with peasants. If coffee buyers and mill entrepreneurs base their business strategies on farm-gate buy-outs, flat prices, unfair discounts, weighing tricks and opportunistic pressures on indebted peasants, these will lead to distrust, social stigma, shrewdness and pre-emptive tactics. Internalising inequality and distrust will give rise to weak coffee institutions and organisations.

## ***7.2 Coffee markets, business strategies and trust***

The state shaped decisively institutional arrangements governing the coffee sector, even after complete privatisation (1993). Up to the middle of the XX Century, the coffee market had not been developed by the private sector. A new regulatory framework contributed to expand considerably the sector during the 1960s and especially the 1970s adding *ejido* lands and labour to the coffee market. The combined effect of an international quota system and strong state intervention transformed the workings of the regional markets. Though with many inconsistencies, the state defined the domestic price structure for coffee, based on the rationality of the main beneficiary of its policies: a specialised small to medium size producer from the comparatively more efficient regions (well connected and modernised).

The IMC system pursued economies of scale and generated a distorted structure of incentives for two reasons: (a) coffee was priced in bulk, so efficient producers and high

quality coffee highlander producers did not get price incentives while inefficient and bad quality coffee producers were in fact subsidised; and (b) quality was homogenised in order to reach a minimum quality, acceptable to the international market, so the IMC blended bad quality with good quality coffee, losing origin controls and market prestige (formerly gained by *haciendas* and *ranchero* regions).

The practice of a minimum bulk quality promoted negative incentives and producers largely were removed from market discipline (particularly with respect to cost structure, quality consistency and markers). Pre-emptive business strategies, in turn, led to a low pricing of Mexican coffee, and an inefficient structure of incentives for producers, intermediaries and processors alike. The practice of concealing benefits from each other deepened mistrust and social divisions. Wasteful policies for reaching badly understood economies of scale, bureaucratic carelessness about processing standards, and corruption spoiled the social environment for trust and co-operation between coffee actors.

All along the productive chain, social claims - from *jornaleros* to producers, extensionists and technicians, exporters, industrialists and financial institutions - add a heavy burden on coffee surplus, affecting labour standards, distribution, savings and investment patterns. That is, the long-term competitive position of the Mexican coffee sector. In every link the logic of the free-rider or the exit option seems to prevail:

- Paid by piece rates, harvest wage labour still picks coffee cherries as if they were 'milking', damaging branches, collecting leaves and mixed cherries -dry, ripe and unripe - affecting plants and the quality of coffee. Cases of petty robbery increase during harvest time.
- Most producers are not encouraged to bring good quality cherries to 'their' organisations, or set collectively accepted quality standards. Producers deliver bulk quality cherries, adding stones, bananas and other impurities in order to gain weight and price.
- Out of distrust, producers do not accept delivering their coffee to organisations if not paid cash in full on the spot. Although there is nothing wrong with this stand (self-enforcing market), in the case of coffee, it means higher operational and financial costs and lower participation of producers' capital in the value chain.

- Local intermediaries exercise a monopolistic control in isolated communities, lowering prices, cheating on their bosses (regional buyers), making businesses on their own with buyers' capital, 'inflating' the price supposedly paid to producers and mixing highland with lowland coffee.
- Some buyers alter scales, while others offer 'competitive prices' imposing ex-post unfair discounts on agreed transactions.
- Grower-processors have got used to punishing producers in advance - and usually in excess - for the delivery of low quality beans. They profit from quality coffee without passing price incentives on to good producers and when possible they hide quality problems in coffee supplies to brokers and roasters. Commonly, some speculators do not fulfil forward sales and credit contracts.
- Brokers and TNCs also penalise Mexican coffee as a matter of rule, usually with 5 to 10 points below the market price for Mexican *prime washed* - which is already rated at a discount in the 'C' contract of the NYSE. Discounts tend to get stringent under low-price, oversupply conditions and lenient when high prices and scarcity prevail.

Mexican producers, buyer-processors and exporters have lost an important margin in export transactions because of a 'deteriorated market image' and quality inconsistency. However, market arrangements are also moulded by the way *elites* design their business strategies as they interact with the market. Among the main market structures that set the stage on which merchant-processors start playing, we find the nature of the coffee production processes and labour regimes (if they are growers). The way they plan how to control part of the coffee surplus embodied in peasant commodities sets the framework that regulates social relations between producers, intermediaries, processors and exporters.

Market structures and the choice of business strategies shed light on the role of trust in the coffee market, which has had seven important consequences:

(1) Asymmetric relations of power do not favour horizontal, strict market transactions, but monopolistic and exploitative exchange. While poor peasants have rarely been incorporated into modern market contracts, even big exporters and transnational corporations have adapted to *cacicazgo* power structures (where buyers recruit *caciques* as middlemen).

(2) Isolation, lack of competition and weak producer organisations (not aware of the actual value of their product and labour) give merchants and processors few incentives for modernisation; most merchants have felt no need to develop trusting relations.<sup>275</sup>

(3) Old coffee *elites* in Teziutlán, Tlapacoyan and Plan de Arroyos, including a small *ranchero* contingent, do not form a regional common identity, nor do they aim at building up an inclusive market prestige in coffee production, which they could share with small producers as 'partners' (as happened in central Veracruz where coffee *elites* created a rich *ranchero* regional culture, as well as in other coffee producing regions world-wide).<sup>276</sup>

(4) When the coffee board first regulated the market, merchants and processors played the 'peasant card', exploiting their needs for cash, not met initially by the IMC; and when the board did (organising producers' UEPCs), merchants played the system to their advantage. The quota system became a bureaucratic maze of coffee stocks, recounting and export-permits management that transferred even to low ranking staff considerable power that was frequently misused. Coffee elites met state intervention with peasant organisation and mobilisation.

(5) From the producers' point of view, the coffee board, created on one hand, a corporate welfare system in exchange for bulk quality coffee and, more importantly, loyalty to the political system. Alongside, it created an economy of waste throughout the coffee sector that did not reward quality standards or efficiency. IMC staff were very busy in meeting international quotas and the ruling party agenda. The shortcomings of IMC's homogenous technological package did not adapt to Mexico's varied and socially complex peasant regions. While the parastatal tried to benefit peasants, its action made it more difficult to bring about a competitive *minifundista* coffee sector, of the kind that had emerged in Colombia, for example. The IMC left behind a mix of coffee varieties that still generate processing problems; loss of international reputation for regional coffees and underdevelopment of coffee research

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<sup>275</sup> Putzel (1997) discusses the concept of social capital arguing that social networks and relations of trust in the market place only develop when there is a need to overcome market imperfections and to decrease transaction costs.

<sup>276</sup> In Costa Rica, Colombia and Kenya, as shown in Chapter 6, some of the most advanced coffee producing countries, the small grower is the main actor in the coffee sector, characterised by relatively high levels of cohesion, organisation and political bargaining (Bates 1997c; Rosberry et al. 1995 and Hedlund 1992).

and technology. With no price incentives, most Mexican small producers still deliver blending quality coffee.

(6) Transactions are terminated at the very moment of the coffee exchange; there is no further involvement among producers and buyers. The problem with this type of private exchange is that it cannot provide for the long term institutional development of a competitive sector. Merchants and processors have not attempted to incorporate growers in the formation of capital (meaning both sharing of risks and profits). When the IMC tried to do it, several problems prevented success. The IMC's multiple price-setting procedures introduced discretionary calculation of cost concepts. Mounting financial breaches were usually transferred to producers as price discounts.

(7) Unequal access to resources has been systematically challenged, first, by a long lasting struggle for access to land. A much delayed and incompletely executed land reform, did not put in place sound institutions for enhancing rural development in the *ejido* sector. Much of the government investment in agriculture was skewed to the modern private sector. This abandonment was compensated by development projects from the early 1970s to the mid-1980s, and income support programs during the 1990s that proved of little help in transforming *ejidos'* socio-economic position. On the contrary, state intervention promoted 'paternalistic' and corporatist practices and political loyalty to the PRI system. Inefficient distribution of land and definition of property rights has led to a polarised social structure, where neighbouring landlords do not enjoy legitimacy, and peasants have no access to credit and the possibility to advance to *ranchero* status.

8) Institutional embeddedness on the coffee state agencies has been particularly negative to market institutional development for two reasons:

- Above social embeddedness there was a destructive institutional capture and politization from early 80s (not seen in Brazil, Colombia or Costa Rica), and in the 1990s discontinuity and destruction of institutional structures;
- Underestimation of social, environment and economic importance of coffee sector (particularly since 80s, under structural adjustment policies).

### *7.3 Changes in the coffee market and opportunities for poverty reduction*

As discussed in Chapter 4, the future of agribusiness is projected not as full mechanisation of every single crop, but rather as a trend towards standardisation of products, regardless of production methods, and normalisation of production costs across regional and climatic variations. Increased awareness about sustainability has added a value to 'green' technologies and labour-intensive productive processes. Both trends make *new* room for small-scale family farming, unthinkable during the historical period ranging from the first food regime to the beginning of the third one.<sup>277</sup> Now, support to ecologically friendly methods of production is not restricted to fair trade and development aid, but a new structural component of international trade and market competition. Although declarative stances overshadow the green discourse, concerns about the preservation of conditions for life on the Earth are here to stay.

Supply and demand do not explain any longer the current trends of coffee markets. Even if over-supply tends to play an important role in long-term price decline, we cannot ignore other factors (why sustained low prices have not been able to create a new balance?). Speculative hedge funds investing heavily in coffee and increased concentration of coffee industry in key links (primary production, bulk trading, roasting and soluble industry, retail chains) have distorted market signals.

The forceful entry of Vietnam and massive investments in Brazil in the coffee sector are very important factors. The Vietnamese government encouraged the expansion of the coffee frontier to integrate poor peasant areas into rural development to gain foreign exchange.<sup>278</sup> Brazil not only moved coffee areas northwards where the risk of frost is much lower, but also planted millions of coffee trees, improved productivity and quality, while raising internal consumption (up to 5 kg per capita a year). Coffee

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<sup>277</sup> Talbot (2004) used the theoretical insight of food regimes and systemic cycles to analyze the increasing industrialization and globalisation of food production and trade. Following Friedman and McMichael, he distinguishes three food regimes: the first was established in the imperialist period (1880-1914), and was characterised by a rapid expansion of food production in settler states and trade between nation-states. The second food regime (1945-1970s) was based on the hegemony of the US after World War II (fordism in the USA and Europe) and state-led industrialisation in developing countries). This regime became obsolete with the expansion of TNCs, energy-food-currency shocks in 1970s and structural adjustment in 1980s. Thus begins the third one, the "globalization project" which aims at creating specialized agricultural sectors integrated to the global production system, limiting state intervention and promoting global market institutions. The decline of US hegemony and the emergence of countertendencies go in hand with the last regime.

<sup>278</sup> Although not formally recognised, the USA has effectively provided war reparations in the form of development assistance and advice from international agencies such as the World Bank. Personal communication of Dr. Jurgen Polhan, a German agronomist who took part in technical assistance missions in Vietnam in the late 1990s.

production expanded in the context of boundless markets, while the coffee regulatory framework and agrarian laws have been relaxed, frontier lands have been opened to agriculture, facilitating land market transactions and export production.

During the 1990s, in countries like Brazil and Colombia and a few more, the productivity of coffee trees increased because of improved varieties, better use of agrochemicals and a more sophisticated agronomic management. The relative position of small producers in a global supply chain has changed, transforming the mechanisms and share of coffee value-added. National and international coffee regulatory structures were in most cases removed. Coffee became subject to a net buyers' market. Bargaining power shifted in favour of six international trading companies, which control over half of world coffee exports and two major roasting companies (Nestlé and Philip Morris), controlling over half of world sales of roasted and instant coffee (Ponte, 2002). This was achieved not only by means of lobbying at the international level, but also through strategic planning and technical innovation. As a result, the distribution of value in the coffee chain has changed significantly. Bad quality coffee processing improved (steaming lessens the harshness of *robustas* and naturals) as did the beans to instant coffee ratio.

If Mexican coffee growers receive from 5 to 8% of the retail price of coffee in the USA, the remaining 92-95% is allocated to local intermediaries, international brokers, roasters, instant coffee manufacturers, and retailers. Around 320,000 growers produce coffee in twelve states of the country. Over two million people are employed in the coffee sector. Nearly 6% of the economically active population of Mexico depends on the crop for their livelihoods, and in the countryside the figure rises to a quarter of the active population. Of Mexico's coffee-growing townships, 84% register high or very high levels of poverty. In contrast to the large plantation farming common in other parts of the world, in Mexico most coffee growers are smallholders and 65% are indigenous. By failing to take advantage of changes in the international coffee market, the Mexican state and elites have ignored what could be a major route to poverty reduction in rural areas.

