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Cornering the Market: State Intervention in Comparative Perspective Brazilian Coffee and Mexican Henequen[1]

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Abstract

Today, state participation in the export sector and in international cartels such as OPEC is commonplace. But in the early twentieth century such actions by states were almost unheard of. This article compares the Brazilian state's role in the international coffee market with the Mexican state's participation in the world henequen market. Since coffee was one of the world's most internationally traded commodities in terms of value, the Brazilian effort set an important precedent that helped convince exporters of other raw materials such as tin, rubber, and petroleum of the need for greater state participation. The comparison of the coffee and henequen programs illustrate the qualitatively different paths that state interventions took. The first "valorization," as the program came to be known, represented a dramatic departure from past state agricultural policy. Brazilians constructed a state capitalist model in which the state oversaw the financing, commercialization, and transportation of coffee while perpetuating traditional social relations and leaving secure planters' latifundia. The Mexican state also came to oversee the infrastructure of the henequen economy, but the consequences of its intervention were quite different than in Brazil. Although the Mexican state failed to prop up the international price of henequen, it did restructure property and social relations in the Yucatán. The object of this article is to explore why and how Brazilians were the first to effect such an enterprise and why it was successful. After all, it is not at all obvious that in the Age of Empire it would be a dependent Third World nation that would restructure an international commodity market. The participation of the Brazilian state in this venture is particularly intriguing because conventional wisdom has maintained that the Republic, which was founded in Brazil in 1889, gave birth to a decentralized, laissez faire regime.

On a steamy February 25, 1906 Jorge Tiberiçá, governor of the state of São Paulo, Francisco Alves, governor of Minas Gerais, and Nilo Peçanha, governor of Rio de Janeiro state rode down the festively decorated street that connected the train station to the police station of the bustling provincial town of Taubaté, São Paulo. The coffee branches hung from the street lamps in their honor were more than quaint or whimsical incidental decorations. They symbolized the purpose of the three governors' meeting. After an afternoon and evening of speeches, banquets, and toasts the governors turned to the serious business at hand. At two o'clock in the morning they signed an agreement that lay the groundwork for Brazil's first state-directed coffee price support program.[2] This first "valorization," as the program came to be known, represented a dramatic departure from past state agricultural policy. Eventually, through a serpentine process that included three valorization programs (1906–12, 1918–19, and 1921–24), an institutionalized provincial intervention (1924–29), and a federal program after 1932, the Brazilian state came to exercise considerable control over the international price of one of the world's most traded commodities, coffee. In 1932 the distinguished British economist J. W. F. Rowe reported that "Brazilian coffee has been subjected to artificial control of a more thorough, prolonged, and deliberate character than any raw material of major importance."[3] In 1940 the precedent started by the Taubaté agreement led to one of the first international commodity cartels when the Inter-American Coffee Agreement was signed. Brazilians constructed a state capitalist model in which the state oversaw the financing, commercialization, and transportation of coffee while perpetuating traditional social relations and leaving secure planters' latifundia.

At roughly the same time that the three governors were meeting in Taubaté, growers of henequen (a fiber also known as sisal) met in the Mérida, the capital city of the Mexican state of Yucatán. They also sought to create a price support program for their principal export. But unlike the liberal state in Brazil, the liberal Mexican state refused to come to their aid. State assistance only appeared when the Mexican revolution intruded from outside and stripped henequen hacendados of their political power. Then the Mexican state also came to oversee the infrastructure of the henequen economy, but the consequences of its intervention were quite different than in Brazil. Although the Mexican state failed to prop up the international price of henequen, it did restructure property and social relations in the Yucatán.

Today, state participation in the export sector and in international cartels such as OPEC is commonplace. But in the early twentieth century such actions by states were almost unheard of. Since coffee was one of the world's most internationally traded commodities in terms of value, the Brazilian effort set an important precedent that helped convince exporters of other raw materials such as tin, rubber, and petroleum of the need for greater state participation.[4] And the comparison of the coffee and henequen programs illustrate the qualitatively different paths that state interventions took.

The object of this article is to explore why and how Brazilians were the first to effect such an enterprise and why it was successful. After all, it is not at all obvious that in the Age of Empire it would be a dependent Third World nation that would restructure an international commodity market. The participation of the Brazilian state in this venture is particularly intriguing because conventional wisdom has maintained that the Republic, which was founded in Brazil in 1889, gave birth to a decentralized, laissez faire regime.

Coffee

Did coffee's centrality to the Brazilian economy explain the willingness to engage in valorization programs? Certainly coffee was very important to Brazil; it was responsible for half to two-thirds of all exports and, indirectly, a similar portion of federal and state tax revenues. It also fueled growth in the country's most dynamic and populous region, the Southeast. But coffee occupied an equally dominant position in El Salvador, Costa Rica, and Colombia.[5] Yet their governments did not attempt to control the international market.

Of course the commodity's position in the world market was equally if not more important than its national position in determining the feasibility of a valorization scheme. Brazil produced more than half of the world's coffee. In 1906 it provided fully 80 percent of total production. Yet Brazil also produced most of the world's rubber and did not prop up prices there when East Indian production attacked Brazilian dominance; Brazil also produced a large share of the world's thorium and maté tea yet made no effort to intervene in those markets.[6] Chile was responsible for much of the world's iodine and later nitrates but British merchants, not the national state, controlled commerce.[7] Peru's guano, which controlled a similar market share to coffee, was overseen by the state but the monopoly was given to a British commercial house.[8] Brazilian coffee's international dominance made state intervention possible, but not particularly likely.

Perhaps the political power of Brazil's coffee fazendeiros insured their ability to use the national state to defend themselves. The traditional interpretation stresses the hegemony of coffee growers during the First Republic (1889–1930). Yet recent studies have shown the divisions among planters within the major coffee growing states and the influence of competing political interests. In fact, the federal government refused to come to coffee's aid on a number of critical occasions.[9] Neither presidents Prudente de Morais (1894–1898) nor Manoel Ferraz de Campos Sales (1898–1902), both Paulistas with close ties to coffee, had been sympathetic to coffee's plight when prices tumbled after 1895. Indeed, they took actions that hurt indebted fazendeiros. In 1906, the Paulistas President, Rodriques Alves, himself a fazendeiro, refused coffee planters federal funds and a necessary monetary institution. Later, in 1919, President Epitácio Pessoa, a client of the Paulistas, refused to issue currency to fund the second valorization despite fazendeiro demands. President Arthur Bernardes (1922–26) from the coffee producing province of Minas Gerais, aborted a congressionally mandated federal coffee institute and tightened coffee credit. The First Republic's last president, Washington Luís of São Paulo, abandoned coffee's defense in 1929.[10] Thus, while coffee planters were certainly the most important political actors nationally, the federal government was not simply an instrument of their rule.

The federal government's relative independence from planters' did not doom the valorization plan because of the Republic's decentralization and the concentration of coffee in one state. São Paulo grew two-thirds of Brazil's coffee and hence, in some years, almost one-half of the world's supply. It had the wealth and the production to mount a defense program alone. In São Paulo planters enjoyed much greater influence than on the national level or in other coffee provinces because coffee production there overshadowed all other economic activities. Moreover, influential planters were easy to organize because coffee production was so concentrated that in 1920 eight percent of the coffee land holdings in São Paulo accounted for more than 55 percent of the total value.[11] Moreover, Paulista fazendeiros were overwhelmingly Brazilian citizens well integrated into the dominant families and often directly holders of political power themselves.[12] Indeed, Paulista coffee planters have been viewed as similar to Prussian Junkers in combining traditional agricultural labor relations with an export orientation and substantial political power.

The concentration of coffee in one province would have been a political disadvantage if the regime were not decentralized because non-coffee areas protested federal aid to one privileged region. The Paulistas, however, were able to go it on their own and prove the program's feasibility because the Republican Constitution of 1891 granted the province the right to contract loans abroad without federal approval as well as to control exports, levy export taxes and charter mortgage banks. While the federal government subsequently came to the province's aid, São Paulo initiated valorization and the bulk of the defense of coffee was always conducted on the provincial rather than the national level. Nonetheless, the political dominion of one exporting fraction on the regional or national level does not suffice to explain the defense of coffee; after all, rubber merchants enjoyed even greater political influence in the Amazon than coffee fazendeiros did in São Paulo yet they were unable to control the world market.[13]

The biology of coffee was also important in imposing and permitting the valorization programs. That is, the roots of Brazil's intervention to a fair degree lay in the plant. Coffee grew on trees that required generally five to six years to become commercially viable and then, in Brazil, continued being viable another twenty-five to thirty-five years. Thus unlike grains and many other agricultural products, the tree was a fixed asset. Moreover, two-thirds to three-quarters of the final cost of harvesting coffee beans was in the maintenance of trees throughout the year.[14] The actual harvest was a relatively minor expense. Thus planters would not respond to short-term price declines by turning their land to another crop or leaving the berries on the trees. In fact, they often responded by increasing productivity. In the case of coffee, which required low levels of technology for planting, maintaining, harvesting, and treating, the best way to increase yields per tree and thus lower labor costs was to open up new land. The greater fertility of new land as much as doubled productivity.[15] Thus lower prices led to eventual expanded production which reinforced the tendency toward lower prices. Only the larger plantations, with ample virgin lands and credit, and to a lesser extent economies of scale particularly in transportation, were profitable in this environment. Thus individual planters did not lower supply to meet demand. Instead, they competed with each other; the planters in the newly opened lands of western São Paulo drove to ruin many fazendeiros of the older, less productive Paraíba Valley. Only state action could force coffee planters to band together for their common interest.

