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The Nationalization of Foreign Trade in El Salvador: The Myths and Realities of Coffee (Dialogue #16)

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THE NATIONALIZATION OF FOREIGN TRADE IN
EL SALVADOR: THE MYTHS AND REALITIES OF COFFEE

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FOREWORD

The following work by Salvadoran economist Roberto López was prepared under the sponsorship of the Central American Research Program at the Latin American and Caribbean Center of Florida International University (FIU). An initial Spanish version of the paper was presented in a public lecture on March 25, 1986, during the author's visit as guest lecturer at FIU. Both the visit and this publication were made possible by a grant from the Tinker Foundation.

Roberto López is a research economist presently associated with the Central American University Confederation, better known as CSUCA. For the spring semester of 1987 he is Tinker Visiting Professor of Economics at FIU. He has previously worked with the Facultad Latinoamericana de Ciencias Sociales (FLACSO) and the Instituto Centroamericano de Administración Pública (ICAP). During 1976-1982 he resided in Belgium, where he obtained his M.A. in economics at the Catholic University of Louvaine. He is the author of numerous articles and several books, including *La economía del banano en Centroamérica* (San José: DEI, 1986); (with Eugenia Gallardo) *La crisis en cifras* (San José: Ediciones FLACSO, 1986); and (with Rafael Menjívar), eds., *Trueque en Centroamérica: nuevas formas de comercio internacional* (San José: Ediciones FLACSO, 1986). He is currently preparing a monograph on the origins of the economic crisis in Central America.

I would like to thank the LACC staff for their work in this essay's voyage from lecture to final copy, and Patricia Jepsen for her work as translator. Comments and suggestions from readers will be welcomed.

A. Douglas Kincaid
Editor
*Occasional Papers Series*
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THE MYTHS AND REALITIES OF COFFEE

INTRODUCTION

Near the end of the 1970s it became clear that El Salvador's economic, social and political structures needed significant changes if they were to satisfy the basic needs of the citizenry. The fall of General Romero in 1979 initiated a reform process that culminated, at the beginning of 1980, in the decrees of agrarian reform and the nationalization of banking and foreign trade. Thus one of the most backward Latin American states, as far as economic intervention is concerned, began direct participation in the most important productive aspects of the country's economy. The "three reforms," as they were called, raised hopes of substantially modifying the excessive concentration of profit derived from land ownership, financial intermediaries and both domestic and foreign marketing of the principal export products.

The nationalization of foreign trade was enacted through a series of decrees in the first half of 1980. Decree 75, published on January 2, nationalized both the foreign and domestic coffee trade, created the National Coffee Institute (INCAFE) to control these operations, and repealed the law empowering the former Salvadoran Coffee Company. Decree 68, published on January 8, created the Ministry of Foreign Trade with the objective of formulating a new trade policy. Decree 28, on February 22, reformed the International Transfer Law to stop capital flight. Finally, on May 20, the
National Sugar Institute (INAZUCAR) was created to manage domestic and foreign marketing of sugar.

Since then there has not yet been a complete and systematic study which evaluates the course of foreign trade nationalization and its effects on the Salvadoran economy. One of the few works which refer to the subject states:

Of the three reforms stemming from the proclamation of October 15, the nationalization of foreign trade is...the most difficult to evaluate because of the lack of data which would permit the identification and measurement of the gaps between the stated goals and reality. (4)

This is not true of the agrarian reform program, which has been the subject of numerous and exhaustive analyses. The nationalization of the banking industry has also received some attention.

Nevertheless, based on precarious analyses and, to a certain extent, the extension of conclusions concerning the other two reforms, authors of widely divergent ideologies have labeled the nationalization of foreign trade a failure. The same article cited above asserts that "the reform program of 1980 apparently suffered its first failure as a result of a lack of scope and depth," but does not back up this diagnosis with any substantial empirical evidence (as the article itself admits).5 Similarly, another author argues that "the present government wanted to implement changes, using the three laws [reforms--R.L.] mentioned. These changes suffer from a lack of depth in relation to the problems they are trying to resolve...which obliges us to conclude there is little chance of success." There is no effort to distinguish between the three reforms or to point out the areas in which depth is lacking.6

Based upon flawed analysis, some conclusions have fallen into contradictions. For example, it is hard to understand how "the old power structure" has not only managed to survive, but has also benefited from the
foreign trade reform,⁷ if the same group has been publicly demanding the dissolution of INCAFE since December of 1984. There is a need, thus, for an in-depth look at the points of friction and convergence between the private sector and the government on such a measure.

