

The Coffee Paradox: Global Markets, Commodity Trade and the Elusive Promise of Development

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HISTORICAL BACKGROUND

COMMODITY TRADE, DEVELOPMENT AND GLOBAL VALUE CHAINS

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During the last century, value chains for tropical products have been organized around a fairly stable division of labour based on the following succession of independent agents: producer, primary processor/middle-person, exporter, international trader, industrial processor, wholesaler, retailer and consumer. This specific division of labour supposes the existence of 'market' transactions between each of these agents. One of these transactions (the one between exporter and international trader) entails the exchange of a specific category of good called 'commodity' – the description, identity, and price discovery mechanism of which are internationally recognized. In international trade, the description of a commodity is incorporated in a 'grade' – within a framework of a standard. The identity of this commodity is based on national origin, sometimes coupled with a generic regional identity, rather than on a brand or a specific 'terroir' (a smaller region with specific and unique agro-ecological traits). Finally, the price of the commodity is defined in relation to the price set in a futures market, where transactions are not about the physical exchange of actual products, but about paper contracts. The purpose of futures markets is to provide hedging against risk. Futures prices are short-term syntheses of market fundamentals (production, consumption and stocks) and technical factors (hedging, trend following, reactions to trigger signals). This organization,

which we call the ‘classical organization’ of tropical value chains, emerged between the middle of the 19th century and 1920 (depending on the product).

In the rest of this section, we first highlight the historical transition between the ‘plantation model’, which characterized production and trade in tropical commodities between the 15th century and the second part of the 19th century, and the ‘classical organization’. Second, we explain how the latter system evolved as a result of the development standards.

VALUE CHAINS FOR TROPICAL COMMODITIES: FROM THE ‘PLANTATION COMPLEX’ TO THE ‘CLASSICAL ORGANIZATION’

Invented in the 15th century for sugar cane, the plantation model dominated the production of tropical commodities until the last quarter of the 19th century (Curtin 1990). The planter – or *planteur, fazendeiro, finquero* – was a central actor in this model. Owner of the land and of the processing equipment, the planter was the entrepreneur of tropical export agriculture. For centuries, African slaves supplied almost all the labour for the plantations. After 1830, in response to the abolition of slavery in the British colonies of the Caribbean, a new indenture labour system was developed. This system brought contracted Indian labour to work in the sugar plantations (Northrup 1995).

According to Chandler (1977: 64) ‘until the nineteenth century, in both the United States and Europe there were many more large-scale enterprises in agriculture than in industry’. However, tropical plantations differed from manufacturing enterprises in the US and Europe not only in terms of scale (the former were larger) but also in terms of labour organization. As Fogel (1989: 25-26) notes,

the plantation success was closely related to the ‘development of a new industrial labour discipline . . . The industrial discipline, so difficult to bring about in the factories of free England and free New England, was achieved on sugar plantations more than a century earlier – partly because sugar production lent itself to a

minute division of labour, partly because of the invention of the gang system, which provided a powerful instrument for the supervision and control of labor, and partly because of the extraordinary degree of force that planters were allowed to bring to bear on enslaved black labor.

According to Sheridan (1969: 8) '[s]lave labour called for large-scale units of production and control, partly to take advantage of specialization and division of labour, partly to minimize the cost of supervision, and partly to distribute fixed capital cost over a wide range'. In addition to these factors, the emergence of large-scale units was also linked to the marketing system of the product. As argued by Weber (1927), the distance from the production site to the consumer market was an important variable in the organization of production. Access to the consumer market for tropical products was particularly problematic and entailed longer distances and transit times. For the agent owning the product during its transportation from the tropical region to the consuming country, distance and time implied risk and need for credit. Until the middle of the 19th century, in most cases, the planter owned the product until its point of sale in a European country, and therefore assumed the related risk. The operation of bringing the product from the plantation to the European market was centrally organized by a specific actor: the factor.