## 7.4 Theoretical perspectives on contemporary peasants

### *Small scale commodity production*

To better understand contemporary peasants from a Marxist perspective, as discussed in Chapter 1, Friedman (1978, 1991), Byres (1982), Bernstein (1982, 1992 and 1994) and other authors have revised creatively theoretical *models* like the simple commodity production or the peasant modes of production. They redefined these according to Marx's metaphor of a hybrid of capitalist and worker within a peasant-like form of production, that is a family unit with access to means of production (land and tools), but making use of them through self-exploitation of family labour (Bernstein 1992:31-33). Bernstein highlighted that primitive accumulation during the XIX Century was increasingly replaced by regimes of proletarian, semi-proletarian and *household* labour (petty commodity production), that were generated by the class relations of *capitalism* (1994, p. 50). He added a more dynamic approach to the problems of transitions, the concept of simple reproduction 'squeezed', which allowed him to explain how the unsuccessful efforts of poor peasants to reach simple reproduction of their capital and/or labour, pushed them to semi or full proletarianisation. He argued that the priority over labour or petty commodity production (and of the character of the labour regimes) has to be assessed concretely, in order not to lose the richness of historical processes. He warned that petty commodity producers are not 'collective' capitalist/workers, since access to resources, consumption and decisions, on the one hand, and the burden of labour, on the other, are spread out unevenly within peasant households (across status, age and gender).

Bernstein also insisted that the commoditisation process is both uneven and historically variable and recommended assessing the relevance of the model according to concrete agrarian structures and livelihoods (1992:33). Although Bernstein made these important observations to counter mechanistic interpretations of such a metaphor, some questions about this model remain unresolved. One of the problems with the explanation is that it tends to encapsulate complex articulations of capitalist markets and multifaceted social forms in all-encompassing models, when they need to be explained. As Bernstein and Byres have shown, simple commodity production implies many different transitions. A second problem comes from the characterisation of 'peasants' as workers or commodity producers. In the first case, the use of the category semi-proletarians refers to a transitory condition, for peasants were not completely dispossessed from land, but were



in one or another stage of becoming proletarians. Here it is clear that if the condition is not met, and most of contemporary rural producers are *permanently* incorporated in seasonal labour markets, the concept *semi*-proletarian is just indicative of the partial condition of peasant producers as wage labourers. However, it is a *negative* definition of what they are not (neither peasant, nor fully proletarian). It does not shed light upon the structural reproduction, nor the dynamics of that social sector. Thompson warned against substituting real, lived social processes with categories. I would add that it is also necessary to reject static categories that sterilize creative thinking needed to understand the myriad ways in which rural livelihoods do transform.

The characteristic constraint of the small size of landholdings and scale of activities has been analysed as both an advantage but more often a constraint. For many agricultural products there is no correlation between productivity and landholding scale, but in most cases there is an inverse relationship. Assessing the ability of small producers to generate a marketable surplus requires an analysis of the really existing market structures and the nature of productive processes in which they take part. The answer does not come straight from the scale of operations. Nor does it come from the ability of producing a physical surplus product.

Peasants will remain small scale, aiming at simple reproduction, for an indefinite period of time. In other words, they aim at self-consumption at subsistence levels while only the *lucky* ones will join the rural upper classes. If differentiation does form a home market then capitalism develops. Labour migration further increases differentiation, for mainly middle peasants move out of the communities. Other mechanisms to achieve upward movement are investing in local transport, retail shops, land acquisitions and livestock. However, these ventures are undertaken in spite of the *ejido* institutional framework, which assumes an egalitarian ideology that not only does not encourage entrepreneurship, but curtails land, capital and labour markets. Based on insights from different approaches - new institutional economics, economic anthropology and economic sociology - debates on *developmental* transitions in Italy and South-east Asia (Bull and Corner, 1993; Holmes 1989; and Finney, 1990) have highlighted the importance of linkages between rural industries, ethnic merchant groups and systems of marketing and financing.

### *The concept of rural livelihoods: taking account of assets, rights and agency*

Livelihoods or styles of life can be considered a middle ground between social structures and agency. They are not completely arranged according to will, nor are they a direct product of social structures. It is a social space where individuals exercise a great deal of innovation and creativeness. Yet, the scope of the complexity and variety of livelihoods is strategic. People arrange in the long run, both social constraints and opportunities within generational and individual life-span frameworks. Livelihoods have to do with household strategies and agency.

Avoiding the evolutionist bias of *transition* theoretical approaches, the concept of livelihoods makes more room to account for socio-economic differentiation, cultural diversity and the complexity of rural societies. In order to understand the social reproduction of rural communities, the multiple off-farm activities and their new social quality (permanent but informal, diversified and more linked to *real* markets) were considered in this thesis. Although we are witnessing fast changes in land use patterns, break down of natural eco-systems and poverty, the interesting new phenomenon is that capitalism is not absorbing rural labour but encouraging flexible labour regimes by which the relationship with communities of origin persist in different ways. The arrangements devised by small coffee producers in Atzalan, Veracruz, have made access to land as an important though secondary source of employment and incomes, providing a rich network of relations, economic options and livelihoods. I have called these organisational functions (Bebbington 2001 proposes place formation). At the same time, families regarded seasonal wage labour as another important source of monetary income to sustain traditional agriculture, self-provisioning, and coping strategies. There were very few families without off-farm activities.

The structural inter-penetration between markets - local, regional, and even international ones - and the rural communities is what explains the *rural* character of contemporary rural livelihoods. In some cases, some 'peasant' regions have become multinational, because seasonal labour migration to the USA, for instance, represents their main income source. The state of Veracruz did not experience long-term or long-distance migration until the coffee crisis in the 1990s.<sup>279</sup>

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<sup>279</sup> According to official figures around one million inhabitants of Veracruz have migrated to the USA since the coffee crisis of early 1990s.

Contemporary coffee producing peasants in Mexico are integrating in different ways to changing international markets. We are witnessing not only greater levels of commoditisation (producing for market exchange), but an unstable and more complex accommodation to changing agricultural markets, as well as land and labour markets. The way livelihoods' strategies are arranged is complex and dynamic for five reasons:

1. Diversification and multidirectional strategies. Different members of the family actively pursue farm and off-farm activities, sometimes relying on labour migration and integrating incomes originating in rural and urban activities. In this way, members engaging in off-farm urban activities usually accounted for an important part of the family's incomes and were influential in sustaining traditional agriculture or at least rural residence. Diversification is a major force to upgrade livelihoods, but it not necessarily leads to better outcomes (Ellis 2001). As long as men are working outside longer times, women became more connected to farm activities and also to land rights management and even community responsibilities than they used to. Remittances from urban jobs help the rural family to sustain basic productive tasks like maize sowing or coffee harvesting, but is also changing family roles and gender relations.

2. Flexible integration to markets. Coffee producing families in Atzlan carry on with a dynamic balance between self-consumption crops and cash-crops, according to product market conditions, labour opportunities, income support programs and their own productive capabilities (land asset base, schooling and social skills, dependency ratio, etc.). It was not possible to distinguish a clear trend towards full wage labour, nor successful peasant resistance, but an unstable shifting from one land access-based livelihood to more migrant labour income-based livelihood, depending on access and opportunities in labour and commodity markets. While some families moved out of the ejidos under the pressure of diminishing coffee incomes and family bonds disintegration, some others have successfully diversified and upgraded living conditions.

3. Selective openness and risk bearing. Dichotomies like peasant/proletarian, wage worker/self-exploited peasant, commodity producer/self-consumption producer, etc. are but abstract concepts difficult to identify in the real world or to apply. While closeness was the key for XIX century peasant survival through liberal land reforms (selective participation in labor and commodity markets), openness and flexibility to integrate in different markets appears to be the key to new livelihoods and survival strategies at the

turn of the XX century. Risk management through market means and rights reivindication are the key to successful livelihoods improvement (Moser et al 2001), and this is where most vulnerable are Atzalan ejidatario coffee producers.

4. Labor and land were used intermittently in different activities, within a coping strategy. Decreased profitability in almost all agricultural activities gave wage labour an increased importance for the family economy. However, this engagement cannot be read as increased proletarianisation, since the circuit wage labor – traditional agriculture - wage labor is very strong. Off farm wage labor helps to carry on with agriculture, while maize-coffee production helps to reproduce the rural family (land ownership and social networks). While global forces push small producers out of coffee and traditional agriculture, some other global changes create new opportunities to recreate rural livelihoods (environmental services, opportunities to add coffee a higher value, etc.).

5. With the streamlining of the state, peasants lost traditional spaces to bargain public resources. At the same time, new opportunities for collective action have emerged. Coffee producers have learnt the hard way the workings of coffee markets, how to work out the internal price for green coffee and the farm price for fresh cherry coffee, and so on. Outside experience from labor migration has widened the scope of collective action. Local coops have been superseded by small producers. Tensions between regional organizations, local coops and families have widened. While coffee coops are trying to rationalize coffee production and marketing, families are more interested in overall coping strategies.

### ***Land Endowments at the root of livelihoods***

Access to land is ‘the root’ of some of the most important features of coffee producers’ livelihoods: reproduction of social and cultural capital and access to other forms of capital. In turn, achieving some degree of food security bring about a risk management framework to flexibly engage/disengage from labour and commodity markets when crises of different kinds have challenged rural livelihoods (See Shanin, 1990:24; Bebbington 1999). There are two different land endowments. First, is the *natural* set of qualities and productive potential of the ecological niche they share through a piece of land. It is not by accident that most contemporary peasantries have survived in mountainous environments. Tropical mountain chains have a high carrying capacity, water resources (particularly around the condensation height), and a rich biodiversity

with varied food staples productive potential (grains, roots, fruits and other perennials), and different types of forestry. Extreme temperatures and varied micro-climates also put natural constraints on both pests and plant diseases, as well as on the choice of crops. On the other hand, steep slopes and poor communications represent high transport and monitoring costs and small economies of scale. Where these natural and technical barriers to capital persist (transport costs, economies of scale, labour intensive operations), peasants find a space of accommodation. Agricultural jobs that have not been broken down into a few repetitive actions and mechanised, remain largely in the hands of 'peasants', as Shanin argues (1990, pp. 26-27). Perhaps more than two-thirds of world coffee production is still produced by peasants and small growers. Capital-intensive plantations in Brazil and many other producing countries may account for the other third. Although coffee mechanization is always improving and becoming cheaper, it accounts for a small fraction of capital-intensive plantations (due to initial costs, economies of scale, and quality constraints).

Land entitlements and constructed rural space or place (Bebbington 2001) enhance access to other forms of capital, namely social, cultural and productive capital, and this is the second – and more important - endowment. There is a *socially constructed* productive potential of the whole local and regional economy, built on the social division of labour, property rights, knowledge and generational mastering of the ecological niches (selection of breeds, adaptation of technologies, etc.). Access to land is, on the other hand, the entrance point to community property rights and status systems, entailing therefore a high potential for social complexity. Being a member of a peasant community usually means minimum access to basic building, manufacturing, and agricultural technologies, germ-plasma and the genetic pool of local livestock. As economic institutions are socially embedded within the *ejido* system, property rights over these collective goods have not fully entered the open market.

The ability for producing food-stuffs for self-consumption and the personal bonds among family members, glued by social obligation and moral values, have been crucial in reacting flexibly to market changes. But at the same time, this ability has been instrumental in locking family labour into exploitative regimes in different places and historical periods (Stolcke, 1995). In Atzalan most coffee producing families have not been able to reach self-sufficiency. In the area I studied very few families or villages were able to benefit from the new spaces created by open markets. Socioeconomic conditions at national and local level were not favourable for most families in Atzalan

during the coffee crisis and as a consequence very few adapted to open markets and became *entrepreneurial* farmers. From a historical perspective, the Atzalan's peasant family economy has not seen a successful or simple transition to single-location urban families or to coffee specialisation and entrepreneurial development.<sup>280</sup>

Rural families in Atzalan seem more a complex social unit with great organisational resources to create value, and to mobilise social capital (Coleman 1990). In this sense, the family unit focuses its members' efforts on gathering different sources and types of value (use values, monetary values, exchange values, etc.), redistributing goods and resources regardless of *exchange value* (solidarity amongst members and family self-interest). The family can draw incomes and resources from wage labour, petty commodity production, handicrafts, petty trade, hunting and gathering, and traditional agriculture. What are thought of as peasants or semi-proletarians are sometimes the *reconstituted communities* of colonised indigenous people, expelled migrants, refugees, unemployed and landless people of varied origin.<sup>281</sup> The result is frequently 'peasant-like' communities in the sense that they still depend on land and practice agriculture to some extent.

It is true that peasants have no insurance for everlasting survival. Both, ruling classes and agribusiness are continually terminating peasants' spaces in several ways. Consequently, it is relevant to understand why coffee spaces are still open and how long will they be able to stay open. The key processes that will determine the answer are some of the following (and they are happening in coffee producing areas):

- Primitive accumulation has been achieved through the introduction of land and labour markets by economic and non-economic means (taxes on land, claiming rights on 'untilled' lands; violent dispossession; colonisation; enforcement of wage labour); introduction of land rent; taxes on land and production; tied-credit and indebtedness;
- Mechanisation of agriculture, employment of high yield varieties and inputs, leading to an overflow of cheap commodities (taxes and other legal dispositions complement eviction from homelands);

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<sup>280</sup> Bull & Corner (1993) studied the specific conditions in which the peasant family economy made a transition to diversified entrepreneurial-worker-farmer and rural-urban livelihoods in Italy.

<sup>281</sup> The process of colonisation of forest lands by landless and refugee families in Latin America and Africa conform to the same pattern. The landless' movement in southern Brazil can be analysed as the reconstitution of peasant communities by the urban and rural poor.

- Regimentation of land use through contract agriculture, and semi-proletarianization of peasant labour on a site (tobacco, tropical fruits);
- Changing the patterns of consumption to a specifically-shaped product through improved varieties, biotechnology and green revolution-type packages (sweetness, taste, shape, size, appearance);
- Producing cheaper substitutes based on research and industrialisation to cut down raw material use (i. e., soluble instant coffee to save green beans);
- Pressures on subsistence economy, transforming peasant families into petty commodity producers and then eliminating them through market competition and credit segmentation.