The main purpose of this study is to present a preliminary balance of the evolution of the nationalization of foreign trade, focusing on its most important commodity—coffee. I attempt to specify the causes that sparked the reform, its logic and institutional structure, and the characteristics of its current crisis. I will avoid those extreme arguments that blame the worst economic recession in El Salvador in the last 50 years, on the failure of the reform process, on the one hand, making it the scapegoat of the economic crisis; or, on the other hand, on the unjust economic structures and the war, as if these were the phenomena that necessarily determined the most specific aspects of the Salvadoran reality, independent of the mechanisms that shape it.⁸ I try to attack the problem from the opposite direction, from a fundamentally microeconomic analysis, seeking those explanatory elements that directly affect the coffee industry reform, hampering or facilitating its operation and, in this way, take a more objective and proper look at its part in the present economic crisis.

Using interviews, unpublished reports, press clippings and various secondhand sources, it was possible to obtain the indices and, above all, derive the arguments necessary for examining the diverse explanatory hypotheses presented below. Given the preliminary character of some conclusions, due to the unavailability of some data or to contradictions in the statistics themselves, in some cases I will suggest alternative hypotheses for explaining the described phenomena.
THE CAUSES OF THE NATIONALIZATION

Since 1980 coffee has placed first among Salvadoran exports in terms of foreign exchange generated for the country. It is impossible to speak of foreign trade reform, therefore, without it affecting, in some way, the principal product. The controversy surrounding coffee originates in the discussion of the reasons behind its nationalization. Among the most prominent justifications presented by the government were:

(a) voluminous foreign exchange losses, principally from the underbilling exports;
(b) inconsistent inflow of foreign exchange, as it was retained abroad to pay for various services (insurance, storage, etc.), known as "consignment policy";
(c) unfavorable prices paid to producers, especially for small producers;
(d) low wages paid to the coffee workers; and
(e) partial non-payment of taxes by some exporters.9

These arguments will be discussed and evaluated in detail later, in the light of the results of the last five years. By themselves they would not seem to justify as radical a measure as nationalization, especially because there were other possible alternatives.10 It is thus necessary to point out three important conditions in early 1980 that may help us to understand the thinking behind such a step.

First of all, in late 1979 the assumption of power by the Revolutionary Junta (Junta Revolucionaria de Gobierno) amidst the ongoing sociopolitical conflict exacerbated the private sector's mistrust of the future of their investments in the country. Consequently, capital flight so intensified that the variation of the net international reserves in the balance of
payments for that year was negative for the first time, depleting the absolute level of reserves to zero. From that point the country was decapitalized and the government as yet had no assurance that it would be receiving the massive U.S. economic aid which has kept it afloat during the last five years. The preservation of the minimal available foreign exchange was indispensable for the short- and medium-term economic survival of the government.

Secondly, the initial spirit of the nationalization corresponded to the expectations it generated. Even in 1985 INCAFE recalled that

until 1979 the coffee sector was developing within an institutional framework that did not meet the needs and demands of the moment at which the structural reforms took effect....[T]he fruits of the long period of [previous] economic expansion were distributed in a notoriously unequal manner. (12)

This raised another point of discussion: Was the nationalization of foreign trade more a political than economic necessity? The explicit favoritism toward small- and medium-sized producers, agricultural and industrial coffee workers, and the people in general reflected the interest of successive governments in preserving a political alliance that would allow them to confront the dominant traditional coffee interests with an effective redistribution of benefits in that economy. "The nationalization of trade in coffee seems to serve a political end more than one of its control," concluded one private sector organization. (13)

Finally, as one high Salvadoran official put it:

there was the U.S. counterinsurgency project within which the three reforms were effected. The copious future U.S. aid required the formal presentation of a government concerned with reforming the extremely unequal distribution of wealth that was at the heart of the conflict. (14)
Without external support, however modest this might have been at the start of 1980, the process of nationalizing foreign trade (like the other reforms) could hardly have been initiated and developed.