The factorage system had its origin in the West Indies sugar economy. 'The factor was the home agent of the colonial planter. He was at once his merchant and banker. He bought the goods which the planter has to purchase at home and sold for him the product return in exchange' (Holt Stone 1915: 557). In practice, the factor was much more than an agent of the planter in the European market. The factor dealt with: (1) the transportation of the product by contracting with the railway company and the shipper; (2) the storage of the product by contracting with warehouse facilities owners in the country of destination; (3) insurance and payment of taxes and harbour fees; (4) the sorting of the product in grades; and (5) the broker in charge of the sale. The factor

could also arrange the supply of new slaves for the plantation, provide equipment and consumer goods to the planters, and even act as a guardian of the planter's children while they were schooled in England. Later, in the south of United States, the factor also kept the account book of the cotton plantation.

The factor did not own the product. He/she received the product, sold it in auction markets on behalf of the plantation owner, and received a commission. The provision of credit to the planter was also an important activity carried out by the factor. Credit was initially conceived as an advance on consignment but in fact, as a way to secure product supply, the factor provided credit well before he received the product and even before the beginning of the harvest. Moreover, most of the goods the factor supplied to the planter were provided on credit. Based initially in Europe, and above all in England, the factor system partly moved to the 'producing' territories, such as the US.

It was around the middle of the 19th century, in the US, that the 'classical organization' of commodity markets appeared. Two innovations played a decisive role in this evolution: (1) the introduction of a standard to grade products; and (2) the development of a futures market. These two institutions emerged first in the grain trade in Chicago. They resulted in the transformation of the commission merchant into a buyer merchant. Later, these innovations spread to cotton and other products. In the case of cotton, changes were not limited to 'marketing technologies', but also involved a radical transformation of labour organization that followed the Civil War and the abolition of slavery. Former slaves became small-scale tenants. Thus, the previous gang system and the extreme division of labour in the plantations disappeared.

Cronon (1991) offers a fascinating account of the historical process that led to the creation of grains standards and the Chicago Board of Trade. Until the middle of the 19th century, grains (mostly corn and wheat) produced by the prairie farmers were sold in New

Orleans or in the East Coast cities under a marketing system that was similar to the one seen above for tropical products. The ownership rights to grain remained with its original shipper until it reached the point of final sale. A commission merchant, the equivalent of the planter's factor, organized the transportation, storage and sale of the grain and sometimes provided credit and insurance to the shipper. Using the river, the grain was transported in sacks and remained untouched from the farm to the flour mill. According to Cronon (*ibid.*: 109) '[a] farm family, sending a load of wheat from Illinois to New York could still have recovered that same wheat, packed with a bill of lading inside its original sacks, in Manhattan warehouse several weeks later'.

The first impulse for change came from the expansion of railroads. Grain flows were reoriented from Saint Louis and New Orleans to Chicago and the Great Lakes. New incentives to achieve 'economies of speed' appeared. The response to these incentives was the development of a specific technical innovation: the steam-powered grain elevator. Built in the 1850s, these elevators changed the whole organization of marketing. The ability to handle and transport grain without the use of sacks and to mix grains from several farmers in a bin of an elevator, meant that the ownership could not remain with the farmer during handling and transport as before. Here the response was institutional rather than technical, and led to the creation of the Chicago Board of Trade (Cronon 1991).

The Chicago Board of Trade was initially a voluntary association of grain traders aimed at promoting the city and at dealing with the day-to-day problems of the grain market. In 1856, however, the Board created a uniform wheat standard for the city – based on three grades. This act was decisive for the re-organization of the grain trade in the US. Cronon states that

[a]s long as one treated a shipment of wheat or corn as if it possessed unique characteristics that distinguished it from all other lots of grain, mixing was impossible. But if instead a shipment represented a particular “grade” of grain, then there was no harm in mixing it with other grain of the same grade. Farmers and shippers delivered grain to a warehouse and got in return a receipt that they or anyone else could redeem at will. Anyone who gave the receipt back to the elevator got in return not the *original* lot of grain but an equal quantity of *equally graded* grain. A person who owned grain could conveniently sell it to a buyer simply by selling the elevator receipt, and as long as both agreed that they were exchanging equivalent quantities of *like* grain – rather than the physical grain that the seller had originally deposited in the elevator – both left happy at the end of the transaction’ (1991: 116).

