The Hidden Crisis in Development: Development Bureaucracies

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Chapter Nine

A Macro-Organizational Analysis of the Mexican Coffee Industry, 1888–1977

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Macro-organizational analysis investigates the evolution of institutional relationships. It seeks to understand the forces which impinge on a network of individuals and institutions which share political and economic interests. The network is called a 'socio-economic field'. In this paper I will consider the socio-economic field of the coffee industry. The field includes all producers, exporters, distributors, government organizations, development agencies, banks, and private trade associations whose economic welfare is linked to the production, distribution and processing of coffee.

Socio-economic fields are constantly being buffeted by external forces (price changes, regulations, demographic changes) and internal forces (reorganizations, appearance of new organizations and constituencies, negotiations and agreements). Macro-organizational analysis attempts to ascertain the influence of such internal and external forces on the social organization of the field. In contrast to studies which focus on a single organization or bureaucracy, the unit of analysis is not single organization but a network of organizations which share common interests. Consequently, macro-organizational analysis takes a sociocentric, rather than an organization-specific perspective.

For data, macro-organizational analysis draws on the rich and relatively untouched record of the formation, rise, operation, decline, and demise of institutions. Within this historical record, specific events provide the raw data used for macro-organizational analysis. These events include public scandals, inter-organizational agreements, trade agreements, formation of private and public organizations and bureaucratic reorganizations.

Rather than being concerned with short-term political consequences, macro-organizational analysts view such events as possible indicators of organizational change. Their objective is to identify the forces which influence the formation and development of macro-networks of social organizations. In so doing, they must carefully distinguish between events which are nothing more than insignificant political tremors, and events which are symptomatic of more basic structural contradictions and crises.

This paper introduces macro-organizational analysis by examining a specific socio-economic field, the Mexican coffee industry. The analysis is limited to a particular industry, agricultural commodities; a particular sector of that industry, coffee; a particular coffee-producing nation, Mexico; and a ninety-year period, from 1888–1977.

Within this socio-economic field, the discussion focuses on development organizations variously known as state enterprises, public enterprises, or paraestatales. Governments grant such entities a monopoly to develop a specific industry. State enterprises are usually authorized to tax revenues from the designated industry, although they may not have exclusive access to such revenue. Their history stretches back to the beginnings of capitalism in the sixteenth century (e.g. the European state-chartered companies such as the Dutch East India Company), but it is only within the past thirty years that international development agencies have actively promoted state-owned enterprises as an organizational solution to underdevelopment. Throughout the Third World, state enterprises have been assigned the primary responsibility of harnessing private and public sector resources for the benefit of national development.

The setting: the coffee industry

Coffee is a relatively recent, worldwide addition to the consumer's menu. Before the sixteenth century, its consumption was limited to a small, Arabic speaking region in the Middle East. European entrepreneurs' early experiments with coffee demonstrated its commercial value (Ukers 1921). An easily prepared stimulant, coffee was ideally suited to the increasingly regimented working hours of the industrial revolution. It offered workers an inexpensive substitute for the overtaxed dairy industries near industrial towns. By the mid-eighteenth century, the European demand for coffee surpassed the production capacity of Yemenese and East African homelands. A child of colonial expansion, coffee cultivation was adopted throughout the world. The result was one of the earliest successful agricultural ventures of European capitalism. By 1976, coffee had become an important commodity, ranking second only to petroleum in terms of its value among internationally traded commodities.

Like all internationally traded commodities, coffee is produced and distributed within complex hierarchies of producers and distributors simultaneously cooperating and competing with one another. Mexico coffee producers compete with other coffee industries in Brazil, Columbia, the Ivory Coast, Indonesia, Uganda, Kenya and forty or so other states (Rowe 1963). Simultaneously, the same states cooperate in other matters, such as disease control and the exchange of technical information. At a more inclusive level, coffee producers also cooperate when they compete with other purchased beverage industries (which includes such products as soft drinks, tea, cocoa and milk). The hierarchy of cooperative and competitive relations continues up to the most inclusive level, the world system (Barkin 1981; Downing 1980, 1982; Wallerstein 1979).

The Mexican coffee industry

Coffee is Mexico's most valued agricultural export. Producing a high quality, *arabica* variety, Mexico exports about five percent of the world's production. The industry provides a livelihood to over 200,000 primary producers, processors, exporters, middlemen and an estimated 300,000 additional workers who harvest, process, transport, and administer the industry. Its producers rank among the poorest in a poverty laden countryside and include sizable proportions of Zapotec, Nahuatl, Mixtecs, Chamula, Mazatec indians and *mestizo* peasants (Nolasco, Downing et al. 1985). Many of these workers are linked to one another through organizational affiliations. The organizations include numerous producer, processor, roaster and exporter organizations as well as a state-owned enterprise. Few of these organizations, however, are more than thirty years old.