### ***7.5 Multilayered and overlapping institutions***

The institutional approach alone cannot solve the causation problem, since institutions are a multilayered and overlapping construct. In other words, different levels and combination of institutions are responsible for a particular outcome. For instance, land reform and the centralised coffee state agency – two distinguishing features of the Mexican coffee sector - were both captured by elites, corporate peasant leadership (CNC), the ruling party's bureaucracy (PRI) and the landed bourgeoisie, so we cannot simply say the Mexican coffee sector has failed because there was a distributive land reform that curbed full property rights or because the coffee board prevented quality price incentives from developing. More than a decade of structural adjustment and “liberal” reforms in the coffee sector (land titling, privatisation of the coffee board, income support programmes) achieved little in terms of developing efficient coffee markets. The new efficient market institutions are nowhere to be seen. On the contrary, debt bondage and monopolist practices are taking hold again in the coffee market.

Socially embedded institutions (social sanctions, a sense of fairness, and past experiences) have constrained competitiveness of Mexican coffee markets. The way social inequality has been addressed in the coffee producing regions has reduced the mobility of market factors. High costs of production, low productivity and absent price incentives for quality have undermined Mexico's competitive position in an oversupplied international market (see Giovanucci & Juárez 2006). Labour and quality bottlenecks have not been solved due to the lack of elite vision, suitable public policy instruments and market incentives.

The interaction of the state with rural elites has been detrimental for peasants in many ways. Elites have captured state institutions and resources before and after privatisation and continuously manipulated dysfunctional peasant organisations. A badly managed privatisation of the Mexican coffee sector destroyed human and institutional resources,<sup>282</sup> and made little difference or even made matters worse for small producers. The welfare system-like character of the former coffee state agency (IMC) was not replaced with a set of more efficient market oriented institutions and organisation to promote rural finance, risk management, scientific research, technical assistance, quality management, and marketing. Rural credit and risk insurance of some sort do not exist; very basic short-term research is done in a couple of universities (CENIDERCAFE of Universidad Autónoma de Chapingo, in Veracruz, and Colegio de la Frontera Sur, in Chiapas); technical assistance is limited to contain important plagues and diseases, while wholesale income support programmes have kept flowing without productive results.<sup>283</sup>

The value of coffee exports has stagnated, despite higher levels of production; the regulatory framework does not provide incentives for competition and quality, nor for transparent and efficient transactions and proper labelling. The new spaces for small producers in niche markets – like organic, sustainable, fair-trade and origin coffees – have not been taken advantage of and most producers are not able to gain entrance. Mexican indigenous coffee producers were pioneers and still are the main producers of organic coffee, but they are reducing their share in this niche. The same is happening with other niche markets.

The invisible hand of the market has not solved structural problems that require strong collective action: access to market information, basic research and technological development, counter-cyclical institutions and organisations, and incentive frameworks for sector-level efficiency. A market approach alone has not solved these types of institutional problems in any coffee producer country.<sup>284</sup> Coffee institutions have

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<sup>282</sup> Hundreds of specialised technicians, research projects and experimental sites, germplasm banks, and four decades of institutional memory all were lost to the coffee sector.

<sup>283</sup> Giovanucci & Juárez 2006.

<sup>284</sup> Successful policy innovation in the coffee sector during the last decade has come from a mix of market mechanisms and sound public policy making. Vietnam became the second world coffee producer with a massive investment in coffee scientists, technical assistance and state-led rural development, now producing Arabica coffees. Colombia has cut down production and started to focus on productivity and product differentiation with a consistent and unified quality certification framework. Brazil has intensified scientific research to improve coffee yields and quality, while a successful marketing campaign raised internal coffee consumption considerably, including the young population.



emerged at the interface between the strategies of coffee elites, the collective action of producers and sound state policies.

Social capital has often been discussed in terms of networks of trust, institutional building, civic co-operation and solidarity, practices that prevent free-riding and plundering (Putnam et al., 1993). To sum up, compared with one successful storie in the international market (Colombia) discussed in Chapter 6, several policy lessons can be drawn to enhance social capital in the Mexican coffee sector:

- Land reform institutionalised distrust between *minifundista* and *rancheros* - unequal land entitlements and access to resources are socially visible and repudiated by *ejidatarios* - and has reduced the social space for co-operation.<sup>285</sup> More than *Procede* still land titling programmes, what is required are incentives and also transparent regulation for elites to build up more competitive markets for producers and increase internal consumption.
- Social barriers and lacking basic infrastructure have created spaces for a thick crust of intermediaries, which perform functional roles but may increase transaction costs in the coffee chain. The links in the coffee commodity chain in Veracruz match up with not only economic functions but also social segments. The leaders of coffee organisations and local intermediaries tend to emerge from leading *ejidatario*-*ranchero* families, the same way as mill-owners and buyers tend to come from outsider families, freed from *ejido* social obligations. In other words, elites invest vast resources (social and economic capital) in building up political and business careers, but usually against the collective good (*ejido*, coffee coop, and functional organisations).
- The definition of “coffee property rights” and formal contracts are difficult to reach at for capital turns over very fast and agents’ interests are conflicting. Prices are unstable, quality classification is rather discretionary and weak contract enforcement in Mexico makes coffee trading a high-risk business. Therefore, small producers in Atzalan sidestep cooperative ventures and business partnerships, even if this means remaining low-value cherry producers. They demand up-front cash payment for their coffee (cherries or parchment) and forsake potential further gains in the coffee chain. While distrust leads to higher transaction costs under ideal assumptions, in weak

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<sup>285</sup> Pepin-Lehalleur et al. (1995) found that among similar ejidos, constructive interrelations with neighbouring *ranchero* towns made a difference in terms of social expectations and development.

market situations cautious distrust prevents big losses to producers and gives risk-takers and well-connected agents opportunities for making extraordinary profits. Among exporters and brokers trust alleviates to some extent the costs of information gathering and time-consuming verification.<sup>286</sup> The cost of formal safeguards to manage risk (sophisticated insurance mechanisms through future markets or long-term contracts) reinforces trusting transactions among big players.

### ***7.6 New forms of value and quality conventions***

Peasants are not paid for the intrinsic *quality* attributes of their coffee, first of all, because they are not completely aware of how value is created. While the material bases of coffee quality are *always* in the beans, particularly from skillfully tended plantations and well processed coffee beans, value is far from being the *creation* of peasants and growers. It is the industry that selects, blends and processes coffee beans ‘creating’ that quality. Atzalan producers deliver a non-graded bulk quality coffee, which is taken by Tlapacoyan merchants and processors as blending quality coffee.<sup>287</sup> Usually the actual material components of coffee quality are not much different when they arrive at a roasting factory, *but* several corporate agents have radically transformed the coffee product. Buyers generated homogeneous and container-size volumes, mills selected defective beans, and cuppers produced generally accepted quality assessments (certifications, labels and brands, concurrent catering and comfort services).

Coffee quality is defined by a new set of conventions, in which buyers, roast & soluble TNCs, and end-market service chains are exercising new forms of legitimation, justification, and control (see Ponte 2003). They have shaped standards, classification systems, scientific research and technological development to achieve hegemonic control of quality conventions. Why would producing countries – not to mention producers’ organizations – challenge these new ways of creating value? Why would they define what a good coffee is, or what the main quality factors are and how to assess them in the day to day transactions? Old standardized conventions of coffee quality

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<sup>286</sup> Overseas brokers and Mexican export companies have a good rapport; they speak the same *language* and exchange a great deal of information and insight and tend to see their businesses as complementary services. In comparison, small producers have a conflicting relationship with merchants and tend to see all kinds of intermediaries as opportunistic agents and at best, necessary evils. In the same vein, Marshall (1989) stresses the significance of trusting relations between brokers and exporters.

<sup>287</sup> However, buyers acknowledge that up to 80% of this region’s coffee can be of export quality. A recent study on Veracruz coffee found that even at 600 m.a.s.l., some Atzalan coffees reached *high grown* quality CRCV-CRUO: 2005.

(size, acidity, height, maximum number of defects) are changing in the international markets towards a more complex set of norms, in which product information, traceability, safety, uniqueness, innovation, convenience and others forms of concurrent value are equally or more important than the intrinsic quality of beans.

What is sold as coffee consists of many different products in which coffee beans are but a very small component.<sup>288</sup> Upscale coffee shops sell a service package with highly differentiated products rather than coffee.<sup>289</sup>

### *Afterword*

The core of this thesis was written between 1996 and 1997, while fieldwork and primary data largely refer to the 1993-1996 time period. Reflection on the scope of the coffee crisis since then has involved numerous debates, articles and to a lesser extent scholarly research. Following the “fad” of new institutional theory, some authors ventured into the coffee problem. The book of Robert Bates (1997a) was an exceptional piece. The technological revolution in coffee agronomics, biotechnology (the coffee genome mapping is almost finished), chemistry and roasting, has grown considerably.<sup>290</sup> Although auction markets have been used in the coffee market since a long time ago, the use of Geographical Information Systems on-line with integrated multi-layered databases on specialty single-origin coffee lots, has made it possible to carry out real-time transactions of the best coffees in the world.

The phenomena of chronic overproduction and long-run trend of declining prices, as well as the environmental and social costs of these trends, has been the object of heated debates. Those in the World Bank who predicted a short-term shock and then a long-lasting recovery have not rectified, nor modified their free market framework. A historical and geopolitical approach provides clues to understand such a complex crisis. As Clarence-Smith and Topik (2003) point out, even after the long crisis, coffee is still the most important agricultural export for Latin America (the principal export in seven countries), and second overall in value to petroleum. While the continent continues to produce more than twice as much coffee as the rest of the world combined, Africa and

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<sup>288</sup> A 3 dollar regular cup at Starbucks contains roughly 8 grams of roast and ground coffee worth 3 cents of a dollar at current C market prices.

<sup>289</sup> Ponte 2002, Gibbon & Ponte 2004 and Wasserman 2002:8.

<sup>290</sup> Akiyama & Varangis (1989) were among the coffee economists who forecasted a positive outcome with the end of the International Coffee Agreement.

Asia are catching up. Vietnam used its peasants and state power to become the second coffee producing country in the world.

The coffee market has been differentiating during the last decade, following the patterns I described in Chapter 4, continuing to open up new opportunities for small high quality and differentiated producers, and is also expelling high-cost and institutionally unprotected small producers. We can see the trend towards a two-tier market:

- The “C” contract for Arabica coffees in the New York Board of Trade (NYBOT) (or London International Financial Futures Exchange – LIFFE - and other European exchanges for robustas)
- The “C” + market, meaning the premium coffees exchanged at a premium over the C price. Within the second premium tier there are also two trends: the sustainable markets (defining sustainability in terms of shade grown, organic and fair-traded coffees) and the specialty markets (defined as clean cup, traceable and single origin, special process coffees). Premium markets are also anchored to the mainstream market and will tend to reduce the premium margins as supply grows and premium consumption starts to lose momentum. While premiums for the sustainable markets are fixed, the specialty market at the moment does not have a fixed ceiling, but this is bound to decline as supply grows.

Some specialists have advocated to reverse liberalization and to re-establish some regulatory framework (Talbot 2005), others contend that this is no longer possible on the basis of structural market trends (Daviron & Ponte 2005). In line with these authors, others have even suggested that international supply management is possible (Mailzels et al 1997). The markets for tropical beverages have traditionally been among the most unstable of the World markets for primary commodities, with sharp and unpredictable short-term price cycles, and consequent intermittent instability and uncertainty in the export revenues of producing countries. At the same time, world demand for these beverage crops is very price-inelastic, and it is this characteristic which makes them suitable for some form of international supply management designed to reduce their short-term market fluctuations and/or to raise depressed levels of prices (Mailzels et al 1997:21)

And yet some others insist that the best solution to low prices is *low prices* (Wasserman 2002).

Although there are innovative initiatives to face the coffee crisis problem worldwide, we are far away from a new consensus or less likely to enforce a new period of regulations.<sup>291</sup>

- The Common Code of the Coffee Community (4C), a German initiative (GTZ and the European Coffee Federation), has developed a code of practice for promoting sustainable coffee markets;
- Eliminating low grades of coffee and encouraging diversification in marginal lands for coffee (ICO resolution, 2002);
- The expansion of the Q Auction and Q contracts for high quality coffees, an institutional initiative of the Specialty Coffee Association of America (SCAA), with correspondents in Europe and South America.
- Introducing taxes to consumption and another tax for import-export transactions (resembling the Tobin capital gains tax);
- Reintroducing a regulatory framework – similar to the former International Coffee Agreements - to fix a sustainable price band;
- Promoting full liberalisation of agriculture worldwide to create spaces for inefficient coffee producers in other agricultural markets.

Is it possible to make progress in the short-run? The premium markets are growing faster than mainstream markets, but there are already signs of failure in fair-trade and sustainable coffees. High costs of third party certification and operation, unequal participation in higher prices paid by consumers, and problems of accountability and traceability of coffee suggest that access to differentiated markets is not straitforward. All sorts of sustainable and fair trade coffees amount to 5-8% of the total coffee traded in the market. As Ponte has argued in many producing countries after liberalisation traders have been paying homogeneous prices for coffee. No price differentials are offered to small holders for good quality coffee. That is the case of Mexico. Exporters who cater to specialty markets are increasingly relying upon estates through vertical integration and long-term contracts to small farmers are being marginalized.<sup>292</sup> That is

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<sup>291</sup> Following mechanically Polanyi, Talbot suggests that after the ravages of the recent coffee crisis, protest and pressures of coffee growers worldwide will eventually generate the opposite movement of the pendulum towards a 'reregulated market' (i.e. a new internacional agreement on coffee).