Common action was feasible because of another distinctive characteristic of coffee: any given tree's yield varied substantially from year to year mostly for climatic reasons. A year of superabundant harvest was followed by two or three subnormal harvests. That was a particular advantage because unlike many other agricultural products, coffee could be held off the market in its unroasted, unground state for several years. Indeed its quality might improve with time. Hence the biology of coffee dictated that its production would continue, would vary year to year, and that it could be held off the market.

The international market for coffee also explains the possibility of the valorization scheme. First of all, Brazil produced two-thirds of the world's coffee. No other competitor produced more than one-seventh. Thus no international agreement was required for Brazilian producers to seize control of world coffee markets. Potentially, Brazil could do so single-handedly. But if valorization raised coffee's price, would not Brazil's competitors increase production to take advantage of the higher prices? Brazilian officials who toured the coffee lands of competing countries felt confident that no other country shared Brazil's resource endowments of vast, fertile, cheap, relatively flat, accessible land and a sufficient available work force.[16] Besides, increasing production took a minimum of five years so any substantial challenge was probably decades off. Unlike with rubber, in which Brazil was defeated by British and Dutch colonies that relied on the capital and expertise of their colonizers, all of the major coffee producers were poor independent Latin American countries which lacked the resources to mount a challenge to Brazil.

Moreover, coffee could not be synthesized or substituted. Unlike many other major Latin American exports such as guano, nitrates, eventually rubber which lost their dominance of the world market when European and North American factories began producing them, coffee faced no competition; neither tea nor grain substitutes were able to wean many people away from their cup of coffee.

But even if nothing could replace coffee, if the price of coffee rose, would consumers buy less, thus bringing prices down? This was a particularly sensitive issue because coffee had no other use than as a beverage. During the 1930s the Brazilian government would attempt to use it to synthesize plastics but to no avail. Thus, either Europeans and North Americans drank it or Brazilians destroyed it. (Although Brazilians, on a per capita basis, were among the world's greatest drinkers of coffee, there were not enough of them to brew more than about 10 percent of the crop). Fortunately coffee was a crop in healthy secular ascent. Its production had grown some ten-fold in the nineteenth century and continued to expand at about 2 percent a year.

Unlike most tropical edible products, coffee was not a luxury but a working class necessity, especially in the U.S. which was by far the largest market for Brazilian coffee. Even the poorly paid cowboys huddled on the distant prairie had a pot of coffee on their campfire.[17] Not only was coffee popular, it was perceived to be addictive. Caffeine was necessary for the new industrial age's regimented time demands. Coffee also had important social functions such as the coffee break and the cafe. Consequently, Brazilians did not believe that demand would slacken if prices were to rise. And indeed, coffee proved to be quite price inelastic. Thus the peculiar nature of coffee's demand and biology as well as Brazil's and particularly São Paulo's place in the international market, as well as the economic and political might of fazendeiros and the decentralization of the regime help to explain why intervention in the international market might be necessary and possible. They do not clarify why in Brazil it would be the state rather than, as elsewhere, a private planters' organization or a merchant cartel that would conduct the valorization nor why it should have begun in 1906 since most of the conditions described above had obtained for decades.

One could posit a number of possible reasons for the Brazilian state's intervention in the coffee market. Many students of Brazil's history argue that the Brazilian state inherited a patrimonial tradition from its Portuguese colonizers which caused the state to dominate civil society.[18] According to this argument, remnants of mercantilism made intervention a natural action, a throw-back to the pre-industrial colonial regime that controlled such key areas as gold and diamond mining, ship building and trade rather than a precursor of modern state capitalism. While appealing in its simplicity, this explanation does not reflect the Brazilian state's traditional participation in the coffee sector. In fact, the colonial and imperial Brazilian states had historically failed to provide much support to agriculture at all. There had been little state agricultural credit, no state mortgage bank, no federal coercion of labor (besides legalizing private slavery until 1888).[19]

If the state interventionism manifested in the coffee valorization was not a mercantilist remnant, was it a response to the new forms of business organization such as corporations, trusts, and cartels and the growing state cooperation with these business giants that were emerging in the industrialized countries at the time? The last quarter of the nineteenth century saw the development of large corporations as well as trusts and cartels often under the auspices of finance capital. Straying from the British liberal model, the states in Germany, Japan, and, to a lesser extent, France and the United

States followed policies aimed at coordinating these giants more than preventing them.

But could the European tendency to concentration and state-corporate alliance be translated to an underdeveloped export economy? Was it relevant to Brazil? Brazil was still too underdeveloped to apply the continental European model of state capitalism. After all, financial markets were tiny, corporations rare, and industry nascent. Privately held partnerships were by far the dominant form of business organization. The committee of the Associaçao Comercial that studied business organization in Brazil found but one "trust" and several cartels and syndicates. These were all commercial corners of relatively unsophisticated products for the small internal market protected by the tariff: cigarettes, lard, matches, stearic candles, and beer. They did not represent the arrival of monopoly capitalism in Brazil.[20]

The clearest and most directly applicable international precedent for Brazil's defense of coffee was the 1902 Brussels Sugar Conference. Brought together by sugar prices that in some markets were "at the lowest point that it has ever been known to reach," the leaders of the major European powers agreed to cease dumping sugar produced in their own countries (Germany and Austria) or in their colonies (Great Britain and France) into their neighbors' markets; to lower taxes on sugar imports from treaty nations; and to set a profitable minimum price for cane and beet sugar.[21] This set a precedent for state price control in an international commodity market. Revealingly, no concerned American nation such as Cuba, Brazil, or the United States was invited to the convention. The ten European nations party to the treaty imposed their restructuring of the international sugar market on the rest of the world.

Not even the Brussels sugar convention had much influence of the valorization program. Although the agreement did shape the international sugar market and put a floor under prices, it also excluded Brazil from some of its principal markets. Brazilian sugar ceased being exported. Probably the principal lesson that Brazilians drew from the pact was *not* that states should intervene in exports, but rather that the European powers would not countenance export promotion by other nations. After all, the agreement was aimed at defending cane sugar from the more efficient beat sugar and preventing too much competition through the dumping of excess production at below market prices.

The rise of state capitalism and international agreements did influence Brazil's coffee defense program indirectly. European financiers who actively participated in the creation of cartels and the forging of international agreements came to accept state economic ordering and international coordination as legitimate, useful, and profitable actions. When the Brazilian state decided to intercede in the coffee market it would find financial capital available and willing.

But what prompted the Brazilian departure from laissez faire principles if not international models? One could posit a revolution from above, a state-driven program to benefit from the relative advantages of backwardness and quickly modernize. There is some evidence of an evolving perception of the state's proper economic role. Despite the ascendancy of laissez faire attitudes and the retreat of the corporation movement, champions of the more interventionist policies of the early Republic continued from the mid-1890s on to call for greater state activism in aiding coffee. Proclaimed one federal Deputy, "The school of laissez faire . . . is today unworkable."[22] Many other Deputies agreed that greater state assistance was necessary, though most preferred state aid to private organizations rather than the creation of state-run institutions.[23]

This activist current would swell later, but the turn of the century, when the first valorization was being debated, found Brazilan state resources severely constrained and men in power ideologically opposed to an expanded state presence which they denounced, using the term of their favorite economist Paul Leroy Beaulieu, as "state socialism." Indeed in 1898 the federal treasury was on the verge of collapse and had to negotiate a thirteen-year moratorium on debt repayment. As a result, austerity guided policy. State spending was slashed and the money supply reduced in order to balance the budget and return to the convertible gold standard. State-owned railroad lines were leased to Europeans. Thus the Brazilian state manifested little evidence of being an aggressive nationalistic entrepreneur forging development. The central concern was the generation of revenue for the crippled Treasury.

Indeed, when first the state of São Paulo and then the federal government finally intervened in the coffee market, they sought not to construct a large, efficient public trading company in order to control or restructure the market; rather they believed they were struggling to reestablish the integrity of the marketplace and the free reign of supply and demand in the face of monopolizing foreign traders who were distorting the market.[24] They viewed the problem in this way because the most applicable and contemporary examples Brazilians had to guide them in coffee policy were the frequent commercial corners that merchants had attempted. While public control of commodity markets was rare, merchants had frequently attempted to dominate commodities. In Latin America, copper, nitrates, iodine, guano, and henequen all experienced short or long term commercial corners. In Brazil, in addition to cartels in the domestic lard, match, rice, and cigarette markets, merchants tried at one time or another to corner rubber, yerba mate, and monzanite sand exports as well as domestic sugar. Coffee had faced several attempted corners in the New York market, though the state had taken no defensive action on these occasions.