Early formation of the industry

Mexico was a latecomer to the world coffee market. Until the late nineteenth century, coffee was of marginal importance within the Mexican economy. Its production was limited to a few plantations on the mid-Atlantic coast (near Cordoba and Coatepec). Fewer than 70,000 sacks of coffee (one sack is equal to 60 kilograms of dried beans) were exported. In 1888, a coffee plague crippled the world's major producer, Brazil, driving world prices to record highs. Sensing a possible source of revenue and foreign investment, Mexico's President Porfirio Diaz promoted foreign investment by providing land grants for the establishment of new coffee plantations and permitting tax-free import of fixed capital (Romero 1887, 1889). The government's campaign attracted German immigrants and capitalists who opened new plantations along the Pacific coasts and across the border with Guatemala. As new farms came into production, exports quadrupled between 1888 and 1897. Thereafter, Mexico was firmly ensconced in the business of coffee.

The government's promotional activities ceased as coffee prices declined in the early 1890s. For the next fifty years, the public sector showed no significant promotional or developmental activity. Nonetheless, the private sector was not quiescent. Development occurred, not through public sector promotion, but through penetration of private capital into Mexico's remote rural areas. During this period, at least three systems of coffee production took form, each characterized by a distinct combination of land relations, credit mechanisms, social relations, loci of capital accumulation and forms of social reproduction. These systems constituded the sub-national socio-economic milieu within which subsequent bureaucratic actions would occur.

Systems of production

In the first system, a producer (*patron*) owns a large production and processing unit, which often includes over 200 hectares of coffee trees. The large producers employ wage laborers (*peones*) for cultivation. At harvest, hired laborers take the freshly picked berries to a central, mechanized processing plant (*beneficio humedo*), owned and operated by the large producers. The interval between harvesting and processing is critical, since unprocessed berries (*cafe cereza*) readily spoil. Consequently, from the viewpoint of labor economics, the large producer system is characterized by a high seasonal labor demand. Large producers prefer to meet this demand by hiring temporary migrant laborers who are trucked in from poorer regions, far from the coffee producing areas. Employing seasonal laborers, large producers avoid paying the costs of maintaining laborers and their families throughout the slack periods of the year. The seasonal requirement for masses of labor and investments in trucks and processing machinery force large producers to seek sizable loans from national and international institutions (Poulat 1945, p. 109).

A second system of coffee production emerged during the same time. This system is formed of *small producers*, few of whom own more than 10 hectares of land. Except at harvest time, they cultivate their lands using family labor. Unable to afford sophisticated, expensive processing equipment, small producers take freshly harvested berries to a central processing facility where they are either sold or processed for a fee. Unlike larger, more capitalized producers, small producers lack the backing of financial institutions to meet their capital needs. The small scale of their enterprises legally excludes them from receiving credit from large institutional lenders. Faced with these constraints, small producers tend to make informal credit arrangements with local, individual lenders. Usually such arrangements are made with the owners of processing plants, who assume the triple roles of creditor, processor and purchaser of the small producers' product.

The relationship between the processor and his clients is asymmetrical, with the processor holding considerable power. His local monopoly on capital and processing machinery allows a processor to pay small producers less than the current market price, to charge high interest rates on pre-harvest loans and/or demand exorbitant processing fees. If small producers wish to pay cash for processing, in hopes of marketing their processed coffee to higher bidders, the processor exercises his leverage by using a dual price structure, favoring his credit-bound clients with better prices than those offered to independent small producers. In many circumstances, the processor also owns a plantation, lending even more power to his position through his combined roles as processor and employer.

Occasionally small producers attempt to reduce their dependence on the cash crop by planting subsistence crops, but their limited capital and the debt-credit-debt cycle constantly prevents them from accumulating capital and discourages them from substituting food crops for coffee trees. The small producers utilize unpaid family labor, especially women and children during periods of peak labor demand. Small producers occasionally hire day-laborers from the same region and, at another time, sell their own labor to larger coffee producers. Depressed local wage markets are common, stemming from a high supply of laborers and the lack of alternatives for close-to-home employment. In sharp contrast to the large producer system, these labor and capital constraints prevent small producers from accumulating capital, forcing them into a debt-credit-debt cycle whereby they incur long-term financial liabilities to the local processor.