After 1848, the building of the telegraph network led to the synchronization of price movements between Chicago, the hub of prairie grain supply, and the East Coast – its major consumer market. The emergence of the telegraph and the grain standard enabled the sale of a grain lot *before* it moved from Chicago to New York (on the basis of a so-called ‘to arrive’ contract). The standard enabled the buyer to know exactly what will be received. The telegraph enabled the two parties to build a contract on a common price basis. According to Cronon, the “to arrive” contract in combination with standardized elevator receipt made possible Chicago’s greatest innovation in the grain trade: the futures market’ (1991: 124). Indeed, from then on, a trader could sell a ‘contract to arrive’ without owning the grain. The trader would then hope to buy the grain, just before the time of delivery, by buying elevator receipts at a cheaper price than the one stipulated in the contract. Until delivery, or just before delivery, this contract could be resold several times between traders.

Based initially on the 'contract to arrive', this speculative activity was subsequently (after 1865) organized by the Chicago Board of Trade through a 'future contract'. This contract defines a specific grade of grain, a specific volume, and a specific date of delivery. This contract 'could be bought and sold quite independently of the physical grain that might or might not be moving through the city' (Cronon 1991: 146). The last step in the building of a 'modern commodity market' was the invention of hedging. Hedging emerged and spread along with futures markets in the third quarter of the 19th century (Rothstein 1983). Hedging means using future contracts as insurance. In practice, it entails the buying (or selling) of a future contract simultaneously with the selling (or buying) of 'real' grain. Hedging enables operators, anxious to buy grain and to keep it for a while before selling it in the same form (or in a transformed form, flour for example), to protect themselves against price fluctuation (specifically, a price fall). Because the fluctuations in the future contract are linked to the fluctuation on the 'real' grain market, carrying out the inverse operation in the futures market enables the trader to minimize the loss (or the gain) realized in the 'real' grain market.

Hedging seems to have been first used by traders who bought grain in Chicago and sold it to exporters in New York (Rothstein 1983). The diffusion of hedging, as an insurance against price fluctuation, occurred simultaneously with a change in the merchant function, where merchants increasingly bought grain on a cash basis rather than on consignment. Being protected against the risk of selling at a lower price than the price paid at purchase, the merchant could now become the owner of the product and hold it for a long time. Because of this new ability, previously distant market transactions were suddenly brought close to small towns or even the farm gate. Subsequently, the necessity for the farmer to hold the product for months before selling disappeared.

The organization of cotton marketing in the US followed more or less the same evolution observed in grains. Due to the new railway and telegraph network, cotton factors were

substituted by traders buying the fiber directly in the countryside (Woodman 1966; Woodman 1968). As a consequence, in 1870 the New York Cotton Exchange opened its doors. The New Orleans exchange opened one year later. As mentioned above, the major organizational change in the cotton sector was the emergence of tenants that displaced the plantation system. Related to this was also the replacement the gang system by a labour organization system based on kinship. As soon as the North defeated the South, the former slaves refused all labour organization that in any way resembled that of the former slave plantations. The wage-earning system promoted by planters that were seeking to conserve their previous organization was widely rejected. Furthermore, the abandoning of any agrarian reform project strongly limited the establishment of direct farming systems. Although the percentage of 'black families' (as categorized by Kolchin) in the south purchasing farmland increased from 2 per cent in 1870 to 21 per cent in 1890, it reached only 24 per cent in 1910 (Kolchin 1993).

After a brief trial period, the former plantation owners massively opted for share-cropping. First, just after the Civil War, owners paid share-croppers in kind (a sixth or an eighth of the harvest and then a quarter) and provided them with a house, draught animals and sometimes seeds. However, the share rental system soon became dominant. In this system, the harvest was divided in equal parts but the share-croppers had to find their own food, tools, livestock and accommodation. Even if share-croppers were largely dependent on (and exploited by) plantation owners, the end of the gang system entailed no centralized coordination of labour in terms of cultivation and harvesting times. This constituted a revolutionary change in tropical crop production.