By 1906 conditions had changed sufficiently to require a public response. First was a structural change in the coffee market as Brazil became a victim of foreign trusts. As a Frenchman involved in trade wrote to the French Minister in Brazil:

> En effet, se servant de l'application des notions élémentaires de la science économique les Nord Americains ont mis en usage, depuis 1896, leur nouvelle maníere d'exploiter les cafés brésilién, qui consist dans la suppression des intermediaires, l'achat direct a la production, l'expedition direct au pays consommateurs, la manipulation sur les lieux de vente; et, finalemente, la vente directe a la consommation.[25]

The end result was lower costs and risks and higher profits for the U.S. buyers while Brazil's planters became obliged to sell for prices established in New York or Le Havre. Brazil was being bound closer to the world economy. An investigation in the United States Congress in 1899–1900 found that two large trusts, the Arbuckles and the American Sugar Refining Company had indeed driven down coffee's price in the U.S.[26] At the same time in Brazil independent sources of credit for planters, such as the factors (*comissários*), declined.[27]

The emergence of large financially powerful corporations overseas not only exacerbated the problems of Brazil's coffee planters, but offered a potential solution as well. With the end of the depression of the 1890s in Europe an unprecedented amount of capital became available for investment abroad at relatively low interest rates. And capital became more diversified as Paris and Berlin and to a lesser extent New York and Amsterdam challenged London's financial suzerainty. Brazil became attractive after financial reforms were undertaken between 1898 and 1902 as evidenced by the tripling of the foreign debt between 1900 and 1913, six times the rate of borrowing of the previous thirteen years and the next thirteen years. European capital also invested enormous amounts in corporations in Brazil; the new corporations founded between 1905 and 1913 had a higher level of authorized capitalization than all foreign corporations in Brazil's previous history.[28] Indeed, Brazil was of the largest recipients of foreign capital in the entire Third World, receiving more than even China and India. Therefore, even when the Rothschilds, Brazil's bankers for over half a century, initially opposed the valorization scheme, there were numerous alternatives.[29]

Brazil faced a conjunctural problem in 1906 as well as the structural impediments and possibilities discussed above. Coffee prices had fallen by 1903 to one-third their high point of a decade before, partly as a result of a 70 percent rise in international production. Prices rose a bit the next two years, but alarming early reports in 1905 warned that Brazil faced by far the largest crop in its history. The rapid expansion of new trees in the early 1890s when credit was easy and prices high combined with an unusually favorable year for rainfall and temperature to produce a crop fully 50 percent above Brazil's previous record. World production in 1905–06 had already been 61 percent above the year before; news of the monstrous proportions of the ripening crop in the face of already glutted coffee markets saw quotations fall by almost a quarter and threaten to plummet further. In some areas the value of coffee trees fell by 80 percent.

The impending doom galvanized planters to seek drastic solutions. Planters, already facing bankruptcy because of dwindling prices and growing competition among themselves, could not mount a forceful united challenge solely within the confines of civil society. Indeed, as already discussed, if left to their own devices, planters in the past had increased production and competition for markets among themselves when faced by declining prices. Planters' organizations reflected this disunity. There was no powerful national growers association; instead each coffee producing state had one or more regionally based associations. Thus, fazendeiros required state-imposed sectoral unity. Moreover, the only actors with the financial capacity and interest to aid in a market intervention, European and North American merchants and financiers, insisted on guarantees to secure their risks that only a government, with its taxation and law making powers, could offer.[30]

Merchants were willing to participate in a price support program because it would protect their own coffee stocks from the dramatic fall in prices that was threatened and would allow them to manipulate the market through control of the valorization coffee stocks. Moreover, merchants and financiers had developed a new relationship to coffee production since exporters started dealing directly with planters in the interior and prices tumbled. The British exporting house of Naumann Gepp estimated in 1902 that because of the indebtedness of the planter class "a third of coffee plantations have passed into the hands of banks, financial institutions and other firms that originally had no intention of owning and working them." The largest exporter of coffee from Brazil, Theodore Wille, wound up one of Brazil's largest fazendeiros, owning plantations in almost every coffee zone in São Paulo.[31] Exporters thus became concerned with the absolute price of coffee, not just the margin between the Brazilian buying price and the international selling price.

Thus domestic and international conditions predisposed Brazilian planters to mount a coffee combination. Yet the question remains, why was it conducted by the state rather than foreign merchants as in other cases? The answer is that initially the valorization of coffee really was a commercial corner. Although organized and underwritten by the government of São Paulo, which also retained veto power, it was financed and controlled by exporters. Borrowing initially from the German Diskonto Gesellschaft and working through an almost entirely foreign syndicate of exporters, the state of São Paulo purchased one-half of Brazil's crop and stored it off the market in Europe and the United States. The syndicate included some of the world's largest coffee exporters, roasters, and bankers[32]. These companies used the coffee stocks to guarantee the loans and to increase the price of their own stocks. Thus the first valorization was clearly not an attack on foreign exporters and financiers nor an assertion of state control.

Ironically, while foreign financiers and exporters were perfectly willing to cooperate in interfering in the world coffee market, foreign governments were much more worried about the ideological precedent that the Brazilian state's action presented. They consequently dismantled the first valorization program. The United States Circuit Court ruled that the Brazilian government was acting in constraint of trade by holding valorization coffee off the market and ordered that the stocks be sold within a few months or face confiscation. They were sold.[33] Foreign governments, much more than businessmen involved in the coffee trade, would continue to be the principal opponents of Brazil's price support programs. At different times the British, French, German, and United States governments either denied loans or bond issues for valorizations or confiscated coffee stocks. While these metropolitan states enjoyed ever closer relations with their own haute bourgeoisies, they opposed Brazil following a similar course.[34] Thus the conflict over the defense of coffee was much more one between national states than between international capitalists.

Gradually, and haltingly, the Brazilian state came to subordinate its foreign financial and exporting partners in the valorization of coffee. As we have seen, the defense of coffee resulted from a liberal states's effort to protect its principal commodity and its income, not from a corporate state seeking accelerated development. State officials did not enter into the valorization of coffee with a fully formed objective of restructuring the market and the state's place in it. Rather, the successful experience with the coffee valorization projects gradually revised the hegemonic notion of the state's proper place in the marketplace. In other words, the expanded conception of the economic role of the state was more a result than a cause of the valorization of coffee.

The first valorization was an ad hoc effort that had not materially altered the Brazilian state's role in the economy when the price support program ended in 1913. Its success, however, set an important precedent. Because of São Paulo's earlier success with the first valorization, the federal government quickly intervened when prices threatened to plunge in 1917. The small financial demands of the second program and the impossibility of tapping the capital markets of worn-torn Europe meant that the state financed the second valorization by simply issuing additional currency. Foreigners exercised no control.

However, when coffee prices tumbled again in 1921, much greater state purchases were necessary to reestablish prices. Consequently, the federal government turned to European capital again for the third valorization (1921–24). Just as in the first, the bankers who extended the loans controlled the stocks. The success of this effort, and the hostility of Brazil's President Arthur Bernardes of Minas Gerais to an institutionalized federal coffee defense program, convinced the state of São Paulo to go it on its own beginning in 1924.

São Paulo now found foreign financiers competing to place loans and willing to lend without demanding control of the coffee stocks. Abundant international capital markets combined with São Paulo's proven capacity to mount a successful price support program provided the state with generous loan conditions and considerable autonomy in conducting the Paulista Institute for the Permanent Defense of Coffee. International financiers had become accustomed to state economic oversight and cartels. At the same time, participants in the coffee trade such as the North American roasters preferred stable prices and supply, even at somewhat higher prices, to the unpredictability of the unfettered market.[35]

Enormous crops in 1927–28 and 1929–30 along with the collapse of the international market for coffee during the Depression eventually destroyed the Paulista coffee institute. Initially European bankers and exporters provided emergency funds and reasserted their economic dominance. But by 1933 the federal government took over the defense of coffee and resumed control of coffee policy and of the market. Between 1931 and 1944 the federal government used funds extracted from a tax on coffee to purchase and destroy some 78 million bags of coffee. That was the equivalent of three years of world consumption; if stacked up sixteen bags wide, 78 million bags would create a mountain higher than the Himalayas. In addition to regulating Brazilian coffee supply, the federal government entered into the Inter-American Coffee Agreement in 1940 with thirteen other Latin American countries and the United States to set national quotas and raise coffee's price. The international pact was made necessary by increasing competition from other Latin American producers who used the umbrella of Brazilian price supports to increase their own production. It was made possible by Brazil's success at shaping world supply; greater United States acceptance of state economic interventions because of its own New Deal experiences; and North American desire to avoid Latin American alliances with Germany.

As a result of the valorizations, state and federal institutions and finally the Inter-American Coffee Agreement, the world coffee market by 1942 was vastly different from the one the three governors had confronted that February day in 1906. The Brazilian state now controlled much of the financing (through state banks), transporting (through state railroads), warehousing (in public warehouses), and sales of one of the world's most traded commodities: coffee. International sales and prices were regulated by the central government and an international treaty of the world's principal suppliers. On the plantation, however, little had changed. The various coffee defense programs had always been concerned with elevating the price of coffee. Coffee productivity had not been an issue because Brazil was simply the world's most efficient producer. Nor were efforts made to reform the relations of production because subordinate classes could not contest planters' hegemony in the countryside. No land reform, no significant labor reforms, no redistributionist policies resulted from the state's command of the coffee economy. After all, coffee planters continued to exercise considerable state power under both the liberal First Republic and then under the more populist Vargas regime which directed its reforms to the urban population.