**LOGIC AND STRUCTURE OF THE NATIONALIZATION**

Before the nationalization of foreign trade, government intervention in the principal export products--coffee, sugar and cotton--was minimal. Of these three products, only the coffee industry had a state institution officially charged with formulating a marketing policy. The Salvadoran Coffee Company received and processed 15-20% of the total coffee crop. This small percentage limited its bargaining power relative to the large private *beneficios* (processors), both in the setting of domestic prices for the producers as well as the regulation of foreign sales. "In reality...both the Coffee Company and private exporters [sold] as they pleased or under arbitrary pressures, domestic prices...are fixed by the processor."\(^{15}\) In the sugar and cotton industries foreign marketing was completely in the hands of the private sector.\(^{16}\) Moreover, state policy in coffee was limited to export tariffs; while there were none for cotton, nor for sugar until 1980.

It is interesting to note that the nationalizations of the coffee and sugar industries share similar features as far as their formal structure and logic are concerned. The new domestic marketing system guarantees producers--private or cooperative--one selling price, set beforehand by INCAFE or INAZUCAR, theoretically eliminating the profits previously obtained by the *beneficios* (processing plants) or *ingenios* (sugar mills) through the
arbitrary fixing of purchase prices. Next, as a consequence of the expropriation of beneficios and ingenios located on lands affected by the first phase of the agrarian reform, INCAFE and INAZUCAR increased their participation in the first industrial phase of their respective products: the processing or milling.\(^{17}\) For example, seventeen expropriated beneficios passed over to INCAFE's administration. The nationalization of foreign trade complemented such a step as the state subsequently fixed a higher "transformation" rate (canon de transformación) for wet and dry processing.

Under the old regime (late 1979) producers paid the processors 16.96 [colones] for the transformation of 500 pounds of coffee from the cherry to the parchment stage, and an additional 11.33 for peeling and polishing to the "green bean" stage. With the new system, the producers' costs for the same services have risen to 23 and 27 [colones] respectively. (18)

Thus the canon rose from 28.29 to 50.00 colones. This guaranteed profits for the beneficios independent of the international price, with profits depending on the volume they processed and their internal costs.

On the other hand, INCAFE and INAZUCAR theoretically assumed control over domestic marketing by funneling non-exported production into domestic industry (principally instant coffee or refined sugar) and the local market. In reality, especially in the case of sugar, the private ingenios fought long and hard to achieve direct access to domestic distribution. In 1984 they achieved this goal following a negotiated payment to INAZUCAR.\(^{19}\)

Finally, the most important change that took place with the nationalization was that the government became the only entity responsible for the sale of both commodities outside the country. In this way INCAFE and INAZUCAR "...control more than 55 percent of foreign trade, an average which they have maintained for four years (1980-83)."\(^{20}\) In 1985 the two products represented 63 percent of the total export value.\(^{21}\) Through this measure the government appropriated the earnings from both the exchange rate
differential (extremely important since the decree of the parallel market in 1982) and from the activities of foreign marketing (in the more strict sense of the term). In addition, the export tariffs on coffee were maintained while new ones were decreed for sugar in 1980. Figure 1 summarizes the transformations described above.

As far as agricultural production is concerned, the coffee sector was hardly affected by the agrarian reform. There were very few coffee plantations that fell in the range (over 500 hectares) affected by the first phase of expropriation. This was not true, however, of the domestic and foreign marketing for coffee and sugar. The accusations of superficiality concerning the nationalization of foreign trade (especially in reference to coffee and sugar) must be questioned, given the original objectives and mechanisms we have described.

For a more detailed portrait of the post-1980 production and marketing system in the coffee industry, Figure 2 represents the institutional diagram of the nationalization, Decree No. 75. It locates certain actors not appearing in Figure 1, such as the processing cooperatives and the intermediaries who buy from the producers. It also differentiates the local market and the instant coffee industry, which has direct access to foreign markets.

FIVE YEARS LATER: THE CRISIS

An in-depth investigation is not needed to corroborate the affirmation that "everything is going wrong with the coffee industry." The most zealous critics of the nationalization emphasize the quantitative indices that effectively show a sectoral decline: production volume, export income,
FIGURE 1. STRUCTURE OF THE COFFEE AND SUGAR ECONOMIES

A. COFFEE

Situation before 1980

Situation after 1980
FIGURE 1. (cont.)

B. SUGAR

Situation before 1980

private producer → private mills → export marketing
               ↓                                                   ↓

               ↓                                           private mills → domestic marketing**

Situation after 1980

private producer* → state mills → export marketing
               ↓             INAZUCAR (1984) → domestic marketing**
               ↓             ↓

private mills → INAZUCAR

* Two types of private producers appeared after the reform: cooperative and private

** Domestic marketing includes local industry and local market
FIGURE 2. MARKETING OF COFFEE, DEGREE NO. 75

Note: Beneficios include INCAFE and privately-owned plants; the latter operate as authorized agents of INCAFE.