The process initiated in the middle of the 19th century in grains and cotton in the US spread to other products during the following decade. Between the end of the 19th century and 1920, most tropical products switched from the plantation model to specialized household cultivation. The Ghanaian smallholder displaced the São Tome *roça*

(estate). The 'native' cultivating 'jungle rubber' displaced the European rubber estate. As we will see later, Colombian peasants provoked the crisis of the Brazilian *fazendeiros*. This process created a sort of inversion in industrial organization between agriculture and manufacturing. Starting with a situation of large scale enterprises in agriculture and small scale manufactures, the 19th century ended with small scale production and low vertical integration in agriculture and large and vertically integrated firms in manufacture. As the managerial revolution took place in manufacturing (see Chandler 1977), a 'specialized household' revolution occurred in agriculture. The two revolutions took place first in the US, then spread to the rest of the world.

STANDARDIZATION AND THE ORGANIZATION OF PRODUCTION

A vast amount of academic literature has examined the relative efficiency of large-scale versus small-scale units in agricultural production. In the course of the 20th century, the dominant opinion in the economist community broadly shifted from a pro-large-scale to a pro-small-scale position (except in the Soviet Union and in China). In both camps, the core arguments were related to technological constraints. Whereas in the past 'pro-large scale' economists referred to the benefits of economies of scale (Kautsky 1988), current 'pro-small scale' economists underline the diseconomies of labour monitoring deriving from uncontrolled biological processes and spatial dispersion (Binswanger and Rosenweig 1986; Hayami 1996). Although the latter arguments are correct in explaining the current predominance of small-scale family labour units, they can not account for the historical shift from large-scale to small-scale units of production. They also underestimate the diversity of technology available to different producers and regions for the same crop.

To prove their efficiency *vis à vis* large-scale units, small-scale units needed to operate in an environment of open competition. Open competition means first and foremost equal access to the market. Equal market access occurred during the last quarter of the 20th century with the transformation of the merchant function, from commission merchant or

factor to trader. Equal market access was also facilitated by the creation of global standards that organized full interchangeability between producers independently of their size. Thus, for agricultural products, and in particular for tropical products, the household production 'revolution' was accompanied – if not caused – by the emergence of traders and the creation of standards (Daviron 2002).

The first standard for cocoa was created in 1925 to enable the functioning of the New York futures market. The standardization of rubber started in 1913 with the founding of the London Rubber Trade Association. This association set up a Standard Quality Committee during its first year of operation with the purpose of defining a standard and providing arbitration for sales concluded with reference to this standard. However, in 1928, the US Rubber Manufacturers Association published its own standard (Rondet 1997). Like the cotton standard, it was based on the distribution of sets of reference samples to operators. It soon became the dominant standard in the market, reflecting the influence of US tyre manufacturers in the international rubber market. This standard was subsequently renegotiated by producers, users and traders at conferences organized by the International Rubber Study Group (IRSG). In 1952, these negotiations resulted in the so-called 'Green Book', a globally-agreed document defining the various smoked sheet and crepe classes recognized in international trade.

During the early stages, the standardization of tropical products was accompanied by a gradual broadening of the area of operation of standards, starting from the basis of national-level standards of dominant producing countries. Cotton, the best illustration of this process, experienced a transition from the overlap of local standards, to the development of a national standard, and then to the formulation of an international standard. International standards progressively emerged for all the 'traditional' tropical products: in 1925 for cotton, 1952 for rubber, and 1963 for cocoa. Generally, this happened at the instigation of the dominant producing country using its standard as a

model – the United States for cotton, Malaysia for rubber, Ghana for cocoa. However, these international standards were rarely adopted in unchanged forms by other producing countries and constituted a reference for the drafting of national standards. Standardization was therefore mainly conducted at the national level. As a result, reference to the national origin became, and remains, to a large extent an essential component of the qualification system for tropical products.