Consequently, Brazilian coffee defense programs were quintessentially state capitalist.

Henequen

The Yucatecan hacendados who gathered in Mérida in 1906 to form the Cámara Agrícola de Yucatán had good reason to believe that they could valorize the international price of henequen. In many ways their position seemed as strong as that of Brazilian coffee planters. Henequen, used for making sisal hemp, had become a major Mexican export after Cyrus McCormick invented the twine-binding reaper in 1878. It shared many characteristics with Brazilian coffee that should have encouraged a price support program. Like coffee, the henequen cactus was a fixed asset; it required five to seven years before its first harvest and then was commercially viable for another twenty years or so. And hacendados were quite dependent on it. Little else was grown on henequen plantations; indeed the soil and minimal rainfall in the henequen producing area were not suitable for any other profitable crop. Thus Mexicans were even less able to diversify out when sisal prices fell than Brazilians who could and did begin planting cotton on São Paulo's fertile, well-watered virgin lands.[36] Moreover, sisal fiber, as coffee, could be held off the market for several years while waiting for the price to rise without fear of spoilage.

Geography also facilitated a possible henequen cartel. As with coffee, Mexican sisal exports were concentrated in one province, Yucatán, which was one of the country's richest. The province had long enjoyed considerable local autonomy, even going so far as declaring its independence in the 1830s and seeking annexation to the United States in the 1840s.

Sisal exports were vital locally and important nationally so that the sector's fate had broad implications. The entire local economy turned on the profits made with henequen. In the Yucatán, henequen occupied 70 percent of all cultivated land, half the population, and supplied 95 percent of exports by the turn of the century.[37] Perhaps as much as one-third of Yucatán's population in 1910 lived permanently on henequen plantations.[38] The importance of export receipts to the peninsula was amplified because the local market was quite restricted and few products were sent to the Mexican mainland. Nationally, sisal constituted Mexico's third largest export overall and its largest agricultural export.

Yucatán was not only the exclusive Mexican producer of henequen, it also was the world's main supplier. Yucatecan henequeros, as Paulista planters, had substantial market power. At the turn of the century, in fact, all of the world's sisal came from the Yucatán.[39] And it was a product in secular ascent. Between 1870 and 1915 exports grew from 30,000 bales to 950,000 bales as North American farmers needed to bind ever more wheat.[40] And, as with Brazilian coffee, henequen planters were Mexican nationals who were politically hegemonic in Yucatán. The provincial state was an instrument of their rule which presumably would defend their interests. Roughly two to three hundred planters controlled all the production with a smaller group of twenty to thirty families (the "Casta Divina") responsible for producing over half and controlling perhaps 90 percent of the total.[41] These planters, as with Paulista fazendeiros, had the reputation for being extremely independent and entrepreneurial. Despite the slave-like labor conditions that John Turner and Karl Kaerger revealed on Yucatecan plantations, the planters who imposed them were capitalists.[42] After all, an average henequen plantation required an estimated $130,000 to finance its first seven years until production began.[43] Unlike in the rest of Mexico, little foreign capital bought up the peninsula's public utilities, banks, railroads, ports, and land. They were virtually all owned by Yucatecos. Even the largest henequen-exporting house was owned by a local son. (In São Paulo public utility companies and some of the most important banks and railroads as well as most exporting houses were foreign-owned.) One would assume that henequeros would wed their political power and their economic aptitude to form an effective cartel.

After all, the Yucatán's state government, which by 1906 had the largest revenue of any Mexican state, had a long history of supporting henequen planters. It was particularly helpful in the primitive accumulation process. During the bloody Caste War which began in 1846 and was not entirely settled until 190l, the province had funded soldiers to keep the rebellious Mayans at bay. The province also legalized the division of communal indigenous lands and sided with hacienda owners when they forcefully purchased or seized them. State courts and police played an important role in guaranteeing the debt peonage system, providing corvee labor, and securing Yaqui indian slaves from the province of Sonora. The treasury also provided subsidies for the transportation and public utility infrastructure. It even provided subsidies to stimulate cordage factories in the Yucatán. This is far from the night watchman role the liberal state was supposed to fill.[44]

It would seem that Yucatecan sisal growers enjoyed the same advantages that Paulista fazendeiros welded into a successful price support program. Given the similarities to coffee planters' position, it would seem that Yucatecan henequeros would be able institute a public valorization program just as did the Brazilian coffee growers.

Certainly the Mexican hacendados perceived a need for help. Beginning in 1902, the price of henequen plummeted. From a high that year of ten U.S. cents per pound, it fell to under four cents by 1911.[45] The drop was precipitated by market conditions and collusion. After the United States quashed the independence movement in the Philippines, one of Yucatán's principal competitors, its U.S.-imposed governor stimulated the resumption of henequen production there. Philippine manila exports to the U.S. more than doubled between 1899 and 1903.[46]

More importantly, at the same time International Harvester (IH) was created out of the five largest agricultural machine manufacturers in the

United States and set out to corner the Yucatán's market. In 1902 IH agreed to purchase from O. Molina and Company, one of the two largest Yucatecan exporting houses, and extend the exporter credit in exchange for lower prices. IH, at the same time convinced the other large exporter in the Yucatán to not bid higher prices than Molina. The two IH-linked exporters were responsible for over 80 percent of all exports over the next decade, reaching the impressive sum of 99.8 percent in 1910. IH was purchasing over 90 percent of Yucatán's henequen at that point. Since the Mexican industry had always been dependent on North American sources for working capital, the two exporters not only had a guaranteed market in the U.S., but also dominated credit in Yucatán. This forced otherwise uncooperative planters to sell to them at ever lower prices.[47]

Henequeros had, in fact, had a much greater tradition of attempting joint action to elevate prices than had Brazilian coffee planters before 1906. However, Yucatecan efforts in 1878, 1887, 1890, and 1894–95 had come to nothing. A producer agreement in 1901 to hold henequen off the market ended when a great warehouse fire burned sisal stocks and forced planters to sell remaining supplies to cover the losses. In 1904, a competing mercantile house attempted to organize planter resistance to IH but discovered its resources were insufficient to the task.[48]

In 1906 the Cámara Agrícola de Yucatán was created. It negotiated a large loan to hold henequen off the market, but the depression of 1907 and political machinations forced the sale of the henequen valorization stocks. Another hacendado organizations was formed 1911 to fight declining prices but was unable to mobilize sufficient support and resources.

Thus henequen planters' past history demonstrated that they were too disunited to mount a successful private price support program. Divided into rival clans contending for the political influence that was so vital to economic success and indebted to the commercial houses, henequeros could do no more than create "short-lived complaining confraternities" when prices dropped.[49] Realizing their vulnerability, henequeros sought assistance from the national and provincial states; but neither intervened directly in the henequen trade despite the critical situation and the importance of henequen.[50]

Only after the Revolution were there successful state interventions in the henequen market. In 1912 the Comisión Reguladora del Mercado de Henequen was founded. It successfully raised prices by taxing exports to raise funds for stockpiling henequen. However it was broken by a combination of aggressive action by Molina and Company's successors (Avelino Montes S.C.) and forced loans extracted by the federal government under the military dictator Huerta which deprived the Reguladora of resources.[51]

In 1915, Salvador Alvarado, imposed on Yucatán as governor by the armed forces of the "revolutionary" General Venustiano Carranza, resurrected the Reguladora. This was part of a more radical reform that included nationalization of the railroads and agrarian reform. By accumulating financial resources through the export tax, and borrowing US$10 million from a United States banking syndicate, the Reguladora was able to break the hold of the Avelino Montes S.C. commercial house temporarily. The provincial institution advanced funds in return for five-year advance sales agreements with henequeros. Some 90 percent of all producers entered into these agreements. The power of the state, unusual demand because of World War I, and the U.S. government policy of stockpiling strategically important commodities combined to more than double the price by 1918; it reached the unheard of level of twenty-three cents a pound.

However, with the end of the war, demand slackened. Moreover IH and other twine manufacturers gradually turned to other sources as the high wartime prices convinced European powers to foment fiber production in their Indonesian and African colonies, undercutting Yucatecan market power. The price tumbled again, the Reguladora was left with 800,000 bales in storage. Battered, the Reguladora withdrew from the market and planters were released from their futures contracts.[52]

By July of 1921 Yucatán's governor, the socialist Carrillo Puerto, revived the state's presence in the henequen market through the establishment of the Comisión Exportadora. The Exportadora was part of a larger effort to restructure the economy and social and power relations on the peninsula. It freed the many smaller producers from the financial suzerainty of Avelino Montes S.C. through a provincial marketing institution. After initial opposition from the U.S. government and U.S. buyers, the Exportadora successfully maintained stable prices in its three years of existence, 1921–23. Carrillo Puerto succeeded during this brief period because he accepted lowered world prices, (6.6 cents a pound rather than 23 cents that had obtained at its height in 1918). He also handed over the monopoly of export sales to a North American banking consortium, ERIC. Thus the Exportadora did not attempt to influence the international price of henequen. Rather, it operated as a cooperative, securing favorable credit, transportation, and sales commission rates domestically. Planters accepted the lower prices because the Exportadora returned a much greater share of the international price to the producers than had the Reguladora or than had the private exporters before. Most importantly, henequen was still profitable at that price and planters had few attractive alternatives.