SOURCE: FUSADES, "Programa de reactivacion de la caficultura, March 1985."
areas planted, yield, tax receipts, etc. These elements are not enough, in general, for deducing a crisis of the reform. They are superficial symptoms which must be studied within the context of the decree's initial objectives.

An examination of the variables mentioned above (see Table 1) shows the severe decline of the coffee sector in the nation's economy. Production persistently declined each year from 1979-84. The strong decrease in area planted (especially in 1983) and yield (from 1980 to 1984) are tendencies that accompanied (and to a great measure, explain) the previous phenomenon.26 It should be remembered that in 1980, except for Spain, El Salvador had the highest yields in the world.

Logically, lower production had direct repercussions on exports and the export tariffs collected by the government. From 1979 to 1983 coffee exports decreased from 1.712 to 1.006 billion colones and taxes decreased to less than half their 1979 nominal value, going from 392 to 181 million colones. In 1984 there was a slight improvement in both indices, followed by a new fall in 1985. Figure 3 illustrates these tendencies. Thus it is no surprise that although El Salvador was the fifth largest coffee exporter in the world in 1978/79,27 and the largest in Central America, it had sunk to tenth place by 1984/85.28

The consistently severe degree of decline in each of these variables shows that there was indeed a grave crisis in the coffee sector. However, it will be better understood after evaluating the degree of fulfillment of the original objectives.

On August 13, 1985, INCAFE presented before the Legislative Assembly a report on its principal achievements, which included the following:

1. The real income from the selling price exactly corresponds to negotiated prices, thus guaranteeing the full entry of foreign exchange into the country...[to] fulfill the goal of assuring that export-generated exchange duly enters the country.
### TABLE NO. 1. COFFEE INDICATORS, 1979-1985

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>4125</td>
<td>4094</td>
<td>3825</td>
<td>3796</td>
<td>3446</td>
<td>3250</td>
<td>3250</td>
</tr>
<tr>
<td>('000 quintales)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Area planted</strong></td>
<td>296</td>
<td>296</td>
<td>297</td>
<td>296</td>
<td>265</td>
<td>266</td>
<td>n.a.</td>
</tr>
<tr>
<td>('000 manzanas)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Yield</strong></td>
<td>13.9</td>
<td>15.4</td>
<td>14.4</td>
<td>14.3</td>
<td>12.9</td>
<td>12.5</td>
<td>13.2</td>
</tr>
<tr>
<td>(quintales/manzana)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>1712</td>
<td>1280</td>
<td>1132</td>
<td>1007</td>
<td>1006</td>
<td>1182</td>
<td>1086</td>
</tr>
<tr>
<td>('000,000 colones)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>392</td>
<td>274</td>
<td>232</td>
<td>196</td>
<td>181</td>
<td>223</td>
<td>220</td>
</tr>
<tr>
<td>('000,000 colones)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Preliminary figures
** On exports

Note: 1 manzana = 0.699 hectares
1 quintal = 46 kilograms

**SOURCE:** Official figures of the Central Reserve Bank; figures on taxes from the Ministry of the Treasury.
FIGURE 3-A. COFFEE PRODUCTION, 1979-1985

FIGURE 3-B. COFFEE PLANTING AND YIELD, 1979-1985

SOURCE: Table 1.
FIGURE 3-C. COFFEE EXPORTS, 1979-1985

FIGURE 3-D. TAXES ON COFFEE EXPORTS, 1979-1985

SOURCE: Table 1.
2. In spite of the price decline in the international market, this tendency has not been passed on to the producer, but rather has been absorbed by INCAFE, thus maintaining a more or less constant price.

3. INCAFE, through negotiations in collective work contracts, maintains wages in accordance with the coffee worker's economic needs. (29)

The report subtly avoided mentioning the problem of tax collection, another original goal. Each of these four points is reviewed below.