Yet, the product characterization criteria laid down in various standards remains extremely generic. Cleanliness and absence of damage (mould or insect damage) are the main variables considered. The different grades are defined according to the amount of impurities present in a sample (foreign matter or deteriorated product). The standard for sheet and crepe rubber laid down in the Green Book is limited solely to cleanliness. A further factor in the case of cocoa is the presence of slaty or violet beans indicating possibly inadequate fermentation and hence a potentially weak chocolate aroma. The general appearance and staple length of cotton is added to cleanliness criteria. These criteria allow simple methods of testing and product acceptance. Visual inspection is dominant, even though it might be preceded by a knife cut (the cut test for cocoa) or by stretching the product between the thumbs (pulling cotton). In this situation, product qualification is based mainly on the know-how of the person performing the visual inspection and does not require any special equipment.

The generic standards used to qualify tropical commodities are thus characterized on the one hand by the absence or minor role of processability criteria, and on the other hand by the absence of interest for their local specificities. Finally, these standards reflect the comparative weakness of the quality requirements of the user industries and above all the absence of demand for variety. From this point of view, standards were developed to define quality in a mass production economy. The reduction of the diversity available that accompanied the creation of national standards can be seen as the ‘price’ that consumers

paid for the development of low-cost small-scale production (in comparison to the costs incurred by large plantations).

COMMODITIES AND DEVELOPMENT: THE DEBATE

The relation between commodity trade and development has been the subject of debates and analyses for several decades. The issue of management of commodity markets, however, dates back to the 19th century, before the advent of the 'development project' of the post-World War II era. From the end of the 19th century to 1920, the management of international commodities was considered a 'private problem'. Associations of farmers or estate owners tried to influence price formation by organizing collective infrastructure to store commodities. Collective action of this kind was attempted in cocoa (Clarence-Smith 2000), rubber, tea and coffee (see Chapter 3). After World War I and the Great Depression, the management of commodity markets became increasingly an affair of the state. The 'commodity problem' moved from being a farmers' problem to being an issue of national wealth and growth (McMichael 2000). With the adoption of import substitution strategies and a central focus on industrialization in the 1960s and 1970s, the 'national issue' dominated policy making to the detriment of farmers' interests.

The counter-revolution in development economics of the 1980s and the increasing concern for poverty introduced a new shift, with a focus on deregulation, market liberalization and export-oriented growth. In this framework, primary commodities did not have a special place in trade and development policy. Countries were advised to export whatever product they had a comparative advantage in – whether that was primary commodities, labour-intensive manufactures, high technologies, or services (but not labour). More recently, new preoccupations have been raised in relation to 'unfair' trade practices in commodity trade, especially in terms of subsidization of agriculture in developed countries and skewed distribution of value added along value chains. New attention has been placed on commodities, from the 'cotton' and 'commodity' initiatives

presented during the WTO Doha Round negotiations, to 'fair trade' and related certifications and codes of conduct guaranteeing the 'sustainability' of commodity production and trade. Table 1.1 summarizes the main features of these debates. The headings in the first column (debate and period) are also the titles of each sub-section that follows.

THE AGRICULTURAL CRISIS

For about 20 years following the end of World War I, the debates and actions on commodity management turned around the agricultural market crisis or, in other words, how to deal with the structural – and apparently permanent – oversupply of agricultural products. At that time, supporting farmers' incomes was the main objective of state intervention in commodity markets – at least in industrialized nations. Many analysts argued that, because of the excess of labour in agriculture, agricultural supply did not respond to price decreases and did not follow the business cycle (Schultz 1945). Others (Means 1935, among others) underlined the contrast between the working of markets for manufactured goods and for agricultural commodities. Means shows that, during the 1930s, the supply of manufactured goods decreased while prices remained stable. On the contrary, the supply of agricultural commodities remained stable while prices fell. For Means (*ibid.*), this opposite behaviour reflected different market structures – oligopoly in manufacture, perfect competition in agriculture.