Initially the state institution strengthened henequen hacendados, particularly smaller planters. Ultimately, however, Carrillo Puerto planned to use it to restructure Yucatán's agrarian sector. He carried out land reform and began funneling a quarter of the Exportadora's profits to henequen workers to create cooperatives. Unfortunately, he was overthrown before he could carry out his program.[53]

Nonetheless, Alvarado's and Carrillo Puerto's efforts had a lasting legacy. President Calles established the Henequeros de Yucatán Cooperativa Limitada in 1925 to serve as the province's sales and financial agent. He also continued with land reform. As part of national reforms demanded by some of the Revolution's victors, almost 400,000 hectares were distributed to ejidos (communal organizations) between 1915 and 1933. These first reforms were undertaken to win mass popularity for the Revolution's populist leaders and thereby increase their relative autonomy without excessively alienating the defeated Porfirian ancien regime. Thus while a substantial amount of land was distributed, it tended to be marginal; henequen plantations were left alone. Under Lázaro Cárdenas (1934–40), however, this policy finally culminated in a substantive restructuring of agrarian relations in Yucatán as well as on the mainland. Cárdenas turned over 61 percent of the henequen lands to ejidos. This was certainly the first and one of the very few land reforms in Latin American history that redistributed land producing an important export. The land reforms definitively broke the power of henequen hacendados as, at the same time, the federal government came to occupy a permanent position in finance and sales.

This greatly expanded state role in henequen, however, did not affect the commodity's international price since by the 1920s henequen was already in substantial decline. Prices remained low. Moreover, the Yucatán lost influence in the world economy as Mexico's share of international sisal production fell from 98 percent in 1908 to 53 percent in 1929 and 14 percent in 1935.[54] Indeed, it was the weakened position of henequen that made the redistribution of henequen lands feasible. International competition had weakened planters by reducing profitablity, eroding their international market power, and sharply reducing sisal's share of Mexico's exports. In other words, henequen planters had lost their international economic clout and national political influence so the reforms could be imposed from outside the peninsula.

Clearly, state intervention in Yucatán was quite different than in São Paulo. São Paulo planters succeeded in establishing a permanent defense under the aegis of a liberal oligarchic state that propped prices up while continuing to dominate international production. In the 1934–48 period, Brazil still supplied an average of 54 percent of the world's coffee. Although the Permanent Defense Institute had no representatives from the coffee producing community after its first years, it was clearly an assertion of planter hegemony. Property relations were never affected, although valorization did increase the role of individual small producers.[55]

In Mexico, the liberal Porfirian state refused to aid henequeros when prices fell. Assistance came only after the Revolution. Then it grew mostly out of the revolutionary experience with commissions that were established all over Mexico to compensate for market failures as well as a desire on the part of the central government to capture funds by skimming off a large part of the henequen earnings. The revolution in Yucatán was not born of domestic forces, but rather was a "revolution from without," imposed by national forces. Thus planters and particularly the Casta Divina opposed Alvarado's Reguladora. They viewed it more as a colonial imposition than a manifestation of planter hegemony. The reforms of Carrillo Puerto, Calles and Cárdenas were efforts to restructure social and political relations in Yucatán to create a new constituency for progressive policies. Not only were these policies not meant to benefit the henequero ruling elite, they were intended to undermine that elite. But while the Revolution's leaders sought to reorder the domestic social sphere in a way that Brazilians never imagined, the reforms refrained from defending Yucatán's position in the international economy.

This leaves the fundamental question of why the Yucatecan planter elite was unable or unwilling to use the liberal state that they controlled before 1912 to defend themselves in the international market. Partly there were external reasons. The market and political position of Yucatecan henequen did differ from Paulista coffee in some important ways. First, the Yucatán was much less nationally important than was São Paulo. While São Paulo alone held 14 percent of Brazil's population in 1910 and all the major coffee-growing provinces held almost 40 percent, the Yucatán accounted for only 2 percent of Mexico's inhabitants.[56] And while henequen was an important export, it contributed generally about 10 percent of all national exports while Brazilian coffee supplied 57 percent at the turn of the century and still 42 percent in 1910. In absolute terms, henequen exports earned about US$11 million in 1906 while Brazilian coffee brought in US$104 million. Moreover, while the Yucatan by 1906 collected the greatest tax revenues in Mexico, it only brought in about US$1.4 million while São Paulo collected ten times that much.[57] Clearly, coffee was much more important nationally and internationally than henequen and the coffee-growing provinces had more resources at their command than did the Yucatán.

The Yucatán also faced an unfavorable international market situation. Almost all Mexican sisal was sold to the United States where, after the creation of International Harvester in 1902, that one company purchased some 90 percent of Mexico's shipments. Coffee did not face the same oligopsony. A third to a half of Brazil's coffee was sold to countries other than the United States. Even within the United States, several large roasters and retailers competed. Efforts to corner the coffee roasting business, such as attempted by the Havermeyer and Arbuckle companies in the 1890s, failed.

There were also more merchants involved in the coffee trade than in henequen because of its larger size. Around the turn of the century eight firms representing three or four countries handled about two-thirds of Brazil's coffee exports. In contrast, in the Yucatán two firms averaged some 60 percent of the crop in the years 1896–1902 and from 1902–14 shipped between 81 and 100 percent of the crop.[58] One of the firms was North American and the other Yucatecan but both received most of their financing from IH

It has been argued that henequen was fundamentally different than coffee because it was a much smaller crop. Consequently one firm could monopolize its trade.[59] While this makes sense, it does not explain why the state was reluctant to intervene to defend planters when henequen prices fell precipitously after 1902. After all, since henequen was easily monopolized and a small crop, the Yucatecan state government conceivably could have borrowed abroad the relatively small amount necessary to hold the crop off of the market. International portfolio capital was abundant in the first decade of this century.

Coffee was in many ways a more difficult proposition. Brazil produced usually two-thirds of the world's crop, not 90 to 100 percent as with Yucatecan henequen and even within Brazil it was spread out. São Paulo contributed two-thirds to 80 percent of Brazil's coffee, not the entire crop as did Yucatán.[60] Moreover, coffee was not relatively as important to São Paulo as henequen was to Yucatán. Saã Paulo's fertile virgin soil could easily accommodate other crops, as it did when a temporary ban on new planting was in effect the first few years of this century and it had substantial industrial and agricultural production aimed at the internal market. Yucatán was much more the classical monocultural economy. And the expense of holding the coffee crop off of the market was much greater than with henequen. The first valorization (1906–12) borrowed some US$26 million while Yucatán successfully held its crop off the market when a state program was imposed from outside in 1915 at the cost of $10 million.

One could not accuse an international political or financial conspiracy for the differing success of coffee and henequen. Coffee, as henequen, faced tremendous opposition. The Rothschilds, Brazil's principal banker, other major financiers and the U.S., French, and British governments all sought to block the valorization programs.[61] They attempted to deny São Paulo funds and a listing on the stock market as well as force the sale of the valorization coffee stockpile. Nonetheless, the world was sufficiently awash in capital in the two key decades that various bankers competed with each other to lend to Brazil. At first they entered into agreements to control the coffee stocks, but eventually they issued capital without retaining control.[62] This could have also happened for henequen.

The nature of the world market explains part of the reluctance of the liberal Yucatecan state to valorize henequen. Brazil faced no competitors who could grow coffee as cheaply nor who could rapidly construct the infrastructure to meet world demand. Since technology and capital requirements were relatively low, climate, land, transport costs, and available labor were the most important factors. No one else in the world could match Brazil's resource endowment and facility of transport. Moreover, Brazil's competitors were small, poor, independent Latin American nations which could not quickly expand production. While it is true that Yucatecan produced sisal more cheaply than any of its competitors and enjoyed the advantage of proximity to the U.S. market, numerous other areas in the world could rapidly expand their henequen or manila production. Areas with more rainfall could harvest sisal twice a year while Yucatán only harvested once.

Moreover, the competitors were colonies of the major purchasing powers. The United States freed Philippines' sisal from import duties and encouraged its production in other ways once the islands were taken over after the Spanish-American War. European powers began growing sisal on their African and Asian colonies to reduce dependence on Yucatán. Sisal probably struck colonial administrators as an important crop to grow not only because it thrived on more marginal lands but because of the strategic importance of rope in war time in this pre-plastics era. Thus Mexican state control of sisal supply led much more rapidly to international diversification of production than with coffee (though it did eventually happen with coffee as well). While other areas could not undersell Yucatán in the ultimate instance, they could keep prices from rising much. And colonial reasons of state sometimes overrode economic considerations in chosing the supplier of sisal. Thus a price support program was doomed to failure over the long run. Still, because sisal required six year to mature, Yucatán could have realized healthy short-run profits, as it did during World War I, before competitors started to flood the market.