The *marginal producer* system also crystallized during the early years of the Mexican coffee industry. Marginal producers own small parcels of land, with most holding less than two or three hectares. In contrast to the small producers, coffee is not the only crop planted. A higher proportion of their lands is cultivated with maize, beans and other subsistence crops, with coffee being an important petty-cash crop. For manpower, marginal coffee producers rely on domestic labor and, infrequently, upon unpaid reciprocal labor relations with extended-family members. Processing also differs. Rather than using a centralized facility, marginal producers work at home, sun-drying the freshly picked berries and then hand-husking them using a wooden mortar and pestle. The result, a semi-processed dry bean (*cafe pergamino*), is more easily stored and transported than fragile, fresh berries. Although home processing should enable producers to withhold their crop from the market and sell when prices increase, their lack of capital and outstanding financial obligations limit their leverage.

As in the small-producer system, their small size, the exorbitant local interest rates and credit terms entangle marginal producers in a lifelong cycle of debts-credit-debts. But in this system, local merchants replace processing-plant owners as the foci of capital accumulation. Dried, semi-processed beans are sold to either a local merchant (who usually owns the only well-stocked general store in an isolated region) or to itinerant coffee buyers. Buyers pay either in cash or trade merchandise for coffee. The list of trade items indicates the poverty of the marginal producers: a little salt, lard, rice, pots, blankets, or simple metal tools. Prevailing international market prices of coffee and national interest rates have only a remote relationship to the terms of these transactions.

Local merchants make profitable returns by taking a triple advantage of the small producer; by charging them high interest rates, purchasing coffee at less than the prevailing market price and overcharging them for merchandise in their stores. The marginal producers' inability to accumulate capital forces them deeper and deeper into debt. To survive, the producers frequently are forced to sell their coffee at a discounted price long before harvest. Faced with a chronic shortage of cash, most marginal producers must supplement their meager incomes with seasonal labor and subsistence crops. Year after year they harvest, pay off pre-harvest debts, take pre-harvest loans, harvest and then repeat the cycle. Thereby, the system's reproduction is assured. Politically, the third system also reinforces a hierarchical political-economic structure of local political bosses and overlords well known in Latin American as 'caciques' (Inigo 1978; Barta et al. 1975).

The three systems represent sets of social relations within which local level conflicts are resolved and cooperation occurs. Individual producers were not, however, linked to one another through any governmental or private macro-organizations. Likewise, during the formative period of the industry, the government was not bureaucratically organized around or dedicated to coffee production. Coffee was but an exceptionally valuable tropical commodity to be taxed by local, state and federal authorities.

The public sector's second entry: research

After a decade of internal revolution, Mexico re-entered the world coffee market during the late 1920s. A brief period of high international prices was followed by a catastrophic world-wide price decline during the Great Depression. In four years, prices fell from a high of 23.50 dollars in 1929–30 to only 12.50 dollars per sack. Seeking government relief, the large producers developed a nascent class consciousness and organized the 'First Coffee Producers Conference' in 1937, hoping to reach some agreement to cushion their losses. Disputes ensued and no agreements were reached for mutually beneficial actions. Sympathetic to their plight, but unwilling to take sides between competing economic interests, the government responded by forming a small statistics unit within the agricultural ministry to collect information for the industry. Thus, at this point, data gathering was the way out of a solution. More significantly, a small interest group had been planted within an established bureaucracy that would eventually sprout into a distinct bureaucracy.

Internal conflicts between the coffee industry's competing interests abated as the downward slide of prices stopped during the Second World War and the United States agreed to maintain coffee prices at a fixed level. Apart from a temporary takeover of coffee plantations owned and financed by Germans during the Second World War, the Mexican government paid minimal attention to the coffee industry except as a source of state and federal tax revenues.

Price increase and bureaucratic reorganizations

At the end of the war, world coffee prices again rose to their pre-depression levels. With the increase, producers did not show the rapid response (and tax revenues) the Mexican government anticipated. Preliminary investigations by the government statistical unit suggested that the Mexican coffee industry lacked the capacity to respond to a world deficit of more than two million sacks. According to government statistics, production had been stable for almost ten years (at approximately 100 million sacks per year). They estimated that coffee acreage only marginally increased during the same period and productivity (sacks/hectare) was actually declining! Federal experts optimistically projected that Mexican producers were capable of trebling production in less than six years. In this context, the government's problem became how to increase the responsiveness of Mexican producers and, thereby, increase government export revenues.

President Miguel Aleman desperately needed the tax revenues that were generated by coffee and other agricultural exports to support his ambitious post-war industrialization program. In a major policy decision, he created the National Commission of Coffee (October 1949). A bureaucracy was born. Its charter charged it to: (a) improve coffee plantations by applying the most modern technology available, (b) conduct research and develop experimental and demonstration farms (absorbing the mandate of the Ministry of Agriculture coffee statistics office) and (c) help solicit credit from bankers for coffee producers.