In this context, state intervention in commodity markets was based on a double justification. First, a stabilization policy in agricultural markets was meant to guarantee parity between the industrial sector and agriculture. Second, a policy supporting incomes in the agricultural sector was meant to stabilize the whole economy, since agriculture was not thought to follow the business cycle. In this perspective, the government sought to counter-act the business cycle by taking advantage of the inelasticity of agricultural supply. This was based on the idea that price decreases in commodity markets were not

only a problem for farmers, but also for society as a whole. In a Keynesian perspective, farmer income support was part of an overall macroeconomic stabilization package.

In the framework of the Keynesian policies adopted after World War II, foreign trade was subordinated to the domestic goals of price stability and full use of national resources – full employment in particular. Exports, like public expenditure, participated in the re-launching of the economy by increasing the outlets for a nation's companies. In agriculture, the search for stability implied a strict partitioning between domestic and international markets. Stabilization policies elaborated during the Great Depression and World War II included instruments that ensured the disconnection between domestic prices and international prices, such as import quotas, variable levies, and export subsidies. World markets were fragmented in a sum of disconnected national – or imperial – markets. In a sense, international markets operated akin to canal locks between national markets, handling the transfer of products without calling into question the level or the stability of prices at the national level (Johnson 1973). Except for 'exotic products', countries traded only surpluses and deficits in international markets – in quantities required to ensure the equilibrium and hence the stability of the domestic market. Dumping policies illustrate the use of international market as overflow. Starting in the 1930s, the US Department of Agriculture used dumping to eliminate surplus production from the domestic market (Wallace 1934).

To limit the strong trend toward world market fragmentation, two different projects emerged during World War II and following years (Daviron and Voituriez 2003). The aim of the first project was to reproduce, at the world level, the policies existing at the national levels. The supporters of this project wanted a planned integration of the world market. They promoted a world-level coordination mechanism that would ensure coherence between import and export needs as defined in national plans. Part of the US administration (e.g. the Department of Agriculture) supported this project of an

'organized international trade'. On the basis of the inter-war experience, the Department of Agriculture promoted the creation of international agreements that would organize supply control policies – as the 1938 Agricultural Adjustment Act had done.

The second project promoted a gradual reunification of the world market through the implementation of trade liberalization policies. This project was promoted, among others, by the US state department. Economists like Schultz proposed to liberalize agricultural trade and to use deficiency payments instead of trade barriers. The famous Keynes proposal to create an international organization 'for steadying the price of primary products and the holding of buffer stocks' is part of the same project (Keynes 1942/1980). Presented in 1943, during the Hot Spring Anglo-American conference, the proposal made sense only in view of eventually opening up the world market. The argument was summarized some years later by a US economist: '[t]he real argument for stabilization is that, without it, trade and production restrictions that almost invariably outlast the crisis which evokes them are likely to be imposed by governments' (Mason 1952: 19). In other words, the main objective of national agricultural policies implementing barriers to trade was to stabilize domestic prices. Thus, if these barriers were to be dismantled then international prices would have to be stabilized – otherwise such a dismantling would have faced strong political opposition.

Both projects were defended in 1947 at the Havana Conference dedicated to the creation of an International Trade Organization. However, neither of them survived. The idea of international commodity agreements was inserted in the Havana Charter, but only as provisional tool to manage temporary crises in agriculture. Liberalization of agricultural markets was not implemented. The International Trade Organization was not created. Its much more modest substitute, the General Agreement on Tariffs and Trade (GATT), recognized the legitimacy of agricultural protectionism (this continued until the end of the Uruguay Round in 1994). As a result, the international economic regime of the post World

War II period did not have any general framework to organize international cooperation in the field of commodity markets.

STRUCTURALISM

The end of World War II witnessed the emergence of the 'development project' (presaged by the Atlantic Charter), that is 'the adoption of the European model across the formerly colonial world' (McMichael 2000: 7). In this context, the impact of commodity exports on the 'wealth of nations' became a key issue. Attention shifted from farmers' incomes to export revenues, the international division of labour, and the gains or advantages to be expected from commodity exports.