A second feature of the market for sisal also militated against a Yucatecan price support program. IH's main concern was selling binder-reapers, not twine. Theoretically, higher prices for henequen could be passed on to their consumers who would have to buy the machines and the twine in any case and could not yet turn to synthetic alternatives. But the reason IH wanted to drive down henequen's price was more political than economic. Fearing the rising tide of trust busting in the United States, IH directors, having cornered the market for agricultural machines, did not want to appear as profiteers to their farmer customers. In coffee this was not a concern since no trust had arisen, although an attempt had been made in the 1890s. In fact, coffee roasters supported valorization if it provided stability at a reasonable, though higher price because it would protect their own stocks from sudden fluctuations.[63]

The other major difference between Yucatán and São Paulo concerns the social structure and the nature of the state. In São Paulo few planters were also exporters. At the turn of the century Brazilian houses exported only 10 percent of the country's coffee and at its height before 1930 they only provided only about one-third. Financing of the coffee economy was also primarily done by foreign exporters and banks. This division of labor by nationality meant that the state was dominated by planters but not exporters or financiers and that planters could couch their pleas for state aid in nationalistic terms.

The situation in Yucatán was quite different. As Guerra has pointed out, during the Porfiriato: "Political favor was the source and the condition of wealth, not the inverse."[64] Because of the state's large role in the primitive accumulation process, state connections were vital for attaining wealth. Until 1902 in the Yucatán there had been a bit of a separation between the economically powerful and the governorship as Porfirio Diaz imposed trustworthy candidates on the province. After 1900 he began allowing the local wealthy direct control of political power in Yucatán as in many other important provinces. Oligário Molina had used his political connections won in battle in the civil wars of the nineteenth century to begin enriching himself. He became a prominent merchant and director of the largest railroad in Yucatan. In 1902 he was appointed governor by Diaz; in the same year he signed his accord with IH Thereafter his exporting house came to overshadow the competition and he bought up the haciendas of indebted planters. He quickly became the largest landowner on the peninsula. The financial resources now available to him through his connection with IH allowed his extended family to expand their hold on the Yucatecan peninsula. By 1910 the small in-bred Casta Divina controlled half the henequin land and 90 percent of the henequin exports. Thus the governor of Yucatan was also the leading hacendado and, more importantly the leading exporter, creditor, and collaborator with IH[65]

Molina's position as oligopsonic exporter, leading banker, great landlord, and governor meant that the state's relationship to the export producing class in Yucatán differed considerably from São Paulo. One could not defend the interests of planters as a class against foreign exporters and bankers as essentially was the case in Brazil. Rather, henequen planters had more divided loyalties since some benefited from the financial and political power of the Molina group. And the state had a greater interest in representing exporters and financiers since Molina viewed the state as his patrimony. Therefore a state-run price support did not appear attractive to the politically dominant fraction of the Yucatecan elite allied with Molina. That is, rather than strengthen the hand of the rural planter oligarchy as did the valorization of coffee, a henequen price support program would undercut the richest, most powerful Yucatecans whose success came from their role as merchants and financiers more than as planters.

Molina used his influence to assure that not only did the provincial government of Yucatán not come to the aid of the planters caught in the grip of his exporting house's commercial and financial monopoly, but also prevented federal aid. He succeeded despite the fact that the federal government was in many ways pre-disposed to helping henequen hacendados. After 1900 the federal government became increasingly interventionist and nationalistic. It nationalized most of the railroad system and handed oil concessions to a British company in order to fight the Rockefeller-Harriman trust. In the Yucatán Diaz prevented the sale of the railroad system to IH for just such nationalist reasons.

Moreover, Diaz and Limantour had no ideological opposition to a state-aided cartel. In 1906 a group of Mexican and foreign capitalists were granted a monopoly on dynamite production and sales. In the same year, the Mexican government attempted to reach an agreement with the United States and Germany, Britain and France that would stabilize world silver prices.[66] Yet, little aid came to Yucatecan planters. In 1906 Molina was named Minister of Development which tightened his grasp on the central government. Ironically, in other spheres Molina was winning himself the reputation as a nationalistic Minister; he was unfavorable to foreigners purchasing Mexican mines. But for personal reasons he did not turn his nationalism against IH When the indebted planters went to Mexico City to talk to the Minister of Finance, who at the time had fallen out with Molina, they were granted a substantial loan to help them keep their henequen off the market. The next year, however, Molina reached an accommodation with the Minister of Finance and the loan was recalled. Nothing else was done for Yucatan's planters until the Revolution imposed new institutions on the Casta Divina.[67]

Molina had the argument that convinced the Mexico City elite because the *cientificos* directing Mexican economic policy applauded bigness and efficiency. The conflict in Yucatan, in their eyes, was between different Mexican fractions. Molina represented the "modernizing" entrepreneur who participated in national railroad, financial, banking, and industrial enterprises. He asserted the power of capital over land which was the cientifico project. In Brazil, the state never had to make this choice because planters often were also diversified entrepreneurs and, more importantly, were not important exporters or financiers.

Conclusion

The Brazilian state succeeded in becoming the first Third World state to control the international price of an important commodity because of an unusual confluence of structural factors, events, and personal decisions. Biology determined that coffee trees were fixed assets whose crop varied year to year and which could be held off the market. It also drove planters to increase production even in the face of declining prices making it difficult for civil society to construct its own solutions to coffee crises. The plant's unusual success and concentration in the state of São Paulo meant that economically the crop was extremely important to both São Paulo and Brazil and occupied a dominant position in the world market. And the fact that coffee production was dominated by a small entrepreneurial and well-connected native elite, who faced few influential opponents in the decentralized oligarchical regime of the First Republic, made a state-led solution possible. The enormous crop of 1906, the increasingly oligopsonic position of foreign exporters, and an eager and abundant international capital market made a state-directed solution feasible and necessary.

Still, as the comparison with Yucatecan henequen demonstrates, these biological, economic, and political factors were not sufficient to guarantee a successful state cartel. Yucatecan henequen shared most of Paulista coffee's characteristics. Yet, no state price support program was launched until the Revolution intervened from outside to undermine henequen hacendados, not support them. The main differences were that Yucatán's exports enjoyed a less important national prominance; faced more competition from European and U.S. colonies; and was captive of an oligopsonic buyer with an interest in keeping down prices. Perhaps the most important difference, however, was the role of foreigners in the trade and the state's relationship to civil society. In Brazil, the state clearly defended Brazilian planters against foreign exporters; in the Yucatán, to a considerable extent the state *was* the exporter-governor Oligário Molina. Thus the Paulista state was an oligarchic regime defending a class while the Yucatecan state, until the Revolution, was a patrimonial regime representing a clan.

The comparison of coffee and henequen cautions against simplistic theories. In neither case was the state simply an instrument of the ruling class. National and local concerns, foreign and native interests, and sectoral and familial cleavages all mediated state action. Nor did European demonstration effects cause Latin American economic liberals to adopt a more interventionist stance. In Brazil, particularly, the expanded notion of the state's proper economic role was more a result than a cause of the valorization of coffee. Foreign interests also reveal divisions. Individial capitalists in pursuit of profit and stability were as likely to assist state action as thwart it. European and North American exporters and financiers were willing to precide over, or at least participate in, their own long-run demise in the Brazilian economy as long as they got a good share of the short-run profits. Only foreign states, charged with more systemic concerns, objected to state price controls on ideological grounds.

This comparison also suggests the very different social content that state interventions can manifest. In Brazil, the state intervened to defend planters in world commerce because of the interests of fazendeiros and the treasury. The result was a state capitalist program that Brazilianized the coffee economy while ignoring social relations. In Mexico, state reforms proved more reformist, attacking hacendados rather than protecting them. The different outcomes had less to do with the world economy or the extent to which the two planter classes were "modern," than with national politics. Mexico had a revolution of sorts, Brazil did not. The governors who met that steamy February day in Taubaté had no notion that their actions would set in motion a chain of state actions that ultimately would restructure the economy and the state's proper role in it. They might have been appalled had they been able to see into the future. But they would have felt vindicated to know that state capitalism was still very much capitalist and that the descendants of the planters who hosted them in Taubaté still owned the land.

Notes

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[2] Although the provisions of the Taubaté agreement never were enacted, the pact did provide the political momentum that led to São Paulo's coffee defense programs.

[3] J. W. F. Rowe, *Studies in the Artificial Control of Raw Material Supplies: Brazilian Coffee* (London, London and Cambridge Economic Service, 1932), p. 5. For more specifics on the defense of coffee see: S. Topik, *The Political Economy of the Brazilian State, 1889–1930* (Austin, University of Texas Press, 1987), pp. 59–92.

[4] In 1889, of all commodities shipped, only grains and sugar had greater value than coffee, each being worth about 20 percent more than coffee, M. G. Mulhall, *The Dictionary of Statistics* 4th edn (London, George Routledge and Sons, 1899), p. 130.