The new charter obligated the Commission to interact with what had become, by this time, a complex, mature industry. The Commission's problem was how and with whom to establish linkages. The Commission turned to a common strategy used by other agricultural development bureaucracies. This strategy involved establishing demonstration plots, providing technical assistance and conducting research and development. The early programs were, in retrospect, relatively small: three demonstration plots were established, technical assistance was provided to large producers and a small campaign was launched to encourage farmers to renew older, less productive coffee trees.

Simultaneously, the private sector was also organizing. A month before the establishment of the Commission, the private sector formed its own organization, the National Union of Coffee Producers (UNAC). Its membership included some of the larger producers, exporters and regional associations including those who organized the unsuccessful 1937 conference. The overt reasons for the organizational activity within the private sector appears to have been that the industry shared the government's concern for its inability to rapidly capitalize on an expanding market.

The differences between the government (Commission) and private sector's new organization (UNAC) are striking. The Commission was a fledgling governmental organization, based in Mexico City, with little direct contact with the countryside. In contrast, UNAC's roster included many of Mexico's larger producers, processors, middlemen and exporters. Together, they commanded a well-established marketing system which was directly linked to non-members, small producers in the countryside through the three aforementioned systems of production.

For the next six years, tacit, mutually beneficial cooperation took place between the public and private sectors. The large producers, processors and exporters directly benefited from government technical assistance and information. Between 1948 and 1953 exports doubled (rising from 31,241 to 69,038 tons) as technical assistance reached many of the larger producers and new trees came into production. Export tax revenues rose.

Price decrease and reorganization

International prices again began to fall in the mid-1950s and rifts appeared *within but not between* the public and private organizations. Again, the problem appeared: who was to absorb the losses when the industry was in a decline? And once more, the solution put forth was internal reorganization of the industry, both publicly and privately.

In the private sector, serious conflicts developed within the UNAC between the exporters on the one hand, and the processors and large producers on the other. The exporters' profits derived from the difference between the prices they paid to producers and international market prices. Neither exporters nor producers could control international prices; hence, increased earnings had to come from paying lower prices at the national level (or benefiting from windfall increases in international prices). After export prices reached a high of almost 100 dollars per sack in 1954, the average price fell to 63 dollars per sack in less than four years. The exporters hedged by passing their losses to producers. The tacit harmony within the UNAC broke down, resulting in organizational infighting. In a violent meeting in 1958, the exporters withdrew from the UNAC and formed their own association, the Mexican Association of Coffee Exporters (AMEC) (Martinez 1964).

In an effort to strengthen their crippled organization, UNAC initiated a campaign to increase its regional representation. Although its membership grew, it did not attempt to enlist the masses of smaller and medium-size producers. The larger producers and processors controlled the organization and had little desire to recognize their subordinates, the smaller producers, as members of their elitist organization.

Declining prices also led to the reorganization of the public sector. But rather than forming more organizations, the public sector merged previously disarticulated government agencies into a larger, more powerful bureaucracy.

The stimulus for the government reorganization came from outside of Mexico, at the international level in the cooperative/competitive hierarchy. The declining world prices fostered comparable internal crises within other coffee exporting countries. Recognizing that international competition was counterproductive and intra-national disputes were politically dangerous, the Mexican government joined the other major world producers in an international agreement to stabilize prices (the *Convenio de Mexico* of October 1957). The international agreement committed its signatories to exercise greater control over their domestic coffee industries. Specifically, the signatories agreed to: (a) promote the domestic consumption of coffee, (b) reduce acreage under production and (c) increase productivity.

In essence, the 1957 agreement obligated coffee exporting countries to more effectively control their producers by establishing closer ties to private agro-industry. In an internationally publicized action, Mexico once more reorganized its bureaucracy, merging three distinct offices from the federal bureaucracy into a single organization which was solely responsible for coffee. The three offices were from the Secretariat for the Hacienda and Public Credit, which had issued export permits for coffee; the Mexican Processors of Coffee, a public corporation of coffee processing plants; and the National Coffee Commission. On the 30th of December, 1958, all coffee-related activities within the government were brought under a new public enterprise, the *Instituto Mexicano de Cafe* or INMECAFE. Comparable bureaucratic reorganizations occurred in other coffee producing countries.

The state enterprise and price control

The new bureaucracy, INMECAFE, had considerably more responsibility and power over the internal affairs of the coffee industry than the now-dismantled Commission which it replaced. Most importantly, implementation of the international commitment led politicians to direct the new bureaucracy to 'act marginally in the market, buying and selling coffee, so as to regulate supply and demand' (the Law of 30 December 1958). Publications at that time suggest that the original intention of this regulatory power was not so much to intervene directly in the market as it was to mediate conflicts between exporters, producers and processors.