In the 1950s, several works converged around a negative vision of commodity exports. Singer (1950) and Prebisch (1950) are the most famous representatives of this line of thought. They elaborated three arguments against specialization in primary commodity exports. First, primary commodity export sectors were considered to be external to 'underdeveloped areas'. According to Singer, 'they are really an outpost of the economies of more developed investing countries' (Singer 1950: 475). The production of primary commodities for export was thus viewed as the result of foreign investment by firms (plantations, mines). Second, primary commodity exports were seen as using resources that could have been better used in manufacturing. The latter was thought to create not only immediate benefits but also to have a positive impact on 'the general level of education, skills, lifestyles, inventiveness, habits, store of technology, creation of new demand, etc.' (*ibid.*: 476). Third, the terms of trade between primary commodities and manufactured goods was thought to be deteriorating over time. This third argument will be the longest lasting in future debates, as well as the most controversial one. According to Singer and Prebisch, the main explanation for the deterioration of terms of trade for primary commodities lied in the inability of exporting countries (the periphery) to benefit from their productivity gains – contrary to what happened in countries that exported

manufactured goods (the centre). In the periphery, productivity gains caused declining primary commodity prices; in the centre, productivity gains led to higher salaries for labour and higher profits for capitalists. For Singer, this unequal distribution of productivity gain was to be interpreted in relation to demand elasticity, lower for raw materials than for manufactured goods. For Prebisch, this was primarily the result of the low collective action capacity of workers in the South than in the North.

In terms of the solution to the 'commodity problem', these authors converged around the general objective of industrialization. For commodity exporting countries, the creation of a manufacturing sector was seen as the way of escaping the international division of labour. As a result, import substitution strategies, aiming at substituting imports with domestic supply of manufactures, became a major component of development strategies. To finance the process of industrialization, developing countries taxed the primary sector heavily. In the 1950s and the beginning of the 1960s, most of these analysts were in favour of a high rate of taxation on agricultural producers. This was justified by the view that farmers, and even more African farmers, were relatively price insensitive and had a low propensity to save (see, for example, Kaldor 1963b).

Discussions on possible international cooperation for managing commodity markets returned to the fore in the 1950s, and even more prominently in the 1960s with the organization of the first United Nations Conference on Trade and Development (UNCTAD) and the creation of its permanent secretariat. UNCTAD, promoted by Prebisch, represented the most ambitious and coherent attempt to solve the 'development' implications of the 'primary commodity problem'. What was new in the 1960s, in comparison to the 1940s, was the link between commodity management and the import substitution policies adopted in developing countries.

In spite of high taxation, the primary sector maintained a predominant place in developing country exports. Moreover, primary commodity exports tended to be concentrated on a limited number of products with a 'natural' competitive advantage. On the contrary, manufacturers were not able to export. These factors must be interpreted in relation to the economic instruments used to encourage the growth of the manufacturing sector: currency overvaluation and high import tariffs for final industrial goods. Currency overvaluation was aimed at lowering the price of imported equipment goods necessary for the manufacturing sector. At the same time, it acted as an indirect taxation on the export sector – operating a financial transfer from the export sector to the domestic manufacturing sector. Yet, the latter supplied a small domestic market and thus could not benefit from the scale economies that developed country manufacturers had. As a result of their high cost structure, local manufacturers could not be competitive in world markets. At the same time, import needs increased because of rising demand for equipment goods and machinery. Thus, when the Korean war ended in 1953, and international prices for commodities began to drop dramatically, countries following import substitution strategies started to experience massive deficits of their balance of payments (see Furtado 1970; Hirschman 1968; Cardoso and Faletto 1979).

The main objective of UNCTAD was to help these countries in reducing their balance of payment deficits. Negotiations between developing and developed countries turned on four main issues: aid, regional trade agreement between developing countries, market access in developed countries for manufactured and agricultural goods exported by developing countries, and international commodity agreements. But while the Havana Charter had viewed these agreements as provisional and exceptional tools devoted to the management of particular disequilibria between world supply and demand, UNCTAD saw international commodity agreements as permanent tools for maximizing export incomes by supporting prices (UNCTAD and Prebisch 1964). Therefore, negotiations and related projects covered

only products exported exclusively by developing countries, mostly tropical agricultural products (such as coffee, cocoa, and rubber).