<sup>292</sup> Ponte 2002.

happening with organic and specialty coffees, and soon may happen to shade grown coffee.<sup>293</sup>

An important problem of income support policies in the coffee sector is the relabelling of coffee projects as “poverty alleviation” initiatives, downgrading the aim of helping producers to survive, rather than bringing them to ‘development’.<sup>294</sup>

In spite of a decade of debates and new scholarly work on coffee, this thesis provides a sound basis to understand from different perspectives why the breakdown of national coffee sectors, conflictive pro-cyclical/anti-cyclical sectorial policies, split actors in the coffee chain and urban political bureaucracies have combined to set the stage for a structural crisis of coffee in the world. Structural overproduction, long term price decline of coffee and price instability are at the surface of this institutional crisis. What is below is a deep social polarization; the exclusion of indigenous peoples and peasantries; the decline of coffee elites and formerly rich rural societies; the increased technological and productivity divide between urban and rural activities; the shortcomings of sectoral coffee organizations in managing complex agroecological systems and segmented markets; and the shrinkage of collective action of coffee actors at local and regional levels.

Among the policy alternatives the focus of my thesis would suggest are the following:

- *Enhancing coffee producing regions' rural livelihoods* as a strong base for fighting rural poverty, instead of self-defeating subsidies to coffee (structural overproduction is rooted in this coffee incomes dependency). Part of the solution would be to find new forms of coffee price insurance and productive investments, usually absent in coffee producing regions. Environmental services are an option to contain aforestation of abandoned coffee fincas. Another alternative to the coffee crisis is to widen the domestic markets for coffee, particularly in Mexico where average consumption percapita per year is less than one kilogram;

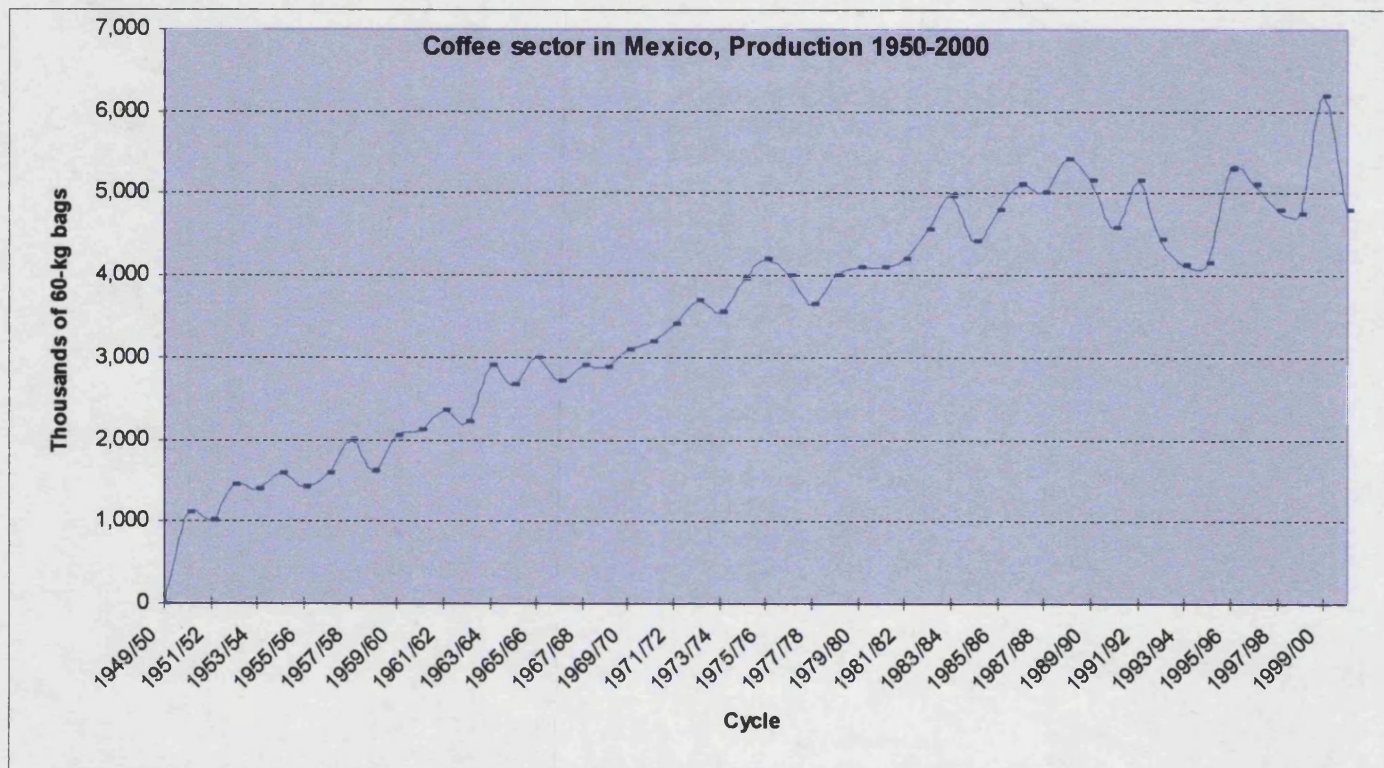
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<sup>293</sup> The Global Environment Facility (GEF), through the United Nations Development Programme has allocated Rainforest Alliance with a 7 year grant to increase certified shaded from 1 to 10% of world production . GEF Report, 2006.

<sup>294</sup> See Bebbington (1998) and Sen (1999). In the early 1990s, there were in Veracruz around 8 different income-support and credit programmes targeting small coffee producers (Díaz P. 1992); and they were still running a decade later.

- Developing a new type of *complex institutions* in rural areas to mobilise resources across commodity markets and across farm/non-farm activities during the agricultural cycles. Coffee capital concentrates in only four months of harvest at the beginning of which producers draw from on all kind of assets to meet their consumption and working capital needs. Then most of this massive capital goes away of the coffee producing regions, only a small part becomes maize or other forms of productive investment, apart from two-three months of family basic consumption. If coffee capital moves more dynamically across self-consumption food staples, other cash crops, non-agricultural and off-farm activities, as well as to coffee again, the multiplier effect would be far greater.
- *Differentiate social and environmental values of different types of coffee.* While unshaded modern-technology coffee comprise the vast bulk of Brazilian or Colombian coffee, for many other like Mexico, shade grown coffee with traditional methods of cultivation are still predominant. The productivity and profitability gap among world coffee systems of production are at the root of the chronical overproduction long-term scenario. High prices for coffee will always be an incentive for massive investment on the part of modernised coffee sectors, while price slumps will always be sufficient cause for price subsidies and support programs in coffee exports dependent countries. And this vicious circle sets in motion indefinitely. Certification of social and environmental values of shade grown coffee may abate the structural overproduction problem.
- *To boost the emergence of more complex rural societies and elites,* with increased capabilities to find alternatives to monocropping coffee it is needed to invest in human capital formation, fight isolation, upgrade basic infrastructure, diversify local economies, extend the range of cash crop, non-agricultural and off-farm activities, introducing modern financial services and rural markets information.

## APPENDIX No.1



Source: IMC, Consejo Mexicano del Café, ICO.



# APPENDIX No. 2

THE COFFEE SECTOR IN VERACRUZ, 1994-97									
			1993-94	1994-95		1995-96		1996-97	
	Producers*	Surface*	Yield	Production	Yield	Production	Yield	Production	Yield
		(ha)	Qq/ha	Qq	Qq/ha	Qq	Qq/ha	Qq	Qq/ha
Mexico (country)			9.00	5,425,700	8.80	7,043,470	11.44	6,652,170	9.66
Veracruz (state)	67,579	152,993	10.30	1,295,000	8.46	2,150,000	14.05	1,750,500	11.44
Tlapacoyan (region)	9,836	15,829		152,910	9.66	253,866	16.04	206,695	13.06
Atzalan (Municipality)**	6,738	10,832		102,875	9.99	170,796	15.77	139,060	12.84
SPA (ejido)									

\* 1997

\*\* 83 communities

Source: Consejo Veracruzano del Café, Unidad de Apoyo a la Producción, 1997, and (for Mexico) *Base de Datos Estadísticos de Café*, Consejo Mexicano del Café, 1997.

### APPENDIX No. 3

TECHNOLOGICAL CHANGE AMONG SMALL COFFEE PRODUCERS, SPA EJIDO, 1980-95			
	IMC technology	Atzalan growers elite*	SPA Ejidatarios' practices
Varieties	Improved strains of Typica and Bourbon (since 1950s), and Mundo Novo (1960s). Adapted the dwarf Caturra (1960s) to 'help' producers for its yield <i>in cherry</i> . Developed Garnica F-3 (1978). Not yet stabilised, Garnica and other superior Catuai strains were not widely distributed. The IMC did not control distribution, regional suitability, or quality traits.	The CNCf guided the establishment of their fincas in the 1950s. Since the 1960s rancheros introduced modern varieties extensively. Big grower-processors substituted red Caturra due to its low yield <i>in the bean</i> , and tried Garnica F-6 and Costa Rica 95. But some are partially reintroducing more resilient varieties like Typica and Mundo Novo.	Most producers accepted the new varieties for <i>replanting</i> , not for renewing the whole finca. They introduced modern varieties gradually, but without proper variety controls (and records). Their fincas are 'chilatoles' (a mixture): red caturra (40%), MN (20%), Bourbon (15%), Typica (10%) Garnica (10%) and others
Density	For coffee fincas under shade, the IMC advised the symmetric alignment of 2.5 x 2.5 m (1,600 plants/ha) or 2.0 x 2.5m (2,000 plants/ha), or even higher densities with asymmetric levelling curves in suitable lands (deep soils and the right climatic conditions).	Symmetric alignment at 2.5 x 2.5 m, even with Typica, Bourbon and MN since the 1960s. In the 1980s some of them moved towards plain-sun technology (2.0 x 2.0 m without shade), although the crisis was a serious setback	At the peak of coffee funding (1980-82), some ejidatarios tried higher densities. But most of them adopted a modified 'veracruzano' system: 1,600 to 1,300 plants/ha (2.5 x 2.5m and 3.0 x 2-2.5 m), blending traditional and 'the first IMC' technology.
Shade	The IMC promoted an 'induced shade system', of 100 to 150 trees/ha of a single species, <i>Inga</i> genus, which fixes nitrogen in the soil and has a suitable thin-wide shade. Inga and coffee trees had to be planted at the same time, and pruned to keep a suitable 50-80% shade. The canopy had to be regulated every year.	Better off ejidatarios were the first in participating in the rotary ROYA and MECAFE programs (only a 1/3 could enroll at a time), and fully applied the induced shade system. With IMC assistance, big growers tried plain-sun technology. During the crisis some ejidatarios have intensively substituted Ingas with banana and/or orange trees (200 orange trees/ha or 300-400 banana trees/ha.)	Only a minority –those enrolled in ROYA and MECAFE programs- established one-species shade, although the majority has come close to it after the crisis. Most of them substituted shade trees with orange and banana trees (partly damaged by the 1989 frost), although keeping the old arrangement and density: 100 trees/ha. Only a few are replanting Inga trees again.
Propagation and planting	Nurseries (sowing in plastic tube-bags) were the main method (grafting and cloning were not widely used). The IMC taught seedling planting in pits with terraces (instead of spontaneously grown plants and narrow hoe-holes). The IMC produced millions of HYV' seedlings, but adaptive research of specific varieties by region lagged.	Growers have usually created their own nurseries or bought in private nurseries HYVs (Garnica F-5, Costa Rica 95, Azteca de Oro, etc.). Grower-processors have systematically renovated coffee fincas, even during the crisis.	Community seed beds/nurseries had been set up when IMC or official funding was available. After 5 years of crisis, producers started to replant with spontaneous sprouts (from fallen seeds of doubtful quality), replacing dead and unproductive plants. Lack of funds and the risk of theft have prevented some producers to establish new nurseries.