The Decrease in Capital Flight

The withholding of exchange in foreign countries was a serious problem when nationalization began and, in great measure, still was in the period studied here. In 1979 Salvadoran authorities estimated that of the total export value, 16.7 percent of the exchange was being withheld in foreign countries. In 1980, in spite of the nationalization, the percentage increased to 36.6.30 In that year 189 million colones were withheld for manufactured products exported to Central America, while 323 million were for products other than coffee and sugar exported to other parts of the world. Thus we see that the traditional capital flight mechanism—the underbilling of exports—used in the coffee and sugar industries had ended,31 but the nationalization of foreign trade has had little impact on other forms of capital flight, such as the underbilling of other exports or overbilling imports.32

It has also been pointed out that capital flight through the policy of exporting by consignment (that is, costs—insurance, interest, storage, etc.—which retain in other countries a proportion of the foreign coffee income) has not been solved and that INCAFE has thus inherited the same "bad habits" from the past. This argument may be judged against the empirical evidence of data provided by INCAFE. During the period March—September,
1980, monthly exports on consignment averaged 261,479 quintales (1 quintal = 46 kilograms or 100 pounds) while average monthly sales on consignment from October 1981 to March 1982 were 173,497 quintales. This suggests an average monthly accumulation of 87,982 quintales being held on consignment in other countries. However, from June 1984 to May 1985, while INCAFE registered an average monthly export of 185,100 quintales on consignment, its average monthly consignment sales were 167,750 quintales, leaving an average monthly difference of 17,350 quintales. Therefore, between 1980/81 and 1984/85, the volume of coffee consigned to foreign countries has been reduced by an average of about 70,000 quintales a month, therein reducing the foreign exchange retained outside El Salvador to pay for this marketing policy. An official drain of foreign exchange has been substituted for the private one, but to a lesser degree.

**Prices for Producers**

The discussion on producer prices has probably generated the most study. The political background of this measure is extremely important since the state was explicitly assuming the responsibility of defending the small- and medium-sized producers' interests. Unfortunately, reality has not lived up to these resolutions.

Around 1979 (before the nationalization) a quintal of coffee brought an average price of 350 colones FOB (about US$140), of which 186.9 colones represented the average price paid to the producer. Immediately after nationalization the producer price fixed by INCAFE decreased to 157.9 colones, although the export price was the same as mentioned above. Toward 1984 the producer price had increased to 179 colones, still not reaching the pre-nationalization levels.
In relative terms, the deterioration of the producer price has been even greater. There are two ways to show this: the relationship of producer prices with the price index, which would give the evolution of a real price, and the relationship of producer prices with production costs according to different categories of producers. In this study the latter case will be analyzed.

An excellent report by the Agency for International Development (AID) on the losses or profits of different types of producers (low, medium, medium-high or high efficiency) shows that the prevailing producer price clearly harmed the low and medium efficiency producers. They lost an average of 500 and 220 colones per manzana, respectively, while the medium-high and high efficiency producers realized 80 and 570 colones per manzana net profit. The latter were lower than pre-nationalization levels, but profits nonetheless (see Table 2).

There are no data for coffee plantations that correlate property size and cost efficiency levels. However, the same AID report, based on studies by the Salvadoran Ministry of Agriculture, argues that coffee farms in excess of 20 manzanas produce about 81 percent of the total coffee output. These occupy 67% of the land area cultivated to coffee and are controlled by only 5 percent of the total number of coffee producers....[T]hey do suggest that the more efficient and productive farm owners are concentrated among the 5 percent that own fincas in excess of 20 manzanas....The conclusion that emerges is that the present loss situation affects the great majority of coffee farmers in the country. Certainly, losses are experienced by almost all the 95 percent of farmers owning less than 20 manzanas. (35)

Thus the domestic coffee marketing policies under the nationalization of foreign trade have certainly reduced the large producers' profits, but at the same time they have caused acute losses for the small- and medium-sized producers, in many cases leading to bankruptcy or the abandonment of the crops. Specifically, as far as the policy of producer prices is concerned,
TABLE NO. 2. COFFEE INDICATORS BY EFFICIENCY OF PRODUCERS, 1983-1984

<table>
<thead>
<tr>
<th>Efficiency of Producers</th>
<th>Yield (quintales/manzana)</th>
<th>Cost of production (colones/quintales)</th>
<th>Cost (colones/manzana)</th>
<th>Income (colones/manzana)</th>
<th>Earnings (colones/manzana)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low efficient growers</td>
<td>20</td>
<td>204</td>
<td>4080</td>
<td>3580</td>
<td>-500</td>
</tr>
<tr>
<td>Medium efficient growers</td>
<td>20</td>
<td>190</td>
<td>3800</td>
<td>3580</td>
<td>-220</td>
</tr>
<tr>
<td>Medium-high efficient growers</td>
<td>20</td>
<td>175</td>
<td>3500</td>
<td>3580</td>
<td>80</td>
</tr>
<tr>
<td>High efficient growers</td>
<td>30</td>
<td>160</td>
<td>4800</td>
<td>5370</td>
<td>590</td>
</tr>
</tbody>
</table>