[5] In 1929, coffee comprised 71 percent of Brazil's exports, and 60.6 percent of Colombia's but 76.6 percent of Guatemala's, 77.1 percent of Haiti's and fully 92.6 percent of El Salvador's, V. D. Wickizer, *The World Coffee Economy with Special Reference to Control Schemes* (Stanford, Food Research Center, 1943), p. 22.

[6] R. Santos, *História econômica de Amazonia* (São Paulo, Thomas Queiroz, 1980), pp. 232–59; B. Weinstein, *The Amazon Rubber Boom (1850–1920)* (Stanford, Stanford University Press, 1983), pp. 213–61.

[7] M. Monteon, *Chile in the Nitrate Era, The Evolution of Economic Dependence* (Madison, University of Wisconsin Press, 1982), pp. 64, 122, 123; R. Greenhill, "The nitrate and iodine trades, 1880–1914" in *Business Imperialism*, ed. D. C. M. Platt (Oxford, Oxford University Press, 1977), pp. 238–53, 270–5; J. R. Brown, "Nitrate crises, combinations and the Chilean government in the Nitrate Age," *Hispanic American Historical Review*, 43, 1963, pp. 230–46. The Peruvian government had unsuccessfully attempted to corner the nitrate trade in the 1870s, see: R. G. Greenhill and R. M. Miller, "The Peruvian government and the nitrate trade, 1873–1879," *Journal of Latin American Studies*, 5, 1973, pp. 107–31.

[8] W. M. Mathew, "Foreign contractors and the Peruvian government at the outset of the Guano trade," *Hispanic American Historical Review*, 52 (4), Nov 1972, pp. 603–20; Mathew, "Anthony Gibbs and Sons, the Guano trade and the Peruvian government, 1842–1861" in *Business Imperialism*, ed. Platt, pp. 337–70.

[9] M. Font, "Coffee planters, politics and development in Brazil," *Latin American Research Review*, 22 (3), 1987, pp. 69–90; Topik, *Political Economy* and "The state's contribution to the development of the internal economy, 1850–1930," *Hispanic American Historical Review*, 65 (2), 1985, pp. 203–28; A. V. Martins Filho, *A economia política do café com leite* (Belo Horizonte, Universidade Federal de Minas Gerais, 1981); W. Fritsch, *External Constraints on Economic Policy* (Pittsburgh, University of Pittsburgh Press, 1988). A notable opponent of this position is Joseph L. Love and Bert J. Barickman, "Rulers and owners: A Brazilian case study in comparative perspective," *Hispanic American Historical Review*, 66 (4), 1986, pp. 743–65.

[10] See Topik, *Political Economy*, ch. 3.

[11] J. Love, *São Paulo in the Brazilian Federation, 1889–1937* (Stanford, Stanford University Press, 1980), p. 17.

[12] In 1925, only 8 percent of São Paulo's coffee trees belonged to foreign investors (as opposed to immigrants who owned another 8 percent). See R. Greenhill, "The Brazilian coffee trade" in *Business Imperialism*, ed. Platt, pp. 208–14; S. Zimmerman, *Theodor Wille* (Hamburg, Verlag Hanseatischer Merkur, 1969).

[13] Weinstein, *Amazon Rubber Boom*.

[14] M. G. McCreery and M. L. Bynum, *The Coffee Industry in Brazil* (Washington, US Department of Commerce, report no. 92, 1930), p. 97.

[15] V. D. Wickizer, *Coffee, Tea and Cocoa* (Stanford, Food Research Center, 1951), pp. 29, 36–9, 463; T. Holloway, "Migration and mobility: Immigrants as laborers and landowners in the coffee zone of São Paulo Brazil, 1886–1934," PhD dissertation (University of Wisconsin, 1974), pp. 88–98; A. de E. Taunay, *História do café do Brasil* (Rio de Janeiro, Departamento Nacional de Café, 1943), vol. 13, p. 227.

[16] J. D. Villars, *O café e sua produçao e exportaçao* (São Paulo, Instituto de Café do Estado de São Paulo, 1927), pp. ii, iii; F. F. Ramos, *The Valorization of Coffee in Brazil* (Antwerp, J.E. Buschmann, 1907).
[17] In non-Scandanavian Europe, particularly France and Italy, coffee was something of a luxury because of high import duties. Coffee entered the U.S. duty-free.
[18] For this view see R. Faoro, *Os donos do poder, formaçao do patronato político*, 2 vols. (São Paulo, Editora Globo, Editora da USP, 1975); F. Uricoechea, *O minotauro imperial, a burocratizaçao do Estado patrimonial brasileiro no século XIX* (Rio de Janeiro, DIFEL, 1978).
[19] The limited nature of state assistance is clear in the proceedings of the *Congresso Agrícola, Colleçao de Documentos* (Rio de Janeiro, Typ. Nacional, 1878) which was called when for the first time the central government consulted planters from the Southeast on public agricultural policy. The Northeastern meeting held the same year demonstrated even greater dissatisfaction with state agricultural aid: *Trabalhos do Congresso Agrícola do Recife em Outubro de 1878* (Recife, Typ. de Manoel Figueiroa de Faria & Filhos, 1879).
[20] Congresso Brasileiro de Expansão Econômica, *Congresso Brasileiro de Expansão Econômica reunido no Rio de Janeiro de 17 Julho a 25 Agosto de 1905* (Rio de Janeiro, Imprensa Nacional, 1906), passim.
[21] Royal Jamaican Society of Agriculture and Commerce and Merchant's Exchange to Mr. Chamberlain, Kingston, March 12, 1902, in U.K. *Accounts and Reports*: *Commercial and General Interest*, 1902, vol. 104: "Correspondence relating to the Sugar Conference at Brussels" (London, His Majesty's Stationary Office, 1902), p. 60.
[22] Brasil, Câmara dos Deputados, *Anais* 1905, vol. 7, p. 28. See also Joao Candido Rodrigues in *Correio Paulistano*, February 13, 1906, p. 1.
[23] For examples of congressional sentiment see Câmara dos Deputados, *Anais*, 1899 vol. 6, pp. 213, 217, 516; 1901 vol. 6, pp. 213, 377 and vol. 7, pp. 245, 246; 1902 vol. 11, pp. 56, 60; 1904 vol. 4, pp. 133, 141.
[24] For attacks on coffee exporters see Brasil, Camara dos Deputados, *Anais,* 1899 vol. 6, p. 516; 1901 vol. 6, p. 213; 1904 vol. 4, pp. 133, 134; *Gazeta de Notícias*, 16 March 1906, p. 1; Jornal do Commércio, *A baixa do café* (Rio de Janeiro, Jornal do Commércio, 1898), pp. 16, 45.
[25] Emile Nusbaum to Baron D'Anthouard de Wasseras, Rio de Janeiro, November 1899 in Afonso Pena archive, 13–2.1.11B. This phenomenon was not restricted to Brazil, the *Mexican Herald*, July 17, 1899, p. 4 reported that two major North American importers controlled exports in the Pachuco area as well.
[26] United States, 56th Congress, First Session, 1899–1900, House Documents vol. 93, No. 476 Industrial Commission Reports, vol. 1 *Trusts, Preliminary Report*, p. 61.
[27] Centro do Comércio to Afonso Pena, Rio de Janeiro, April 18, 1907, 13.2.1.2.
[28] Brasil, Departamento Nacional de Industria e Comércio, *Sociedades mercantis autorizadas á funcionar no Brasil, 1806–1946* (Rio de Janeiro, Imprensa Nacional, 1947), pp. 101–43; A. Villela and W. Suzigan, *Política do governo e crescimento da economia brasileira, 1889–1945* (Rio de Janeiro, IPEA/INPES, 1973), p. 451. Incorporations calculated from *Leis do Brazil*, 1889–1911 passim from incorporation documents on foreign companies. D. C. M. Platt, *Britain's Investment Overseas on the Eve of the First World War* (London, Macmillan, 1986), pp. 133–8; W. A. Lewis, *Growth and Fluctuations, 1870–1913* (London, George Allen & Unwin, 1978), pp. 115–78.
[29] As the Rothschild's representative wrote Brazil's Minister of Finance, London February 19, 1907, N. M. Rothschilds and Sons archive, London, XI-111/37: "We doubted the success of the valorization scheme, hitherto all efforts artificially to increase the price of produce have failed." The Rothschilds refused to issue bonds for the valorization.
[30] The Rothschilds were unwilling to lend to states and municipalities, much less private organizations. They insisted on dealing with the federal government, Brazil, Ministro da Fazenda to Rothschilds, Rio de Janeiro, February 16, 1907, Rothschilds archive, xi–iii/37.
[31] Quotation cited in Greenhill, "Brazilian coffee trade," p. 209.
[32] Landsberg and Co. to Rothschilds, London January 31, 1907, Rothschilds archive, xi–iii/37.
[33] United States, *Congressional Record*, 66th Congress, April 25, 1911, pp. 635, 638.
[34] Rothschilds to Brazil's Minister of Finance, London, February 19, 1907, Rothschilds archive xi–iii/37; Percival Farquhar memorandum, Farquhar archive, caixa 41; J. Tibiriça to A. Pena, São Paulo, March 25, 1907, Afonso Pena archive; U.S. *Congressional Record*, 66th Congress, April 25, 1911, pp. 635, 638; São Paulo, Presidente, *Mensagens apresentadas ao congresso legislativo de São Paulo pelos presidentes do estado e vice-presidentes em exercício desde a proclamaçao da República até o ano de 1916*

(São Paulo, Typ. Diario Oficial, 1916), pp. 597, 644; Rowe, *Studies*, pp. 19, 20; Fritsch, *External Constraints*.