<b>Pruning</b>	Introduced modern pruning techniques: plant formation (size, growth regulation), rejuvenation (lopping off) and upkeep of productive tissue and sanitation. The IMC researched on scattered pruning by row of different ages that had to be followed by the selection of 2 to 4 stems (but was not diffused).	Modern intense systems by row were never applied, due in part to lack of technical assistance, financial long-term support, and labour cost and supply problems. Grower-processors use suspension pruning at 1.7 m (Colombian), 'at pickers reach'.	Producers abandoned intense pruning by row (using jigsaw). They carry out scattered pruning of dead or damaged branches, and little shade pruning. What the IMC could not do, frosts did (1979, 1983 and especially 1989). By lopping off, producers improved plants, applying IMC advice.
<b>Use of Fertilisers</b>	Fertilisation research started until mid-1950s. Standard for low fertilisation areas (peasant's) was 350kg/ha twice a year. Recommended formula for Tlapacoyan region was 18-12-00, but the IMC usually distributed 18-12-06 for all regions (due to Fertimex economies of scale). Advised on the use of Inga shade to cut down chemical fertilisation. Foliar fertilisation was only used in nurseries. Composting was not widely researched, nor encouraged.	In early 1980s the Ministry of Agriculture carried out soil analysis for some coffee organisations (and leaders were the first). The same IMC made soil analysis in the lowland plantations, which have applied 3 to 4 fertilisations, depending on liquidity. Recently they started to take up Costa Rican techniques of foliar fertilisation, balancing formulas with small components.	Due to distrust, lack of incentives, training, and monitoring, 50-60% of producers did not draw on agrochemicals delivered by the IMC (some used them for other purposes or even sold them). During the crisis 1989-93 producers did not fertilise fincas at all. They did again until 1994-95, when the price recovered. A common practice has been to fertilise twice a year after the harvest to help plants recover. Urea is widely used for both, maize and coffee.
<b>Soil protection</b>	Recommended the use machete for weeding at ground level (instead of hoe); Inga's shade; pulp composting, mulching and live barriers, terracing in sharp slopes; and draining channels to prevent erosion.	Some practices were adopted, like draining channels, mulching and recycling pulps, but not terracing or efficient live barriers. The cost of labour to set up and maintain such work has shift the balance in favour of using chemicals.	The only well established practices are mulching (weeds and cut wood), and the use of machetes for weeding. Shade has been partially cut down to interplant oranges and bananas.
<b>Weeding and fitosanitation</b>	For traditional producers, the IMC advised machete weeding at least twice a year, and it advised the use of herbicides. Within the rotary MECAFE and ROYA application of chemical sprays was compulsive	Grower-processors use intensively herbicides and pesticides, although depending on the price for coffee of the previous year, these applications can be adjusted from 2 to five. Better off ejidatarios take advantage of local labour and combine the use of chemicals and machete weeding.	Due to labour pressures before and after harvest (labour migration and maize cropping, respectively), producers tend to favour agrochemicals over labour weeding and adjust disease/pest control chemical use according to available incomes from the previous harvest
<b>Maintenance and Management</b>	The IMC (1979) designed a coffee physiology survey (based on 6 conditions from normal to useless trees). It was meant for defining fincas' management needs of maintenance, rejuvenation and renovation. But the IMC credit and inputs delivery scheme expected producers to carry out weeding and fertilisation at least twice a year (apart from maintenance pruning, shade regulation and pest/disease control).	Grower-processors have managed their fincas relying on family's accumulated expertise, without book keeping, IMC survey methods and planning. They have kept basic records on overall production, costs and yield. Take advantage of counter-cyclical management Some better off ejidatarios hire a finca administrator, while they hold a urban job or do politics.	Small producers have never used book keeping practices, nor even basic registers. They have worked out maintenance needs and production costs through labour orders of measure. Production is estimated on the basis of blossoms and weather. Depending on the previous year's coffee price, they adjust agrochemical use and maintenance jobs (pro-coffee cycle management).

	<b>IMC technology</b>	<b>Atzalan elite's technological development*</b>	<b>SPA Ejidatarios' practices</b>
<b>Research and Development</b>	IMC's R&D was institutionally marginal, and lacked a scientific long-term base. Tried to adapt the Colombian experience and Hawaii's modern technology (Maryland Univ.). In the 1960s the IMC committed important resources to diversification. In the 1970s it reached 200 experiments, but were oriented to 'priority problems'.** The best research was never successfully released to the field. Homogenous recipes were applied and popularised by unqualified staff. Senior staff and R&D programs were continuously reshuffled according to <i>sexenios</i> ' agenda (1972 and 1982 for instance)	Some modern techniques were tried with mix results. Soil quality and altitude are not suitable for high densities. Labour supply is becoming a problem. After the IMC disappeared, there has been no technical assistance at all. Private firms are promoting Costa Rican technology (7,000 plants at 1.8 x 0.80m with CR95). With the experience of the crisis –indebtedness lack of institutional support, hardening of banking services–, some growers have gone back to less intensive cropping methods.	There has been no technical assistance since the IMC withdrawal. Small producers have experimented by themselves during the last decade, putting on trial specific techniques: interplanting orange and banana; using Urea as fertiliser for both, coffee and maize. In general they abandoned early attempts at intensive pruning and higher plant densities, considered unsuitable to them for different reasons. Small producers have settled for more manageable mix-technologies, nearer to traditional and 'the first IMC' technology, rather than to a modern one.
<b>Trust and interfaces with the IMC</b>	IMC staff adapted institutional policies to different regions, according to the bargaining power of local elites (and their 'social organisations'), and type of producers (cherry and parch producers; highlanders or lowlanders; good and bad payers; good and bad producers, etc). Since the CNCf, technicians engaged with Atzalan rancheros (upper middle coffee growers of 5-15 ha) that first accepted their advice, allocating trial plots with the new technology. Dynamic interaction with them explains the development of some regions (Xicotepec, Pue., is paradigmatic). An informal, but institutionalised classification of 'good growers' and 'pickers' (peasants) developed.	IMC Tlapacoyan Delegation's senior staff interacted with the local elite and regional political groups. Field technicians were allowed to give assistance to grower-processors, formally or informally. Political groups influenced the choice and timing of technical assistance and funding programs at local level. Corporatist policies (creation of UEPCs to channel IMC programs) develop a strategic, but not definite divide. Corruption, mixed with political manipulation of the IMC by bureaucracy, politicians and leaders made regional and local elites continuously marginal and dependent of those expedients. Elite groups also embraced politics; and for some the new ARICs were a way out in the early 1980s.	The local elite was commonly a vital link in the IMC day-to-day functioning: from the choice of UEPC's delegates and purchasing centers' representatives, to the nomination of participants in the ROYA and MECAFE rotary programs, local bosses always influenced the IMC priorities. They initially played a facilitator role in learning and spreading the new technology, but also generated distrust among poorer ejidatarios unable to keep up with new technology adoption. Small producers were always keen pupils of 'good technicians'. They usually experimented according to their means and understanding. Feedback and in-farm experimentation was limited.

\* It considers rancheros in the lowlands and the better off ejidatarios, with whom the IMC had closer contacts. Although there are no formal

\*\* The modern technology of coffee considers four key components: 1) Analysis of tree physiology, specially leaf activity; 2) Soil dynamics; 3) Plant structure, specially pruning methods; and 4) Systematic correlations by region: environment, technology, yield, quality.

Source: IMC 1979; Serna 1990; Villaseñor 1987; Nestel 1995; Escamilla 1993. Interviews to ex-IMC staff: Ing. A. Villaseñor, Ing. C. Villarreal, Ing. M.A. Nuñez, Biol. A. Celis, N. Hernández, F. Barrio. Interviews to landowners Agustín Bello (San Carlos Ranch) and Rolando Topete (Loma Bonita Ranch) and ejidatarios of SPA, Atzalan.



# APPENDIX No. 4

SEASONAL ADJUSTMENT OF BASIC CONSUMPTION, SPA 1995*												
Item	Relative importance			Consumption Levels			Imputed Consumption Costs					Relative
				Full	Adjusted		Daily Norm.	Full	Adjusted	Yearly	Daily Adj.	Weight
	Rank	Source	Freq.	Months	Months	Range (%)	(N\$)	(N\$)	(N\$)	(N\$)	(N\$)	(%)
Maize	1	domestic	P	8	4	75-100	1.83	439.20	192.15	631.35	1.73	16.18
Black beans	1	domestic	P	8	4	50-100	1.71	410.40	153.90	564.30	1.55	14.46
Clothes and shoes	3	exchange	I	2	0	0-00	1.37	500.00	0.00	500.00	1.37	12.81
Vegetable oil and/or lard	1	exchange	I	8	4	50-100	1.14	273.60	102.60	376.20	1.03	9.64
Sugar	1	exchange	P	8	4	50-100	0.80	192.00	72.00	264.00	0.72	6.77
Milk	3	dom/exch	I	4	8	0-50	1.50	180.00	78.75	258.75	0.71	6.63
Chillies (dry, fresh)	1	exchange	P	8	4	0-50	0.57	136.80	51.30	188.10	0.52	4.82
Pork, beef, canned fish	3	dom/exch	I	4	8	0-50	0.86	103.20	45.15	148.35	0.41	3.80
Poultry	2a	dom/exch	I	4	8	0-50	0.71	85.20	37.28	122.48	0.34	3.14
Alcoholic drinks	3	exchange	I	4	8	0-50	0.66	79.20	34.65	113.85	0.31	2.92
Soap, detergent, bleach	2	exchange	P	4	8	0-50	0.64	76.80	33.60	110.40	0.30	2.83
Soft-drinks & juices	3	exchange	S	4	8	0-50	0.64	76.80	33.60	110.40	0.30	2.83
Potatoes	2	exchange	S	4	8	0-50	0.58	69.60	30.45	100.05	0.27	2.56
Tomatoes and onions	2	exchange	I	4	8	0-50	0.57	68.40	29.93	98.33	0.27	2.52
Biscuits and sweet bread	3a	exchange	S	4	8	0-50	0.50	60.00	26.25	86.25	0.24	2.21
Oranges	3a	domestic	S	3	0	0-00	0.69	62.10	0.00	62.10	0.17	1.59
Energy (1)	2	dom/exch	P	4	8	0-50	0.32	98.40	136.80	235.20	0.64	6.03
Eggs	2a	dom/exch	I	4	8	0-50	0.29	34.80	15.23	50.03	0.14	1.28
Metal tools (2)	1	exchange	P	12	0	0-00	0.10	35.10	0.00	35.10	0.10	0.90
Other spices	2a	dom/exch	S	8	4	50-100	0.07	16.80	6.30	23.10	0.06	0.59
Rice	2	exchange	S	4	8	0-50	0.11	13.20	5.78	18.98	0.05	0.49
Salt	1	exchange	P	8	4	50-100	0.03	7.20	2.70	9.90	0.03	0.25
Bananas	3	domestic	I	0	12	0-100	0.51	0.00	3.60	3.60	0.01	0.09
<b>TOTAL</b>							16.20			<b>4,110.80</b>	<b>11.26</b>	105.36

\* Based on a family with two adults, one teenager and one child. Daily expenses at current local market prices (March 1995)

*Rank: 1.-* Essential goods throughout the year. *2.-* Consumption depends on available produce (2a) and cash flows. *3. 'Luxury' goods*, only consumed in season (3a) and cash peaks.

*Source: Domestic.-* Produced in the household. *Exchange.-* Only acquired by market exchange.

*Dom/exch.-* A variable part is produced, and another purchased in the market.

*Frequency:* Goods '*P*' are permanently consumed (little adjustment). '*S*' are only seasonally purchased (or available). And goods '*I*' are intermittently purchased (or available).

MONETARY EXCHANGE IN BASIC CONSUMPTION, SPA 1995*							
Item	Need of exchange				Actual Monetary Expenses		
	None	Complete	Minimised		Yearly	Daily	
	Months	Months	Months	Range (%)	(N\$)	(N\$)	(%)
Maize	6	2	4	50-100	247.05	0.68	6.33
Black beans	6	2	4	50-100	230.85	0.63	5.92
Clothes and shoes	0	2	0	0-00	500.00	1.37	12.81
Vegetable oil and/or lard	0	8	4	0-50	376.20	1.03	9.64
Sugar	0	8	4	0-50	264.00	0.72	6.77
Milk	0	4	8	0-50	258.75	0.71	6.63
Chillies (dry, fresh)	2	6	4	0-50	153.90	0.42	3.94
Pork, beef, canned fish	0	4	8	0-50	148.35	0.41	3.80
Poultry	6**	2	4	50-100	122.48	0.34	3.14
Alcoholic drinks	0	4	8	0-50	113.85	0.31	2.92
Soap, detergent, bleach	0	4	8	0-50	110.40	0.30	2.83
Soft-drinks & juices	0	4	8	0-50	110.40	0.30	2.83
Potatoes	0	4	8	0-50	100.05	0.27	2.56
Tomatoes and onions	0	4	8	0-50	98.33	0.27	2.52
Biscuits and sweet bread	0	4	8	0-50	86.25	0.24	2.21
Oranges	12	0	0	100	0.00	0.00	0.00
Energy (1)	6	4	2	0-50	55.20	0.15	1.41
Eggs	4**	2	6	50-100	50.03	0.14	1.28
Metal tools (2)	0	12	0	0-00	70.20	0.19	1.80
Other spices	2	6	4	50-100	18.90	0.05	0.48
Rice	0	4	8	50-100	18.98	0.05	0.49
Salt	0	8	4	0-50	9.90	0.03	0.25
Bananas	12	0	0	100	0.00	0.00	0.00
<b>TOTAL</b>					<b>3,144.05</b>	<b>8.61</b>	<b>80.58</b>

(1) Energy: a) Firewood (12 man-days), 52 Lt. of paraffin + 12 batteries a year; or b) Equivalent gas + electricity bill. (2) Hoe, punch, machete and filing.

\* Based on a family of 2 adults, 1 teenager and 1 child. Daily expenses at current local market prices (March 1995)

\*\* When there is abundance of maize produced by the household

*Rank: 1.-* Essential goods throughout the year. *2.-* Consumption depends on available produce (2a) and cash flows. *3. 'Luxury' goods*, only consumed in season (3a) and cash peaks.