Note: Calculations based on the average price FOB of 139.4 dollars (179 colones), projected by INCAFE for 1983-84.

until 1984 and part of 1985 it did not benefit small- and medium-sized producers; on the contrary, it may well have caused their decreased economic and political importance in the country's total coffee production. Very probably as a result, the government felt obliged to raise the producer price for part of their exported production in August 1985 and January 1986. These changes will be further analyzed later.

Real Wages for Coffee Workers

With regard to the wages that INCAFE claims to have made correspond to the workers' needs, once again the empirical results are not so optimistic. Table 3, which presents the parallel evolution of nominal and real wages, shows the following:

(1) Due to the famous Decree 544 that froze wages from 1981 to 1984, agricultural wages in nominal terms remained unaltered for that period. Even the urban wage readjustments of 1984--effected for the industrial, commercial and service sectors--did not lead to a modification of agricultural and agroindustrial wages, which inevitably had to bear the weight of inflation.36

(2) In real terms, because of the failure to control inflation through the price freeze decreed on certain basic goods in the same economic stabilization law containing Decree 544, the agricultural sector's wages inevitably lost buying power. As of late 1984 this tendency remained constant.

(3) Finally, the rate of decrease in real wages was less for the two principal coffee activities--harvesting and processing--than for agricultural activities in general. Real wages for the sector as a whole decreased 43.3 percent from 1979 to 1984, while for coffee harvesting
TABLE NO. 3. OFFICIAL NOMINAL AND REAL COFFEE WAGES, 1979-1984

<table>
<thead>
<tr>
<th></th>
<th>(in colones)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Harvesting - wages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Processing - wages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal</td>
<td>14.00</td>
<td>14.00</td>
</tr>
<tr>
<td>Real</td>
<td>(14.25)</td>
<td>(21.77)</td>
</tr>
<tr>
<td><strong>General agri-cultural wage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal</td>
<td>5.20</td>
<td>5.20</td>
</tr>
<tr>
<td>Real</td>
<td>(5.20)</td>
<td>(4.88)</td>
</tr>
</tbody>
</table>

* The author has reservations about the increase in real wages indicated for 1980. Nevertheless, the figures are as given.

Note: The real wages, indicated within parenthesis, have been estimated using 1979 as the base year and the price indices calculated by CEPAL. The evolution differs by category because of the different "basket" of basic goods used in the respective calculations.

and processing they decreased 28.5 and 5.7 percent, respectively, during the same period.

In conclusion, real wages for coffee workers, although slightly increased in 1980, have persistently declined since 1981, albeit to a lesser degree than in the agricultural sector in general. In January of 1986, as part of the new economic package, minimum wages for field workers were increased, an implicit acknowledgement of this reality by the government.

The Nonpayment of Export Tariffs

The last objective, not mentioned by INCAFE among its achievements, concerned the government's proposal to improve the collection of coffee export tariffs. As noted above, the total value of the tax collected declined primarily as a result of decreasing export values. Nevertheless, as of September 30, 1984, the export tariff situation showed outstanding payments of about 167.6 billion colones, of which 69 billion corresponded to the fiscal year 1981/82 and 98.6 billion to 1983/84. Given that, according to INCAFE data, taxes collected during the period 1979/80-1983/84 were approximately 453 billion colones,37 the unpaid taxes as of the latter year amounted to no less than 37 percent of that total. The Salvadoran Foundation for Economic and Social Development (FUSADES) argues that before nationalization, producers rarely complained about export tariffs, "established at a time when coffee growers made good profits....[G]iven the present levels of international prices and production costs, this leads to a price which forces the producers to absorb losses even as they must continue to pay taxes."38 As we have seen, this is partially true for the less efficient, small- and medium-sized producers. The accumulated balances are
tangible proof that the producers cannot pay or resist paying the tariffs. An acute legal controversy has further clouded the issue.\textsuperscript{39}

Evidently the coffee industry has experienced important changes since nationalization. None, however, of the original main objectives had been wholly accomplished five years later, which seriously hurt the small- and medium-sized producers and rural workers. Capital flight through the under-billing of coffee exports has been nearly eliminated, but the policy of consignment persists along with other channels for capital flight within Salvadoran foreign trade. Moreover, major amounts of unpaid taxes have accumulated, reflecting an active opposition on the part of the private sector to this state policy under the present conditions of a marketing monopoly. In summary, the nationalization of Salvadoran foreign trade as an official policy has suffered a severe crisis.