During its first seven years, the new bureaucracy acted cautiously, adopting the same price control mechanisms used by other governmental agencies to regulate other basic commodities. To stabilize prices, it set minimum purchase prices for different types of coffee. To implement the pricing policy, INMECAFE established a few public processing plants, operated by the Mexican Processors of Coffee (a subsidiary, public institution). The Institute also established a handful of rural buying centers for purchasing from middlemen and producers. Throughout this period, the Institute never controlled more than eleven percent of the national harvest. By 1965, the Institute was operating 11 buying centers, most of which were inaccessible to the majority of the nation's coffee producers.

Six years following its establishment, a consultant critically reviewed the Institute's strategies and concluded that it had been ineffective in maintaining price stability (Martinez 1964, p. 126). In his judgment,

> INMECAFE had very limited impact on the producers' selling prices, acting only marginally in the market through its marketing department. The latter had neither the physical capacity nor the financial backing necessary to work at a scale that would guarantee the producer a just part of the value of his production.

It would be premature to dismiss the Institute as simply another ineffective governmental bureaucracy; INMECAFE's structural situation demands closer inspection. The Institute faced a classical dilemma of most governmental pricing schemes which are articulated to international export markets. Before each harvest, the Institute confronted the serious problem of setting the official prices. If it set the prices too low, it could discourage future production and endanger the welfare of producers. Conversely, if prices were set too high, exporters could be adversely affected, leaving the government holding an unwanted reserve of coffee too expensive to be sold in the world market.

INMECAFE's charter, as a semi-autonomous public institution, exacerbated the dilemma. As a state-enterprise, the Institute was expected to make minimal demands on the public coffers. Politicians argued that the private sector, which was the intended beneficiary of the state-enterprise, was obligated to partially support its activities. Within the bureaucracy, employees considered themselves public servants, working in the public interest. To carry on their mission, they sought more research funds, sophisticated communication equipment, trips to international conferences and better facilities. Justifications for their requests were usually made in terms of anticipated increases in coffee production (a goal comparable to higher productivity goals which might occur in any private sector company). Yet unlike a private profit-making corporation, INMECAFE was within the public arena. The Director was a political appointee and his actions were subject to public scrutiny from not only his industry, but also on the part of federal agencies with whom he competed for scarce resources.

Price rise and intensified penetration

Between 1971 and 1976, world prices rose dramatically, again as a consequence of a decline in Brazilian production. Yet unlike the preceding rise in the late 1940s and early 1950s, this time the state-owned enterprise became entangled in a major confrontation with the private sector. The confrontation and its resolution provide important clues to understanding the increasingly bureaucratic relationships within the industry.

INMECAFE had limited influence on the three systems of production mentioned earlier which, by this time, were firmly entrenched in the Mexican countryside. Attempting to regain popular support following the destabilizing political activities of his predecessor, in 1968 President Luis Echeverria initiated an aggressive agrarian policy which favored small peasant and indian producers (Domike & Rodriguez 1976) and the poorer urban consumers. The combination of his policy directives, external criticism and the institute's 'development' mission pressured it to undertake more direct intervention in the rural areas.

President Echeverria appointed a prominent, charismatic young leader to direct INMECAFE. Despite his intention to implement the President's pro-interventionist policy, the new administration inherited numerous problems from its predecessors, including the coffee industry's inherent conflicts. They quickly learned that no reform-minded government leadership may ignore the historical, political and economic antecedents of an organization and begin with a clean slate.

Assisted by Mexican social anthropologists and encouraged by a cadre of reformist INMECAFE bureaucrats who objected to the previous Director's emphasis on larger producers, the new administration discovered that more than two decades of development activities had not altered the basic social relations of production which were formed before the government began its post-World War II development efforts. The credit-debt-credit cycle still tightly bound small and marginal producers to their respective political bosses, so much so that the Institute's policies on coffee prices were ineffective. Small and marginal producers could not free themselves from outstanding pre-harvest debts and sell their coffee to the Institute at its official price. In brief, INMECAFE's self-assessment concluded that its previous programs were ineffective and reached only a small segment of the coffee producers.

Convinced that its procedures for regulating market prices were ineffective and encouraged by the new national agrarian policy, INMECAFE began a strong, expansionistic marketing policy. The new administration decided to intervene more aggressively in the buying and selling of coffee at the local level, especially in those regions dominated by large producers and local level political bosses (*caciques*). Supported by a new tax that channeled a percentage of the coffee export earnings directly to the Institute, INMECAFE opened more purchasing centers in the major coffee-producing regions and expanded its bureaucracy.