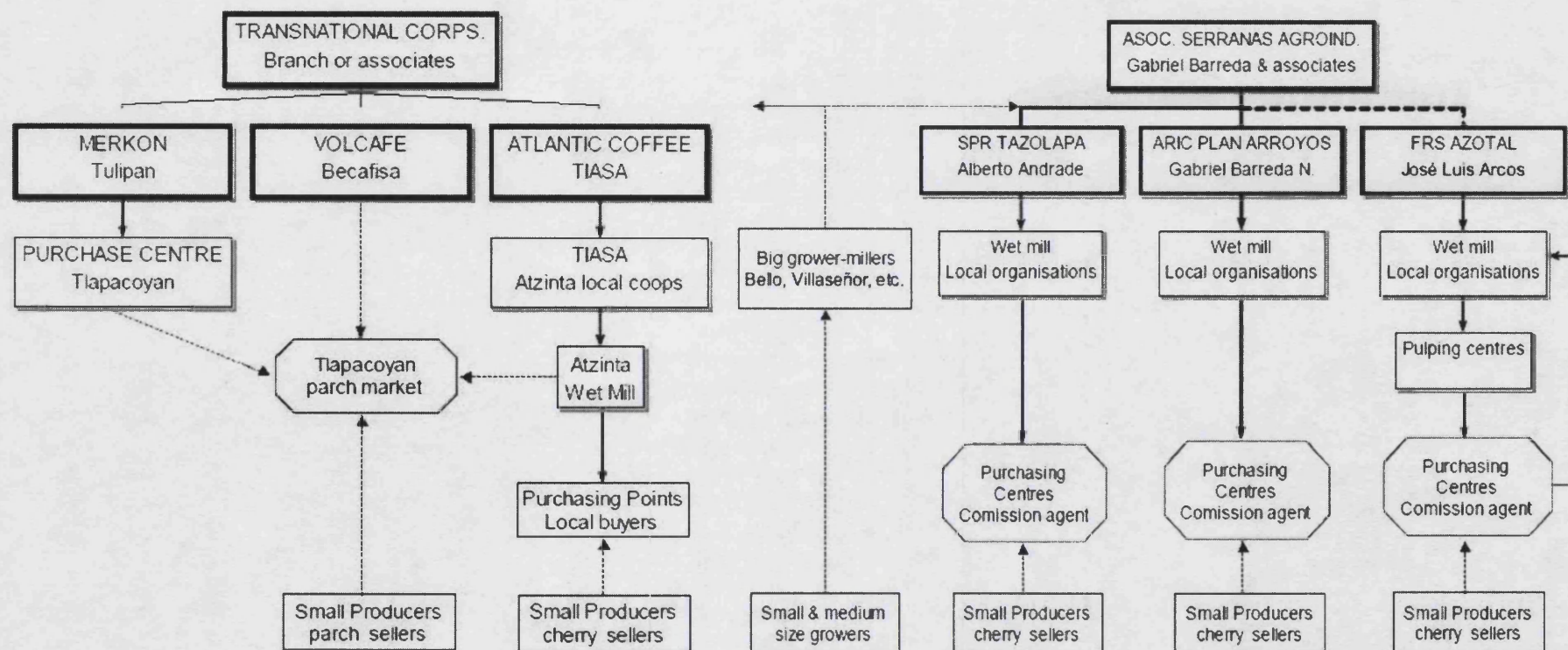
*Source: Domestic.-* Produced in the household. *Exchange.-* Only acquired by market exchange. *Dom/exch.-* A variable part is produced, and another purchased in the market.

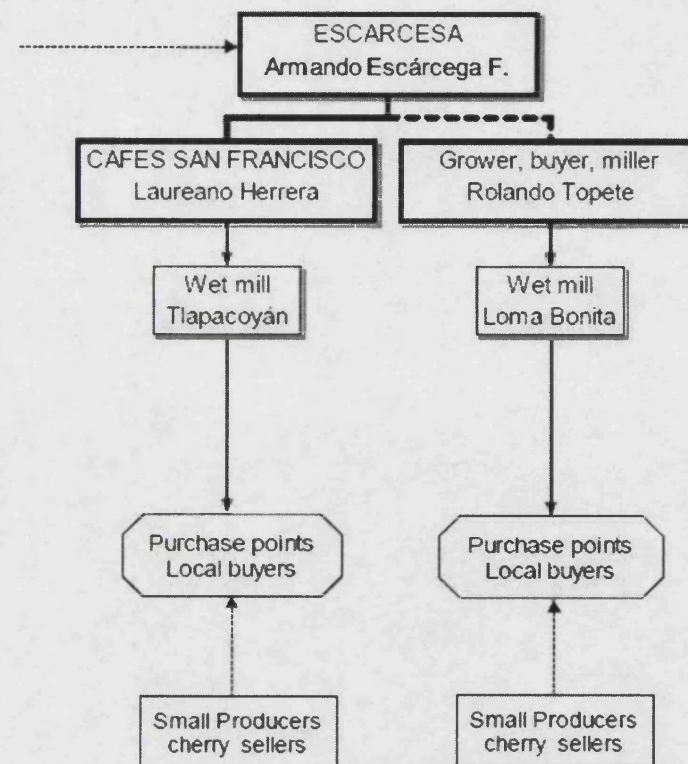
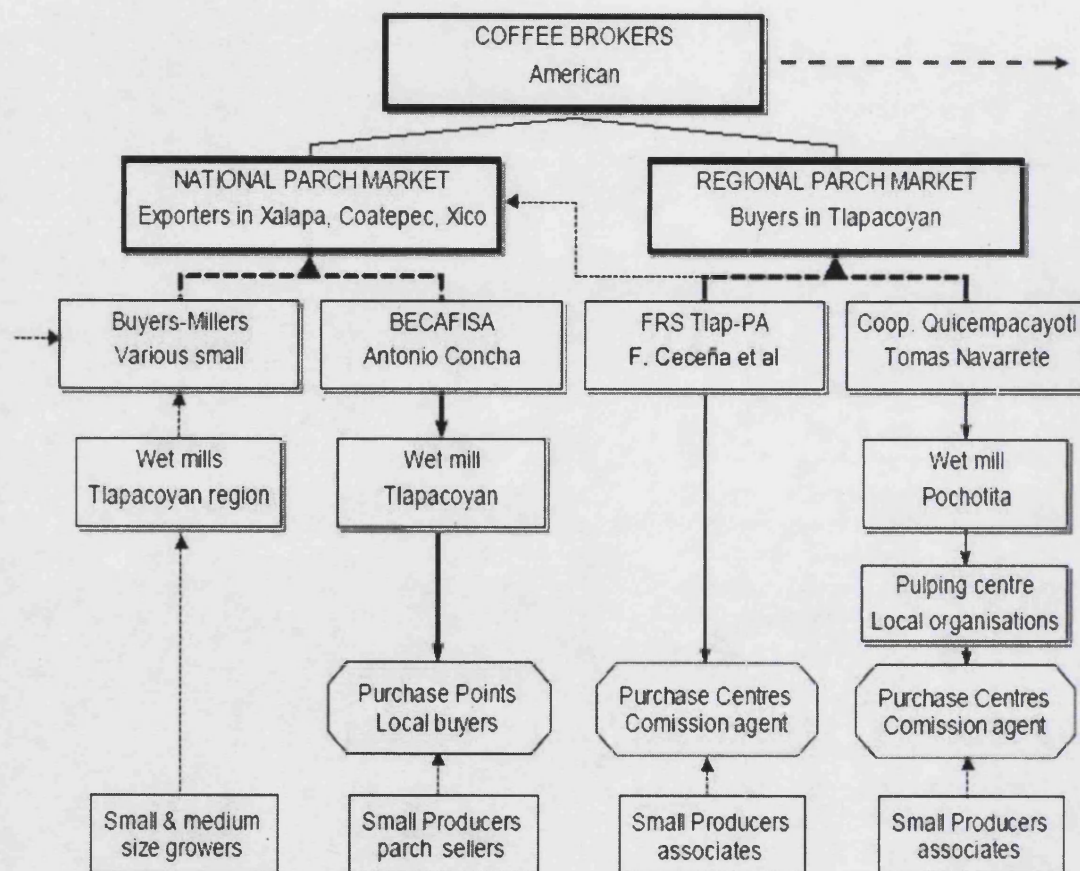
*Frequency:* Goods '*P*' are permanently consumed (little adjustment). '*S*' are only seasonally purchased (or available). And goods '*I*' are intermittently purchased (or available).

*Source:* fieldwork, Atzalan, 1995.



## APPENDIX 5 COFFEE AGRIBUSINESS INTEGRATION IN TLAPACOYAN







# APPENDIX No. 6 COFFEE CONVERSION RATES TO A CONSTANT (Qq) \*

Humidity (Approx)		Theoretical Equivalents of coffee beans at different processing stages		Equivalenc e to parch coffee
%	kg/Qq	Name in English	Name in Spanish	
60	270	Unripe cherry coffee	<i>Café verde</i>	
65	245	Ripe cherry	<i>Cereza</i>	4.26 : 1 **
65	140	Pulped beans	<i>Despulpado</i>	2.43 : 1
64	120	Soaked beans	<i>Escurrido</i>	2.09 : 1**
45	100	One-day sun-dried beans	<i>Seco de agua</i>	1.74 : 1
12	100	Dry floaters	<i>Espumilla seca</i>	n.a.
12	80-92	Natural unhusked	<i>Capulin o bola</i>	n.a.
23.5	65	Semidry parch	<i>Pergamino cuerno</i>	1.13 : 1
12	57.5	Dry parch	<i>Pergamino seco</i>	1:1
11-12	46	Gold or green beans	<i>Café oro o verde</i>	1 : 1.25**
	36.66 (a)	Roasted beans	<i>Café tostado</i>	
	17.7 (b)	Instant coffee***	<i>Café instantáneo</i>	2.6:1 (gold)

(a) Merchants in Mexico apply up to 18% “merma”, that is 37.72Kg/Qq

(b) Merchants in Mexico apply up to 2.8 kg of green coffee for 1 of instant coffee (instead of the actual of 2.6 kg).

**Qq** = 100 lb; Spanish quintal is the most important coffee weight measuring unit in Latin America. It is a constant across all processing stages and types of coffee, allowing for the assessment of productivity to a theoretical equivalent.

\* These conversion factors kg/Qq are theoretical, built by the IMC taking Typica’s average yield as a model. Changes in plant variety, harvest stage, height of growth and weather conditions do affect the actual coffee yield: cherry => bean. Each country has developed its own standards. For instance in Guatemala 1Qq of gold coffee approximate 45kg (instead of 46 in Mexico)

\*\* Key rates of conversion to assess *actual yield* in the processing chain. Through long observation and use, empirical as well as accurate methods of assessment have emerged (cherry to parchment; parchment to gold).

\*\*\* Historically, the rate of raw coffee into instant coffee has diminished according to more efficient technologies.

**Source:** Based on *El café y su procesamiento industrial*. IMC, 1980; Villaseñor 1987 and own fieldwork in Veracruz, México.

## APPENDIX No. 7 COMPARATIVE PERSPECTIVES ON COFFEE INSTITUTIONS: COLOMBIAN AND MEXICO

COLOMBIA	
I. Historical and structural	
<i>Coffee market formation</i>	Santander and Cundinamarca big landowners and merchants moved into the coffee business making possible a first expansion between 1870 and 1900. At the beginning of the XX century and until 1930, a second more important expansion took place, based on the successful Antioqueña frontier land migration, based on small landholders. Huge expansion after the 1930s.
<i>Access to land and agrarian structure</i>	There were frontier lands for migrants at the turn of the Century. New spaces opened up with the crisis of haciendas and its fractionating during the 1930s (Caldas and Valle), and up to the 1970s in frontier lands. Competitive pressures (i.e. cost of labour) has consolidated a small size landholder as social base of the coffee sector, although the presence of a medium-size modern plantation sector is still economically and politically important.
<i>Property rights</i>	Full private property over landholdings; tenancy arrangements became obsolete in the 1930s. The Law 200 of 1936 consolidated private property rights over estates and farms against expectations of land reform. The period of “la violencia” prevented modernisation reforms during the 1940s and 1950s. In 1961 a moderate land reform project was stopped up. In 1986 a limited redistribution took place in the form of a targeted colonisation in frontier lands.
<i>Coffee lands (size, scale and dispersion)</i>	Most lands are of good quality, high altitude, well drained and suitable depth. After reaching a million hectares in 1970, the coffee frontier has been cut down -particularly during the 1990s- to add up only 805,000 hectares in 2000, while the number of producers has almost doubled in the same period (from 303 thousand producers in 1970, to 566 thousand in 2000). The coffee fincas have now an average size of only 1.4 ha within small landholdings of 4-8 ha; the rest is used for food staples (maize, yucca, beans) and other cash crops (plantains, fruits, macadamia nuts) and cattle rising. During recent crisis Colombia has cut down less competitive areas.
<i>Main systems of production</i>	Intensive unshaded fincas are predominant, although around 30% of producers carry on a semintensive –under shade- cropping technology. This sector is now increasing, but it is under-reported. Soil depletion has stopped the use of more intensive densities, although a cloudy weather system creates a natural green house effect.
<i>Labour problem</i>	Family and migrants from poorer regions have provided wage labour (former tenancy arrangements were superseded in the 1930s). In the 1990s labour costs have increased considerably in total production costs.
<i>Domestic market</i>	Medium intake level (5 kg/ per head a year) and developed a culture of coffee consumption
<i>Transport network</i>	Natural endowment (sailing rivers) helped initial development; coffee stabilisation fund supported the creation of transport infrastructure, but it has stopped with the crisis of the 1990s
II. Economic institutions (Regulatory, anti-cycle devices)	
<i>Coffee regulatory institutions</i>	National producers association since the end of XIX century, became the FNC in 1927. It is a private-public entity; with regulatory and tax collection authority. It has had professional and accountable management since the 1930s. The key institution for price stabilisation and policy continuity is the National Coffee Fund (1940); until recently gave coffee producers assurance of purchase and price (now only