\textbf{PRINCIPAL CAUSES OF THE CRISIS}

Two fundamental features of the Salvadoran coffee crisis may be pointed out, one a sectoral crisis and the other a policy crisis, which are closely interrelated. At the same time, many attempts to explain the origins of the crisis have been offered from divergent viewpoints, without any indication of their relative weights. It is important to evaluate the importance of each factor.

\textbf{International Prices}

According to FUSADES, the decline in international prices has affected profitability for producers, thus fueling the sectoral crisis. As can be
seen in Table 4, the argument is only partially true. In absolute terms, during 1980-1985, the average price decreased only in 1981 and 1983. In both years the decline was the principal, but not the only, cause of the decrease in export income.

In 1982, 1984 and 1985, however, prices not only rose but also softened the impact (in 1982 and 1985) of the decrease in export volume, this being the only cause of lower export income in both years. Thus domestic factors, rather than international prices, were the principal cause of the unfavorable coffee situation.

The Abandonment of Cultivated Lands

This is perhaps the fundamental reason for the decrease in production. Abandonment may be defined both as "cases of total physical abandonment as well as those of financial abandonment in which the owners make no investments although, by special arrangements with the workers, there are partial or total harvests." On this basis the Ministry of Agriculture and Livestock (MAG) calculated that of a total of 294,500 manzanas cultivated in 1980, "at the end of the first semester of 1984, 42.6 percent (125,600 manzanas) had been abandoned by the owners." The same office, after a nation-wide investigation, listed the principal reasons for abandonment as domestic prices, low profit margins, insufficient credit, the presence of Farabundo Marti National Liberation Front (FMLN) guerrillas, financial problems, and deterioration of access roads (see Table 5). It also noted: "It is important to mention that 98.5 percent of the abandoned lands are private property and 1.5 percent correspond to the reformed sector."
### TABLE NO. 4. VALUE, VOLUME AND PRICE OF COFFEE EXPORTS, 1981-1985

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value</strong></td>
<td>1131.5</td>
<td>1006.5</td>
<td>1005.7</td>
<td>1182.3</td>
<td>1085.7</td>
</tr>
<tr>
<td>(millions of colones)</td>
<td>(-11.6)</td>
<td>(-11.1)</td>
<td>(-0.1)</td>
<td>(17.5)</td>
<td>(-8.2)</td>
</tr>
<tr>
<td><strong>Volume</strong></td>
<td>3601.6</td>
<td>3074.7</td>
<td>3752.7</td>
<td>3789.1</td>
<td>3290.0</td>
</tr>
<tr>
<td>(thousands of quintales)</td>
<td>(-2.5)</td>
<td>(-14.7)</td>
<td>(22.0)</td>
<td>(0.9)</td>
<td>(-13.2)</td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td>125.7</td>
<td>130.9</td>
<td>107.2</td>
<td>124.8</td>
<td>132.0</td>
</tr>
<tr>
<td>(colones/quintales)</td>
<td>(-10.3)</td>
<td>(4.1)</td>
<td>(-18.2)</td>
<td>(16.4)</td>
<td>(5.7)</td>
</tr>
</tbody>
</table>

* Preliminary figures

Note: The figures in parenthesis represent the percentage change over the previous year.

**SOURCE:** Official figures of the Central Reserve Bank.
### TABLE NO. 5. ABANDONMENT OF CULTIVATED AREAS OF COFFEE, 1984