The aggressive, purchasing-center strategy was relatively successful. The number of centers increased from 17 by the 1971–72 harvest to 48 in the next harvest and reached 63 by the 1972–73 harvest. Consequently, purchases from coffee producers quadrupled between the 1970–71 and 1972–73 harvests (from 265,536 *quintales* to almost a million *quintales*). In two years, INMECAFE's control of the national harvest leaped from 6.4 percent of the 1970–71 harvest to 18.8 percent. As a result, the Institute began to have leverage over Mexico's domestic coffee industry.

Theoretically, the expansion of the purchasing centers should have placed INMECAFE in direct competition with the exporters and middlemen in the small and marginal systems. In many cases, the Institute's purchasing agent was located only a few steps away from the representative of the private sector. The few complaints that were made might have reached a greater level if it were not for the previously described structures of production and marketing. The political bosses and larger producers still tightly held thousands of smaller peasant producers in a financial vise and were unaffected by the expansionistic policies of the state-owned enterprise. Accustomed to weak government participation and an Institute that they could control, the wholesalers were still able to purchase coffee below the official price. An official, fixed price could not be effective as long as producers continued to pledged their crops to buyers, at the buyers' price, long before harvest. In essence, INMECAFE had been unable to change the long established social relations of production and marketing. The annual attempts to control prices had little impact on entrenched social relations between coffee producers and buyers.

Very intense market penetration

In 1973, this situation abruptly changed. The Institute launched an even more aggressive campaign to offer small coffee producers access to credit sources other than the local level merchants, processors or large coffee producers. Its administration felt it had discovered the reason for its inability to reach its development goals. Many of the coffee producers lacked collateral for securing loans. INMECAFE, it should be stressed, did not have the institutional finances or authority to offer credit to producers. However, within the Mexican federal system, the Institute was authorized to support the application of local organizations to a government or private bank. The Institute began organizing producers' organizations, called 'Economic Units for Production and Marketing' or UEPC. The primary purpose of the organizations was to give communities and small producers access to government credit. Thus, the new producers' organizations offered small and marginal producers an alternative to the credit-debt-credit cycle that had financially entrapped them.

Within the Mexican political system, the small producers' organizations were considered 'grassroots' organizations (even though they were organized, encouraged and financed from above). Bureaucratically, however, the UEPCs were disarticulated, localized groups. Pan-local UEPC organizations, linking one UEPC to another, were never encouraged; rather, INMECAFE officials directed all communication and information between producers through their hierarchy. Despite its top-down organization, the UEPC's were legitimized as 'grassroots' organizations in the political rhetoric of the Institute's key administrators.

High international market prices, following the Brazilian freeze of 1975, increased the Institute's revenues and supported a feverish level of Institute activity in the countryside. Windfall export tax revenues were channeled directly to INMECAFE, reducing its dependence on other sources of federal revenues and the associated political obligations which would normally accompany such resources. As funds expanded, new personnel were hired. More producers' groups were organized, credit extended, and purchasing centers established. Joining this organization encouraged peasants to break relationships they had formed with processors and political bosses. Increasing quantities of coffee were bought directly from producers. This arrangement permitted more and more producers to break the debt relations with loan sharks and assorted larger coffee producers, processors and merchants.

The program spread rapidly throughout the coffee producing areas. In the first year, INMECAFE organized 1030 production/marketing groups (UEPCs) with 24,093 members. The next year (1974–75) the program almost doubled its membership, adding another 666 groups. By the third year, the membership had grown to 77,667 producers organized in 2113 groups. The liberal press and progressive politicians proclaimed the development program a success and rumors spread that the young director was a likely candidate for a 'very high post'.

The Institute had managed to organize a substantial portion of the nation's coffee producers. Surveys which I directed at this time for the Centro de Ecodesarrollo (Nolasco, Downing et al. 1985) revealed that almost three quarters of the coffee producers were incorporated in producer groups and that alternative credit arrangements had drastically reduced their dependence on local, private sources of credit. Nonetheless, credit was unequally distributed and notably unavailable among the marginal producers. Logistic problems pestered the administration of credit as bureaucratic paperwork often delayed the arrival of credit until after it was needed. Moreover, the Institute found it increasingly expensive to logistically support expansion of the program into remote regions with marginal producers. Within the bureaucracy some began to suggest that the program was not cost-effective.

Nonetheless, by the harvest of 1974–75, the strategy appeared successful to most observers. Operating 502 reception centers (an 800 percent increase in three years), the Institute purchased a record 36.8 percent of the national harvest. At the local level, buyers from the private sector began adjusting their prices. Debt-credit-debt relations of coffee producers to local-level political bosses or larger producers were weakening.