	the former). Through “parafiscalidad”, the FNC collects export taxes and invest in public goods (education, health, technical assistance, training, and marketing services). There were constraints to traditional technology. Undercapitalised and weakened after the 1989-94 crisis. In 2001 a special commission was set up to deal with reforming the coffee institutional framework (the role of the National Coffee Fund and <i>parafiscalidad</i> regime, the FNC and regional coops in ensuring market access rather than price; participation of Colombia in differentiated markets, etc.).
<i>Management of coffee cycles</i>	The National Coffee Fund (1940) has functioned since 1958 as price stabilisation institution (absorbed the state attribution to tax exports, based on the so-called <i>parafiscalidad</i> ). <sup>295</sup> Stabilisation of domestic prices allowed massive plant renovation and seizing coffee bonanzas. Introduction of HYV and plain-sun cropping technology allowed producers to take full advantage from the ‘bonanza’ period (post 1975-76). There has been a bargaining power balance between government and the FNC that has allowed smooth equilibriums, “mutual capture”, and a wide space for alliances building. Terms of exchange are usually favourable to coffee returns: devaluations under crisis and investment on coffee regions’ infrastructure and other assets during booms avoided the “Dutch disease”. Highly trained staff has allowed efficient, long-term policy making. It has been particularly important a strong tradition in Economics –particularly at elite University of Los Andes- from which many important FNC managers and officials come from (it was fashionable for young graduates to get posts at the FNC).
<i>Price formation and payment system</i>	Quoted with a premium on the NYSEC, an important part of Colombian coffee is directly marketed by the FNC through supply contracts with importing companies (last decades used to be around 50%, now is 30%). Around 20% of exports are high quality specialty coffee. Internal prices were higher than external prices during the 1990s, although the gap has been narrower during the last decade. Prices paid to producers are 70-75% of FOB prices, that is, among the highest in the world.
<i>Quality controls</i>	Control of varieties, standards of picking and strict control of regional origin. The FNC has been delegated the authority to oversee the quality of all coffee exports.
<i>Monopsony</i>	The FNC -and the Colombian government- regulate the domestic market, based on a network of purchasing points and guaranty of purchase that the Coffee Fund makes possible. Additionally there exists an alliance with Colombian exporters and processors.
<i>Research and development</i>	Chinchiná’s Centro Nacional de Investigaciones (1938) developed new cropping technology, applied by medium growers, then spread out into small ones. The FNCC created also a coffee business research centre.
<b>III. Macroeconomic policies</b>	
<i>Coffee sector strategy</i>	Since the 1930s Colombia opted for market competition (free riding on Brazilian monopoly) to maximise premiums for high quality coffee based on a long-term competitive position (quality, production costs, marketing). Led the creation of a sectoral market of Colombian Milds (washed arabica). After the 1990s crisis coffee policies have focused on regaining productivity and market positioning in specialty and differentiated niches.
<i>Vertical integration</i>	Colombian authority does allow vertical integration but control exports to retain 100% Colombian coffee blends. At the primary production level, there is a decentralised model. Family and rural processing infrastructure is generalised, involving growers in quality

<sup>295</sup> Since 1978 government officials and producers have the same representation in the National Coffee Fund and share decision making on domestic prices and other coffee policies.

	controls. The FNC became shareholder of a bank and Gran Colombiana fleet (broken and sold).
<i>Seizing structural opportunities of the coffee market</i>	Successful free-riding on Brazilian booming monopoly during the 30s, and strategic technological modernisation during the 1975/78 boom (only Colombia and Costa Rica did it, through massive renovation with new technologies). Moved towards specialty coffee niche and other differentiated markets after the 1989 crisis.
<b>IV. Political and organisational</b>	
<i>Social capital</i>	System of medium cities organise coffee capital; strong regional identity and knowledgeable <i>elites</i> linked to government, FNC and researchers. Strong tradition in mainstream Economics, intensively applied to the coffee sector. Absorbed Brazil experience. Producers interacted with professionals and technicians to build up appropriate institutions for the sake of a 'national business niche'. Regional elites –in which medium size producers are important- exercise a strong influence on the FNC.
<i>Representation and Collective action</i>	Coffee <i>elites</i> have influenced the two-party system and the FNC (created in 1927), enjoying direct representation in local and federal government. The FNC captured state functions to regulate the coffee sector. Managerial skills, market knowledge and strong lobbying allowed coffee growers to legitimise the coffee agenda as a national priority. FNC's representation structure follows production criteria; it has open membership to small producers since mid-1970s.
<i>Lobbying capacity</i>	Very strong, but is diminishing after the 1989 crisis. Could impose devaluations during crisis. To avoid 'Dutch disease', the coffee lobby induced transfers to development projects in the coffee sector. This is changing in the last years (with an independent central bank and liberalising policies).
<b>MEXICO</b>	
<b>I. Historical and structural</b>	
<i>Coffee market formation</i>	Important since mid-XX century under state promotion and quota system free riding
<i>Access to land and agrarian structure</i>	Land reform, successive distribution and fractionating, and IMC policies promoted minifundista peasant and indigenous producers. Split from modernised rancheros and big plantations, it consolidated a polarised social structure with divided organisations.
<i>Property rights</i>	Land reform gave access to land but not to resources; and distorted land market. A majority of coffee lands are micro-plots of less than 2 ha, both ejido and small landholdings. Most of them have no collateral despite recent liberal agrarian reforms, which have not addressed access to resources.
<i>Coffee lands (size, scale and dispersion)</i>	Generally medium quality (narrow layer of organic matter on top soil) and highly heterogeneous. Mexico has not cut down marginal lands, but on the contrary they amount around 25% of the total. In 1990 71% of producers had 36% of the coffee lands (in units of less than 2 ha) and contributed with 25% of national production.
<i>Main systems of production</i>	The minifundista sector carry on with a mixed technology from traditional policultivation to semi-intensive under shade cropping. Only a minority of big states introduced plain-sun modern technology
<i>Labour problem</i>	Family labour is the main source, though bottlenecks exist due to diversified uses of labour capacity

<i>Domestic market</i>	Low intake level (1 kg per head a year) and low culture of coffee consumption (sector laws allow industry to add 30% foreign matter into coffee products)
<i>Transport network</i>	Few regions well endowed; coffee development follows expansion of federal transport network; there are still high transport costs and intermediation.
<b>II. Economic institutions (Regulatory, anti-cycle devices)</b>	
<i>Coffee regulatory institutions</i>	IMC (1959-1993) regulated domestic prices, delivering forward credit, inputs and technical assistance. Centralised coffee processing inefficiently. Lacked financial autonomy and price incentives policy. It was not accountable to producers. Favoured small producers through welfare projects; but only modernised medium growers at high transfer costs.
<i>Stabilisation and the management of coffee cycles (surplus/deficit)</i>	The IMC had no financial autonomy. It had to bargain its budget on a yearly basis. IMC's credit delivery to producers always lagged behind fiscal cycles. Attempts to introduced sound cyclical mechanisms during 1970-80s failed due to political <i>sexenios</i> and fiscal cycles. The central government used coffee surpluses politically. In 1986, the creation of the FREC -more linked to surplus stocks regulation, than domestic price stabilisation- was too little too late. After the IMC withdrawal and the indebtedness crisis, FREC's funds were transferred to FIDECAFE trust and used as credit collateral for producers' organisations, which did not repaid loans in full.
<i>Price formation and payment system</i>	NYBOT "C" contract at a discount price (usually from 5 to 25 points), minus costs to main export sea or border ports, insurance, and other transaction costs
<i>Quality controls</i>	Mixing of varieties in fincas; mixing of qualities in the field and loss of origin controls by intermediaries
<i>Monopsony</i>	The IMC never displaced competition fully; bought up to 25% of the national harvest in 1984-85 and stopped buying coffee in 1989.
<i>Research and development</i>	Only Garnica (F3) was developed by the IMC, at experimental stage; other research was not spread (case of grafting); only medium growers and small ones in communicated areas adopted IMC technology package.
<b>III. Macroeconomic policies</b>	
<i>Coffee sector strategy</i>	Bureaucracy failed to acknowledge coffee sector priority; ISI model and oil boom, made coffee a second-ranking sector. Priority was allocated to economies of scale, maximising returns under the quota system and extending welfare benefits, including incorporation of marginal lands and a big bureaucracy. The state promoted irrational growth to free-ride on the quota system.
<i>Vertical integration</i>	The IMC created a highly centralised processing infrastructure, in part outside producing zones. The sector's restructuring reversed this process.
<i>Seizing structural opportunities of the coffee market</i>	Very bad institutional timing. Technological modernisation was late (1980s), populist and regionally unequal. The federal government, the IMC bureaucracy and coffee leaders made inefficient use of boom surpluses.
<i>Management of booms and crisis</i>	No long-term counter-cyclical policies (but negative peso overvaluation during the 1989-94 crisis); lack of financial autonomy and political pressures used to aggravate IMC indebtedness
<b>IV. Political and organisational</b>	
<i>Social capital</i>	The coffee board assimilated modern technology and formed a strong bureaucracy with competent technicians; but confronted and

	disorganised regional coffee <i>elites</i> . Introduced potentially sound arrangements (stabilisation fund, research centres, etc. as in Colombia), but failed to make them accountable to producers, and to generate learning interactions and local adaptations. Gap between IMC's socially-minded policy making -as well as political capture by bureaucracy- and coffee business strategies and marketing expertise.
<i>Representation and Collective action</i>	Private sector failed to organise on a national basis. When state intervened, they imposed corporate control on producers through local UEPC, small producers were dependent on IMC decisions.
<i>Lobbying capacity</i>	Producers bargaining power has been very limited and conditioned by CNC-PRI corporatist politics. PRI's 'sectors', regional cleavages and polarised social structure have prevented a strong coffee producers lobby at national level. Independent organisations used to played pressure tactics on the IMC and got limited concessions. They have failed to adopt managerial strategies, except for the small organic coffee/fair trade sector.

**Main sources:** For Colombia: Palacios 1980; Bates 1994, 1997a, 1997c; Junguito and Pizano 1991; Cárdenas 1994; Roseberry et al 1995; Giovanucci et al 2002. For Mexico: Nolasco 1985; Villaseñor 1987, 1991; Santoyo Cortes et al 1994; Safford 1995; Giovanucci & Juárez 2006.

**APPENDIX No. 8**  
**FIELDWORK INTERVIEWS 1994-96**

<i>Name of interviewee</i>	<i>Post</i>	<i>Date</i>
Alarcon Trujillo, Ernesto	Atzalan Municipality President	1/25/1995
Andrade, Alberto (Lic)	SPR Tasolapa President	1/19/1996
Arcos, Raquel	FRS A Administrative Secretary	2/20/1995
Arcos, Raquel	FRS A Administrative Secretary	2/24/1995
Arcos, Raquel	FRS A Administrative Secretary	3/19/1995
Arroyo Guerrero, Jose	Ejidatario producer, Loma de las Flores	3/11/1995
Barreda, Gabriel (Dr)	Asociaciones Agroindustriales Serranas, manager	1/19/1996
Barreda, Ranulfo	Ejidatario producer and local buyer	2/27/1995
Barreda, Ranulfo	Ejidatario producer and local buyer	3/17/1995
Barreda, Ranulfo	Ejidatario producer and local buyer	1/29/1996
Barrio, Felix	Former IMC's technician at Tlapacoyan	1/18/1996
Bautista, Felix & Benjamin Garcia	Agrarian struggles veterans, Equimite	3/26/1995
Bello, Agustin (Don)	Grower miller	2/2/1996
Bonilla, Constanancio	SSS SPA associate	3/14/1995
Buenavista ejido	Ejido producers, meeting with	2/1/1996
Caja Regional de Solidaridad Azotal	CRS-A, Annual Assembly of savings groups	3/18/1995
Caja Regional de Solidaridad Azotal	CRS-A, Monthly Assembly of Local Credit Committee	1/28/1995
Cajas Regionales de Solidaridad Tlapacoyan and Plan de Arroyos	CRS-T & PA Annual meeting	1/16/1995
Caro, Manuel	CLS, representative, Rancho Grande	12/14/1994
Castelán Gonzalez, Francisco	Small independent grower and carpenter	3/19/1995
Castillo Guzman, Leonardo	CRS treasurer	1/30/1996
Ceceña Mendoza, Francisco	CRS-T & PA, President	11/16/1994
Ceceña Mendoza, Francisco	CRS-T & PA, President	1/28/1996
Celis, Alfredo (Biol.)	TIASA-Atzinta mill, manager	1/23/1996
Claudio Miranda, Gaudencio	Ejidatario producer, Tlacolulan	3/21/1995
Claudio Miranda, Gaudencio	Ejidatario producer, Tlacolulan	3/27/1995
Claudio Miranda, Gaudencio	Ejidatario producer, Tlacolulan	2/1/1996
CLS Anayal	CLS' representatives, meeting with	2/22/1995
CLS Azotal	Ejidatario producers, meeting with	12/13/1994
CLS Quilate	CLS Quilate producers, meeting with	1/21/1995
CNOC	CNOC, national meeting, Xalapa, Ver.	2/10/1995
Coffee pickers	Family of coffee pickers in El Jardin-Tlacolulan	2/28/1995
Conasupo community shop	Local shop tender, price list	3/11/1995
Concha, Antonio	Buyer miller	1/20/1996
Concha, Antonio	Buyer miller	1/25/1996
Concha, Antonio	Buyer miller	1/27/1996
Concha, Antonio	Buyer miller	2/5/1996
Cordoba Candelario, Miguel	CLS, representative	1/30/1995
Damaso Avila, Julian	CLS, representative	1/29/1995
Diaz Miron to Tierra Nueva, fieldtrip	Fieldtrip notes	1/29/1995
Dominguez Bernabe, Constantino	CLS, representative	12/26/1994
Equimite producer & JAL	FRS-A President, meeting with	3/14/1995
Escarcega, Armando	ARESCA, Xico, coffee buyer and exporter	11/19/1997
Esteve, Eduardo	AMSA, General Director	11/12/1997
Ezequiel 'cheque'	Local buyer	2/24/1995
Ezequiel 'cheque'	Local buyer	3/17/1995
Faus, Francisco	AMSA, Dos Rios mill, Regional Manager	11/27/1997
FIRA technician	Coffee, orange and plantain production costs	
FRS (4)	Administration Councils of 4 FRS, annual evaluation meeting	2/16/1995