THE COUNTER-REVOLUTION IN DEVELOPMENT ECONOMICS

During the 1970s and especially the 1980s, a major change took place in development thinking. According to its supporters, this was a revolution (Dorn, Hanke and Walters 1998); according to its critics, it was a counter-revolution (Toye 1987; Leys 1996; Desai 2002). This counter-revolution produced three major shifts. First, the objective of development was transformed from increasing national wealth to alleviating poverty (Finnemore 1996). Second, the macroeconomic model was not based on a nationally-centred economy anymore, but on the global market where every country had to find its right place (McMichael 2000). Third, the ability of the state to promote development was first questioned and then dismissed. The counter-revolution rediscovered the 'truths' promoted by liberal thinkers in the 19th century – that individual initiatives coordinated by the market are better than the state in promoting growth.

In relation to commodity exports, the 1980s and the beginning of the 1990s saw a reversal of policy approaches. Import substitution was replaced by the promotion of an export-led growth strategy. Export growth was not linked to any sector in particular, but needed to take place in whatever sector a country had a comparative advantage (primary, secondary or even tertiary). International commodity agreements were abandoned and liberalization policies adopted. At this time, three arguments were used against the 'traditional' developmentalist perspective. First, the hypothesis of deterioration of terms of trade was questioned. Based on new series of price data, and the consideration of changes in transport costs or product quality, new contributions yielded results that were opposite to Prebisch's and Singer's analyses – or at least mitigated their affirmations (Spraos 1980; Bleaney and Greenaway 1993; Hadass and Williamson 2001). Second, other authors argued that developing countries were unable to control international prices

by collective action and that the costs of price stabilization actually exceeded the gains (Newbery and Stiglitz 1981). Third, 'new political economy' and rent seeking scholars (Gorter and Swinnen 2002) developed a case against any form of public intervention in agricultural markets. Analysing agricultural policies in developed countries, the 'new political economy' framework examined the role of private interest groups (cereal farmers, for example) in shaping national policies (for a recent illustration, see Sheingate 2001). In relation to developing countries' agricultural policies, the role of state bureaucracies and politicians was highlighted. The vision of the state as a predatory and clientelist machine came to progressively dominate these studies. Robert Bates' *Markets and states in tropical Africa* (1981) exemplifies this perspective – to the point that almost any public intervention in agricultural commodity markets came to be seen as taxation. 'New political economy' arguments were used by aid agencies to promote the liberalization of agricultural markets. One indicator was especially used to evaluate the success of liberalization: the ratio 'export unit value' over 'producer price'. Many contributions have compared this ratio between 'liberalized countries' and 'non-liberalized countries' (Akiyama *et al.* 2001) and argued that it was higher in the former than in the latter.

Agricultural market liberalization promoted in developing countries included three components: (1) privatization of public enterprises that processed or marketed commodities; (2) deregulation and promotion of competition in input and output markets; (3) elimination, or large reduction, of subsidies and taxation – including the elimination of domestic price stabilization devices.

Accompanying liberalization, several aid agencies started to promote the use of risk management tools by developing countries' traders and even farmers. The World Bank, back in the *1986 World Development Report* dedicated to agricultural policies, argued that, '[r]ather than try (and certainly fail) to eradicate price movements, it may be more useful to find ways of alleviating their effects. One obvious remedy is to encourage

traders to use forward, future and options markets, These markets are not at present suited to the needs of small commodity producers, but they could be adapted and developed' (World Bank 1986 : 92). Since this publication, several reports were dedicated to the issue of risk management (Claessens and Duncan 1993; Varangis and Larson 1996). In 1999, an International Task Force for Risk Management in Developing Countries was created with World Bank support with the objective of assisting producing countries – particularly LDCs – to use futures markets. Since its creation, however, discussion on the use of futures markets as the main instrument of price risk management has been replaced by a combination of put options, price insurance schemes and financing based on warehouse receipts. Developing country actors are encouraged to engage in arrangements with international traders and local credit institutions.