To review, the Institute achieved its maximal penetration into the countryside by replicating step by step and location by location, the social and economic structure of the private sector. INMECAFE was establishing a market structure which paralleled that of the private sector. Reception centers were located in the same central marketing places used by private sector coffee merchants as their base of operations (Nolasco, Downing et al. 1985, pp. 48–92). Once more, social anthropologists assisted INMECAFE by tracing the entire private-sector marketing network, thereby providing important information which could be used to locate future centers.

The replication was not only spatial, but also structural. From the producers' perspective, INMECAFE offered an alternative source of credit to the private sector. Just as the peasants had been obligated to repay their private sector creditors at harvest time, so they were now bound to return part of their earnings to the Institute in order to liquidate their outstanding debts. Once again, the purchaser—this time INMECAFE—controlled the price paid for the product. The result was a system of congruent social and marketing networks, one private and the other public. As the linkages between producers and the local middlemen and processors were broken they were replaced with those between producers and INMECAFE.

Retrenchment

The parallel did not go unnoticed. From the perspective of the private sector, the government was no longer a benefactor or development organization. It was a visible competitor, often located directly across the road from their establishments. They reasoned that if any private company expanded as rapidly as INMECAFE, the new competitor would be destined for control, if not monopolization, of the market.

Rather than respond to the market by adjusting their credit terms, raising their purchase prices, or comparable competitive actions, the competitors choose political action, arguing that the state-enterprise was engaged in unfair competition. Questions were raised as to 'who were the designated clients of the public institution?' By purchasing over a third of the national production, did this not mean that the Institute was competing with the exporters, processing plants and large producers? Proponents of the government's aggressive policies countered that it was defending the interests of the middle and small size producers and fulfilling the Institute's international obligations. But others interpreted this policy as favoring one segment within the old hierarchy of competitive relations to the detriment of others.

The intense penetration and subsequent linkages between the state-owned enterprise and coffee producers depended upon (a) high international prices of coffee that cushioned the inherent conflicts between the diverse interests, (b) a well-financed network of credit and marketing, and (c) a national political climate which permitted the Institute to act directly in favor of one of the multiple, conflicting interests groups. In the spring of 1976, all three preconditions began to change.

First, international prices began to drop. The subsequent loss of export taxes shook the financial base of the Institute's elaborate credit and marketing network. Price cuts were passed on from the middlemen to producers and credit became dear. And finally, the national agrarian policy shifted toward less active support of 'low-productivity firms', a euphemism for small-scale producers. Once again, production goals began to be emphasized.

As often happens in subnational development bureaucracies, a structural problem was transformed into a political one. The director of INMECAFE came under direct personal attack. Refusing or unwilling to come to grips with the rapidly changing situation, the Director's policies did not change and his expected resignation was not tendered. The Director's political position was based on his relationship with the federal government, not on the personal support he was building among small producers in the countryside. His political ideology of supporting the small producers could not be translated into political power. He had lost his power base because of his successful pursuit of his organizational goals.

In what many felt was an attempt to gain political leverage at home, he attracted considerable attention from his peers (the other national coffee directors in the International Coffee Organization) by leading a highly publicized, but unsuccessful, attempt to form an international OPEC-like organization of coffee exporting countries.

Shortly thereafter, in a dramatic move which also attracted attention in the world coffee industry, the Director and a handful of his close associates were arrested and jailed for fraud. A new administration believed to be capable of realigning the Institute with its external demands and the internal realities of the industry took charge. By the following year, the Institute purchased only eleven percent of the harvest.

Basic characteristics of the socio-economic field

Before the Second World War, the social organization of the Mexican coffee industry was relatively simple. Three distinct systems of production had developed, but the associations of producers, exporters and an increasingly powerful state bureaucracy had not yet appeared. By 1977, however, the socio-economic field of the industry had grown much more complex, with new private and public sector organizations influencing the day-to-day operations of the industry. The government had to take into account national pressure groups and its international commitments to other coffee producing nations in the International Coffee Organization. In brief, a previously small playing field of individual, unorganized players had become crowded with numerous teams.

The field had also become progressively more unstable, as prices unpredictably rose and fell in response to shortages and gluts in the international coffee market. Each turn changed the profitability of the industry to investors, influencing the availability of investment capital.

The preceding case has shown that changes in the organization of the socio-economic field were not the result of gradual, evolutionary processes. Instead, long periods of relative institutional stability were interrupted by reorganizations, chartering of new organizations and the removal of corporate executives. Thereafter, new bureaucratic and organizational relations were formalized in agreements, programs and procedures. What accounts for this pattern of punctuated, kaleidoscopic reorganizations?