[35] *Wileman's Brazilian Review*, August 25, 1920, pp. 1227–30; Epitácio Pessoa to the delegation of the Congresso dos Lavradores, São Paulo, March 17, 1921, Epitácio Pessoa archive, Pasta 49; A. Bernardes to Raul Soares, Rio de Janeiro, July 1927, Raul Sores archive, CPDOC, Fundacao Getúlio Vargas, Rio de Janeiro, RS 23–07–00; M. R. Telles, *A defesa do café e a crise de 1929* (São Paulo, 1929), passim.

[36] By 1920, Brazil was the world's fifth largest cotton producer and cotton grew to two-thirds the value of coffee. Although much of the cotton was grown in the Northeast, São Paulo did become an important producer. The Yucatán's monoculture was socially as well as climatically enforced. The southern part of the peninsula was more suitable for cotton and cattle but hostile Mayan forces, who controlled two-thirds to four-fifths of the peninsula between 1846 and 1901, prevented its exploitation by the Spanish-speaking population. The hostile indigenous peoples who ringed São Paulo's coffee lands were less organized, sparser, with a less complex organization and hence politically decentralized. Moreover, they did not have anyone to sell them guns as the British in Belize did to the Mayas. Thus they were more easily shoved aside.

[37] J. Brannon and E. Baklanoff, *Agrarian Reform and Public Enterprise in Mexico* (Tuscallosa, University of Alabama Press, 1987), pp. 43, 47.

[38] G. Joseph, *Recovering the Past at Mexico's Periphery* (Tuscaloosa, University of Alabama Press, 1986), p. 55.

[39] G. Joseph, *Revolution from Without* (Durham, NC., Duke University Press, 1987), p. 179.

[40] A. Wells, *Yucatán's Gilded Age: Haciendas, Henequen and International Harvester, 1860–1915* (Albuquerque, University of New Mexico Press, 1985), p. 29; Joseph, *Mexico's Periphery*, p. 53; J. Brannon and E. N. Baklanoff, "Corporate control of a monocrop economy: A comment," *Latin American Research Review*, 18 (3), 1983, p. 194.

[41] G. M. Joseph and A. Wells, "Corporate control of a monocrop economy: International harvester and Yucatán's henequen industry during the Porfiriato," *Latin American Research Review*, 17 (1), 1982, p. 77.

[42] J. Turner, *Barbarous Mexico*, 1910 report (Austin, University of Texas Press, 1969); K. Kaerger, *Landwirtschaft und Kolonisation in Spanischen Amerika* (Leipzig, Dunker und Humblot, 1901); R. Patch, "Apuntes acerca de los origenes y las caracteristicas de la hacienda henequenera," *Yucatán: Historia y Economia*, 2, Sep–Oct 1978, pp. 3–15.

[43] Joseph, *Mexico's Periphery*, p. 81.

[44] G. Joseph and A. Wells, "El monocultivo henequenero y sus contradicciones," *Siglo XIX*, 3 (6), Julio–Dec 1988, pp. 227–32; Joseph, *Mexico's Periphery*, pp. 31, 32, 50, 52; Brannon and Baklanoff, *Agrarian Reform*, pp. 35, 39. On the other hand, the Yucatecan government never took a guiding role on its own. It simply moved to assist the private sphere. There were no sizable public enterprises or financial institutions. This was also true in São Paulo in 1905, though there the state moved into banking and railroads.

[45] Joseph and Wells, "Corporate control," p. 81.

[46] D. C. Worchester, *The Philippines, Past and Present* (New York, Macmillian Company, 1930), p. 636; Great Britain, *Accounts and Reports 1902*, vol. 91, *Diplomatic and Consular Reports*, no. 3888 "Mexico, 1906," (London, His Majesty's Stationary Office, 1902), p. 22.

[47] Joseph and Wells, "Corporate control," passim. Several authors contest the importance, though not the existence, of the pact, maintaining that market conditions were more important than collusion. See T. Benjamin, "International harvester and the henequen marketing system in Yucatán, 1898–1915: A new perspective," *Inter-American Economic Affairs*, 21 (3), Winter 1977, pp. 3–20; Brannon and Baklanoff, "Corporate control," pp. 193–6; F. V. Carstensen and D. Roazen-Parrillo, "International harvester, Molina y Compania, and the henequen market: A comment," *Latin American Research Review*, 18 (3), 1983, pp. 197–203.

[48] G. M. Joseph and A. Wells, "Summer of discontent: Economic rivalry among elite factions during the late Porfiriato in Yucatán," *Journal of Latin American Studies*, 18, 1986, p. 270; L. Cossio Silva, "La Agricultura" in *História Moderna de Mexico* (Mexico, Hermes, 1965), vol. 7, pt. 1, pp. 121, 122.

[49] Joseph and Wells, "Summer of disconten," p. 264.

[50] Benjamin, "International harvester," pp. 7, 8.

[51] Joseph, *Revolution from Without*, p. 138; Benjamin, "International harvester," p. 17.

[52] Joseph, *Revolution from Without*, pp. 127, 139, 141, 164; Brannon and Baklanoff, *Agrarian Reform*, p. 42.
[53] Joseph, *Revolution from Without*, pp. 232, 245, 248, 256, 257.
[54] Brannon and Baklanoff, *Agrarian Reform*, pp. 43, 51, 52; Joseph, *Revolution from Without*, p. 179.
[55] The average size of coffee plantations in dynamic western São Paulo fell 28 percent between 1923 and 1932, calculated from T. Holloway, *Immigrants on the Land: Coffee and Society in São Paulo, 1886–1934* (Chapel Hill, University of North Carolina Press, 1980), pp. 148, 154, 156, 159, 163.
[56] Brasil, DGE, *Anuário estatístico 1939/40*, p. 3 and Colégio de México, *Fuerza de trabajo*, p. 26.
[57] Calculated from DGE, *Anuário estatístico 1939/40*, p. 125 and México *Anuário estadístico 1906*, p. 248.
[58] Joseph and Wells, "Corporate control," *Latin American Research Review*, 17 (1), 1982, p. 88.
[59] Ibid., p. 75.
[60] Despite substantial efforts by the federal government and the state governments of Vera Cruz, Jalisco, and Sinaloa to foster henequen cultivation in other states, Yucatán still produced 98 percent of Mexico's exports in 1907, Cosío Silva, "Agricultura," pp. 122–4.
[61] Alfred Rothschild wrote to the Brazilian government, February 19, 1907: "we doubted the success of the valorization scheme, hitherto all efforts artificially to increase the price of produce have failed . . . we were unfortunately compelled last week to refuse to lend our name to a loan which would have been avowedly raised for valorization purchases . . . its failure would undoubtedly damage Brazilian credit." Rothschilds archive, London, vol. 11, no. iii/37.
[62] See Topik, *Political Economy*, pp. 62–93. For more on the loan boom of the 1920s see C. Marichal, *A Century of Debt Crises in Latin America, From Independence to the Great Depression* (Princeton, Princeton University Press, 1989), pp. 171–200.
[63] Carstensen and Roazen-Parrillo, "International harvester," p. 200; U.S. government, 56th Congress, first session, 1899–1900, House Documents vol. 93: *Industrial Commission Reports*, vol. 1, *Preliminary Reports* (Washington D.C., Government Printing Office, 1900), p. 61.
[64] F.-X. Guerra, *Le Mexique de l'Ancien Regime a la Revolution* (Paris, Publications de la Sorbonne, 1985), vol. 1, p. 221.
[65] A. Wells, "Family elites in a boom and bust economy: The Molinas and Peons of Porfirian Yucatan," *Hispanic American Historical Review*, 62 (2), May 1982, pp. 224–53; Joseph and Wells, "Summer of discontent: Economic rivalry among elite factions during the late Porfiriato," *Journal of Latin American Studies*, 18 (2), Nov 1986, pp. 255–82.
[66] *The Mexican Investor*, January 6, 1906, p. 2; German Central Archive, Potsdam GDR, Reichsamt des Innern, no. 4383 Bussche to von Bulow, Berlin 9 January 1906; Papers of Sir Weetman Pearson, British Science Museum, London, A-4, Brody to Pearson, Mexico City, 12 October 1906; Public Record Office, London, Foreign Office 204 301 silver.
[67] R. O. Barceló Quintal, "El desarrollo del banco en Yucatán" in *Banca y poder en Mexico (1800–1925)*, ed. L. L. y C. Marichal (Mexico DF., Grijalbo, 1985), pp. 203, 204; K. S. Cott, "Porfirian investment policies, 1876–1910," PhD dissertation (University of New Mexico, 1979), p. 325.

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