FRS (4)	Administration Councils of 4 FRS, annual evaluation meeting	12/7/1994
FRS (4) / Banrural	FRS representatives and Banrural Martinez de la Torre manager, meeting amongst	2/17/1995
FRS-A	FRS Azotal representatives, meeting with	1/24/1995
FRS-A	FRS Azotal representatives, meeting with	12/10/1994
Galindo, Heriberto	SSS Secretary	2/23/1995
Gamboa Barraza, Salvador	PROCAMPO, District Coordination	2/7/1996
Garcia Herrera, Victor	Ejidatario producer	3/21/1995
Garcia Landa, Lorenzo	CLS president	1/30/1996
Garcia Leandro, Maria	Arnulfo Barreda's mother	3/27/1995
Garcia Leandro, Martin	Ejidatario producer	12/28/1994
Garcia Zendejas, Adrian	Ejidatario ampliacion producer	12/28/1994
Garcia, Jr	Ejidatario producer's son and pastor	3/8/1995
Garcia, Jr	Ejidatario producer's son and pastor	3/9/1995
Garcia, Arnulfo	Local Jornaleros Commteety, representative	3/27/1995
Garcia, Delfina	Community promoter	2/1/1996
Garcia, Joel	Local buyer (Topete's coyote)	2/2/1996
Garcia, Pablo	SPA ejido, Comisariat President, ejido producer and landowner	3/8/1995
Garcia, Pablo	SPA ejido, Comisariat President, ejido producer and landowner	3/23/1995
German	Tepeycan mill treasurer	1/15/1996
Guerrero, Pablo	SSS associate, Loma de las Flores	3/7/1995
Guerrero, Pablo	SSS associate, Loma de las Flores	3/11/1995
Guerrero, Ruben	Local buyer (Topete's coyote)	2/3/1996
Guzman Monfil, Jacobo	Coop SPA secretary; SPA mill administrator	12/28/1994
Guzman, Jacobo (Don)	Coop SPA, associate	3/7/1995
Hernandez Acosta, Panfilo	Caja de Solidaridad Quilate, president	12/26/1994
Hernandez Acosta, Panfilo	Caja de Solidaridad Quilate, president	1/21/1995
Hernandez Moguel, Lauro	Ejidatario producer	3/3/1995
Hernandez Moguel, Lauro	Ejidatario producer	3/22/1995
Hernandez Moguel, Lauro (hijo de)	Ejidatario producer's son	1/28/1996
Hernandez, Luis	CNOC, national advisor (Mexico City)	11/25/1994
Hernandez, Miguel	Cafes Tulipan buyer, Tlapacoyan	1/25/1996
Hernandez, Nicolas	FRS-A technician	1/17/1995
Hernandez, Nicolas	FRS-A technician	2/3/1996
Hernandez, Nicolas	FRS-A technician	2/7/1996
Herrera, Laureano	Buyer miller (Escarcega's buyer)	3/27/1995
Herrera, Laureano	Buyer miller (Escarcega's buyer)	2/5/1996
IMC Tlapacoyan, ex-Deleg	Former IMC delegate in Tlapacoyan	2/7/1996
Jardin, El	SSS El Jardin, producers of	2/27/1995
Jornaleros Agrícolas Programme	Promoters	1/20/1996
José Luis Arcos López	FRS-A president	12/9/1994
José Luis Arcos López	FRS-A president	12/11/1994
José Luis Arcos López	FRS-A president	1/23/1995
José Luis Arcos López	FRS-A president	1/24/1995
José Luis Arcos López	FRS-A president	1/24/1995
José Luis Arcos López	FRS-A president	1/29/1995
José Luis Arcos López	FRS-A president	2/10/1995
José Luis Arcos López	FRS-A president	2/17/1995
José Luis Arcos López	FRS-A president	2/19/1995
José Luis Arcos López	FRS-A president	2/21/1995
José Luis Arcos López	FRS-A president	2/26/1995
José Luis Arcos López	FRS-A president	2/23/1995
José Luis Arcos López	FRS-A president	3/29/1995
José Luis Arcos López	FRS-A president, biographical notes	2/16/1995



José Luis Arcos López	Local journalists, interview with	1/29/1995
Juan Manuel	PROCEDE's Technician	3/17/1995
Landa Ortiz, Roque	SSS Equimite, delegate	12/27/1994
Landa Ortiz, Roque	SSS Equimite, delegate	3/17/1995
Landa Ortiz, Roque	SSS Equimite, associates and delegate	3/2/1995
Landa, Patricio (Don)	Ejidatario producer	3/28/1995
Leon Landa, Seferino	Ejidatario elder, retail shop owner	3/8/1995
Leon Mota, Jorge	Ejidataria producer's son	3/9/1995
Leon, Efrain	Local coffee buyer (Topete's)	2/2/1996
Loma de las Flores	SSS Loma de las Flores, meeting with producers	3/6/1995
Lopez Diaz, Epifanio	FRS Altotonga advisor	12/16/1994
Lopez, Julian	FRS Tlapacoyan advisor	12/9/1994
Luciano Suarez, Genaro	Ejidatario producer's son	12/28/1994
Luna Moguel, Genaro	Ejidatario producer	3/28/1995
Marcos	Ejidatario producer	1/28/1996
María Eugenia	Coop Quicempacayotl, Coordinator	1/19/1996
Marin Zendejas, Fernando (primo Oseas)	Ejidatario producer (ampliación grant)	3/19/1995
Marin, Miguel	Ejidatario producer (former IMC mill unloading worker)	3/6/1995
Marin, Oseas	SSS SPA, President	12/27/1994
Martinez Martinez, Leonel	SSS Equimite, buyer	1/23/1995
Mauro, tio de	Police guard and ejidatario producer	3/11/1995
Mendoza Isabel, Alberto	SSS, delegate	3/14/1995
Mitchell, Bill	Oxford, agriculture consultant	6/13/1998
Moguel Salazar, Cirilo	Ejidatario producer, El Jardin	3/22/1995
Moguel Salazar, Cirilo	Ejidatario producer, El Jardin	3/13/1995
Monfil Bautista, Gabino	SSS El Jardin, delegate	12/28/1994
Monfil Bautista, Gabino	Leaseholder in El Jardin	3/13/1995
Morales, Eligio	Consejo Veracruzano del Café, Executive Coordinator	2/9/1996
Moreno Posadas, Victoriano (Dr)	UMR IMSS-Solid, physician	3/22/1995
Navarrete, Tomas	Coop Quicempacayotl, Coordinator	2/10/1995
Navarrete, Tomas	Coop Quicempacayotl, Coordinator	1/27/1996
Navarrete, Tomas y Ma Eugenia	Coop Quicempacayotl, Coordinators	3/28/1995
Núñez, Ing	Former IMC Regional Delegate in Tlapacoyan	2/1/1995
Ortiz Hernández, Alfredo	San Pedro Altepépan mill's worker (landless)	12/27/1994
Ortiz Hernández, Alfredo	San Pedro Altepépan mill's worker (landless)	3/12/1995
Paguahueca ejidatario producers	SSS Paguahueca members (ampliación grant)	12/11/1994
Parra, Fernando de la (Ing)	Mexican Coffee Council, Technical Director	11/5/1997
Quilate, fieldtrip to	Fieldtrip notes	1/21/1995
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	12/28/1994
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	1/29/1995
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	2/9/1995
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	16/03/95
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	2/24/1995
Quiroz, Serafin	FRS-A treasurer and Coop SPA president	1/29/1996
Rafael	SPA Leaseholder	2/28/1995
Ramirez Dominguez, Juan, and others	Chaparro Grande, ejidatario producers	3/20/1995
Ramirez, Victor	Landowner and cattle rancher in El Jardin	2/27/1995
Ramirez, Victor	Landowner and cattle rancher in El Jardin	3/19/1995
Raymundo (Ing)	FRS T-PA Technician	1/19/1996
Raymundo (Ing)	FRS T-PA Technician	2/6/1996
Reyes Guerrero, Isabel	Caja Solidaria Azotal, Administrative Secretary	2/2/1995
Rodriguez, Ignacio	Leaseholder	2/1/1996
Rodriguez, Armando	Ejidatario producer	1/30/1996

Romero Claudio, Maximino	Tlacolulan ejidatario producer	3/21/1995
Romero Cordoba, Yocundo	Tlacolulan ejidatario producer	3/21/1995
Romero Mota, Epifanio	Tlacolulan ejidatario producer	3/21/1995
Romero Mota, Fortunato	Tlacolulan ejidatario producer	3/21/1995
Rosas Flores, Albertina	Tlacolulan ejidataria producer	3/19/1995
Rosas Flores, Albertina	Tlacolulan ejidataria producer	3/27/1995
Rosas Landa, Jose	Equimite ejidatario producer	3/28/1995
Rosas, Lucrecia	Ejidatario producers' daughter	3/22/1995
Rural road official unveiling	Cuatro Caminos, Tierra Nueva, SPA and inhabitants of neighbouring communities	3/2/1995
Salas, Austreberto	Former leader of FRS Tlapacoyan	1/24/1996
Sanchez, Manuel	Solidarity Brigade, Coordinator	12/6/1994
Sanchez, Manuel	Solidarity Brigade, Coordinator	1/16/1995
Sanchez, Manuel	Solidarity Brigade, Coordinator	2/7/1995
Sanchez, Manuel	Solidarity Brigade, Coordinator	1/24/1996
Santana, Ing	Banrural Martinez de la T, branch manager	2/1/1995
Santillan, Gilberto	Former coyote and SSS Tlacolulan buyer	3/21/1995
Segura, Clara Elena (Chemist)	Sanidad Vegetal, SARH, Soil Studies specialist	2/7/1996
Skerrit, David	Instituto de Historia, UV, historian (PhD Oxford)	1/23/1996
SPA Coop, Annual Assembly 1994-95	Coop SPA members, Annual Assembly	2/24/1995
SPA Coop, Extraordinary Assembly	Coop SPA members, Extraordinary Assembly	3/12/1995
SPA ejido	SPA Ejido Assembly	2/26/1995
SPA ejido	Coffee ejido fincas fieltrip notes	3/12/1995
SPA to Chaparro Grande	Fieldtrip notes	3/11/1995
SPA, ejido neighbours	Informal talk, notes	2/25/1995
SPA, ejido neighbours	Informal talk, notes	3/7/1995
SPA, SSS Planteles	SSS Planteles associates, meeting with	3/4/1995
SPA, wet mill	Physical inspection	12/28/1994
SPA, wet mill	Input-output book keeping	3/26/1995
SPR Anayal	Ejidatario producers associates, meeting with	2/28/1995
Tejero, Miguel	CEPCO, advisor	2/10/1995
Telesecundaria SPA	Visit to secondary school and meeting with third grade students	3/22/1995
Tierra Nueva, CLS	CLS Tierra Nueva, representatives	12/12/1994
Tlacolulan local authority	Tlacolulan community meeting	3/21/1995
Tlacolulan producers	Tlacolulan producers, meeting and field trip with	3/1/1995
Tlacolulan producers	Tlacolulan producers, survey	3/12/1995
Topete, Rolando	Grower miller, deep interviewing	2/2-9/1996
Trujillo, Pedro	Caja de Solid. Azotal, president; Caja Regional de Solid., treasurer, FRS-A Secretary	12/26/1994
Ugalde, Miguel	ARIC Marver (lime), manager	2/2/1995
Ugalde, Miguel	ARIC Marver (lime), manager	2/19/1995
Vargas, Ignacio (Ing)	COVERCAFE, Desarrollo Agroindustrial, Coordinator	11/22/1997
Vazquez Moreno, Juan (Padre)	Parroquia de San Jose, Tierra Nueva, priest	1/28/1995
Villarreal, Cecilio (Ing)	Former IMC researcher (developed Garnica hybrid)	11/20/1997
Villaseñor Mir, Andres (Ing)	Grower miller	1/26/1996
Villaseñor, Andrés (Ing)	Former IMC researcher and official (27 years Technical Director)	11/6/1997
Zapote producers	Zapote producers, meeting with	1/30/1996
Zendejas Garcia, Juan	Ejidatario producer	2/28/1995

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