Accumulation of capital and socio-economic fields

To answer this question it is necessary to return to the underlying *raison d'être* of the industry: the accumulation of capital (Downing 1982, 1985). The goal of capital accumulation pervades the private sector. Foreign institutions and investors who finance industry are primarily interested in a high return on their investment. Large producers who hire inexpensive migrant labors are interested in reducing their costs of production and increasing their profits. And rural store owners and processors who offer usurious credit to small and marginal producers are seeking a right to a share of capital being produced by the industry. It has also been shown that an interest in capturing part of the capital accumulated in the industry is not confined to the private sector. Presidents Porfirio Diaz and Miguel Aleman's support for the coffee industry was motivated by a desire to increase government revenues to finance pressing, non-agricultural priorities.

Access to a share of the capital depends, to a great extent, on obtaining credit. Due to its critical seasonal demands for labor, the capital demands of the industry are short-term, offering relatively rapid returns on investment. However, from an investor's perspective, coffee is but one of many alternative opportunities. Whether financial capital is flowing into or out of the coffee depends not only on the difference (or 'spread') between international prices and production/transportation/marketing costs, but also on the profitability of the industry, compared with other investment opportunities. Determining the relative profitability of the coffee industry would require an extensive analysis. However, it may be assumed that after international coffee prices begin to rise, financial capital will be attracted to the industry. Conversely, after prices begin to fall, capital investment in coffee becomes less attractive.

An examination of the macro-organizational history of the Mexican coffee industry reveals that major reorganizations of the social field followed prolonged increases or declines in international prices. What, then, is the relationship between ebbs and flows of investment capital and macro-organization of the industry itself?

Capital flows and legitimacy

Each shift in the direction of the flow of capital has potentially jeopardized individual and organizational claims to capital being accumulated in the industry, in effect, tilting the socio-economic field. In brief, the payoffs change. Faced with unpredictable changes, it has been shown that individuals and organizations did not passively acquiesce to the 'invisible hand' of the market. Some question the rights and legitimacy of others to the increasing (or decreasing) share of capital being accumulated in the industry. Others reorganize, hoping to gain (or retain) their share of the increasing (or dwindling) capital. Most did both. New organizations and alliances were formed. In essence, the players attempted to avoid losses and increase gains by realigning themselves and/or redefining the rules of the game.

In retrospect, new organizational arrangements have, in and of themselves, subsequently become sources of systemic instability. A significant shift in the direction of the flow of capital changes the relative advantages which were gained through previous arrangements. Since changes in the flow of capital always occur faster than organizations can be rearranged, systemic instability and attempts to control it have become as much part of the industry as labor, capital, sun and rain.

Price and systemic instability force all members of the industry—exporters, middlemen, producers, or the government—to legitimize their rights to the profits accruing from this valuable commodity. Legitimation refers to agreements wherein individuals and organizations recognize one another's claims to a share of profits, subsidies, services or any other arrangement which would justify their claims to capital.

In the pre-World War II systems of production, the rights of large producers, store owners, and private middlemen to the product of small and marginal producers were legitimized through a system of unbalanced reciprocity. The former extended credit to the latter, justifying, in return, their right to pay below-market prices for future coffee and occasional political favors. Like individuals, organizations must also legitimize their claims to accumulated capital. This pattern is most apparent when government bureaucracies justify their right to tax. In the Mexican coffee industry, this claim involved a concern for 'development' of the industry, expressed through special sectoral lending programs, credit arrangements, tax incentives, development assistance, technical assistance, and so on.

One further point needs to be made concerning the legitimacy. Legitimation of a new institution occurs when it is recognized by others in the socio-economic field. Legitimation is reified through social action. Such recognition and the corresponding organizational linkages brings a new institution into the game. In the Mexican coffee industry, newly legitimized government organizations (the Commission and INMECAFE) initially attempted to act as an external party and resolve inherent conflicts among previously legitimized segments of the industry. Once involved, however, government institutions found their own bureaucratic interests preventing them from acting as a disinterested arbitrator. They had become players, not referees.

After the realignments and until the direction of the flow of capital shifts again, the social arrangements remain relatively stable and there is less need to legitimize the bureaucratic inaction or alliances with particular segments of the industry. On the contrary, there is money to be made.

Summary

The objective of capital accumulation permeates the coffee industry from its primary producers to its global representatives. Social arrangements of production and organizational relations define and legitimize access to capital. As opportunities for investments appear and fade, capital flows into and out of the industry. Sustained reversals in the direction of the flow of capital threaten existing organizational arrangements, leading to reorganizations, the breaking of old alliances and the formation of new ones. After renegotiation and relegitimation, new social arrangements stabilize. They remain operative until the field is threatened by another shift in the flow of capital. From this perspective, the increased bureaucratization and the complexity of an organizational field is a consequence of the motion of capital. In brief, the source of macro-organizational change lies outside the actions of specific institutions, in the struggle for capital accumulation.

Notes

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