<table>
<thead>
<tr>
<th>Department</th>
<th>Cultivated Area (manzanas)</th>
<th>Abandoned Area (manzanas)</th>
<th>(%)</th>
<th>Principal Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Ana</td>
<td>53,357</td>
<td>25,428</td>
<td>47.6</td>
<td>Internal prices; low profitability because of costs, minimum wages; losses from</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>borers and coffee rust; insufficient credit; presence of FMLN, especially in the</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>higher altitude cultivated zones</td>
</tr>
<tr>
<td>Sonsonate</td>
<td>33,705</td>
<td>10,725</td>
<td>31.8</td>
<td>Financial problems; presence of FMLN in lowlands</td>
</tr>
<tr>
<td>Ahuachapán</td>
<td>35,053</td>
<td>14,746</td>
<td>42.0</td>
<td>Financial problems; presence of FMLN in lowlands</td>
</tr>
<tr>
<td>La Libertad</td>
<td>57,001</td>
<td>19,426</td>
<td>34.1</td>
<td>Financial problems</td>
</tr>
<tr>
<td>San Salvador</td>
<td>13,223</td>
<td>5,094</td>
<td>38.5</td>
<td>Financial problems; presence of FMLN in lowlands</td>
</tr>
<tr>
<td>Cuscatlán</td>
<td>2,053</td>
<td>1,843</td>
<td>89.7</td>
<td>Unable to be investigated</td>
</tr>
<tr>
<td>Chalatenango</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Vicente</td>
<td>2,644</td>
<td>1,827</td>
<td>69.1</td>
<td>Suspected credits by the banking system; presence of FMLN and state of violence</td>
</tr>
<tr>
<td>La Paz</td>
<td>1,099</td>
<td>893</td>
<td>81.2</td>
<td></td>
</tr>
<tr>
<td>Cabañas</td>
<td>11,973</td>
<td>8,886</td>
<td>74.2</td>
<td>Inoperative credit programs; presence of FMLN and state of violence</td>
</tr>
<tr>
<td>Usulután</td>
<td>31,905</td>
<td>17,273</td>
<td>54.1</td>
<td>Financial problems because of credit and low purchase prices; generalized violence;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>deteriorated access roads to farms</td>
</tr>
<tr>
<td>San Miguel</td>
<td>16,027</td>
<td>11,432</td>
<td>71.3</td>
<td></td>
</tr>
<tr>
<td>Morazan</td>
<td>5,959</td>
<td>5,882</td>
<td>98.7</td>
<td></td>
</tr>
<tr>
<td>La Unión</td>
<td>1,244</td>
<td>249</td>
<td>20.0</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Ministerio de Agricultura y Ganadería, 1984.
The Rise of Production Costs

This is one of the most difficult indices to evaluate, keeping in mind the lack of specific studies on the subject, the great differences in productivity and yield among farms, and the accelerated process of land abandonment described above.

Nevertheless, it can be deduced that the cost of inputs—except wages, which were constant—must have increased considerably during the period because of imported inflation following the rise in oil prices. Conservative MAG calculations indicate that the battle against the rust blight alone caused a rise of more than 20 percent in production costs. On the other hand, because of the land abandonment, not all coffee growers invested in preventative measures. In 1979 officials stated that 15 percent of the land was affected by the disease, but in 1985 INCAFE admitted that "90 percent of the cultivated land is affected; this situation was not foreseen in the past." For AID the explanation is perhaps too simple: "[U]nder the present loss conditions (low producer prices), coffee plantations have neither the incentive nor the means to modernize. As a result, coffee rust is expanding rapidly, becoming more and more difficult and expensive to control."

In the last few years INCAFE has apparently provided the producers with agricultural inputs at advantageous (subsidized) prices. However, it has not been determined whether this has benefited some or all growers, or whether this has lowered the overall high costs.

Insufficiency and Delays of Credits

This problem is one of the principal complaints of the private sector. The delays are especially important for agricultural supply credit, "which
is often provided with no regard for the agricultural calendar, causing delays in cutting, fertilizing, spraying, etc.\textsuperscript{45}

The outstanding balances have gradually mounted to form another problem. Based on detailed calculations, FUSADES estimated for the 1980/81, 1981/82 and 1982/83 harvests an average unpaid capital per quintal of 61.52 colones, of which 53.17 represented principal and 8.34 the interest.\textsuperscript{46} Naturally, for the less efficient producers, this represents a much heavier burden and a continual threat of bankruptcy. For each unit produced they find themselves obligated to make payments which eliminate all possibility of profit. As a consequence, many credit lines have been canceled. In this case they are not only insufficient but also cut off.

A noteworthy aspect of delinquent loans is that, according to a study done by Checchi and Co., "there is no evidence that the conflictive regions tend to have more defaults than the peaceful regions."\textsuperscript{47} This could indicate that the fundamental causes of unpaid balances are independent of the war and, to a great extent, economic.

With regard to the sufficiency or insufficiency of credit, conclusions depend on the criteria used. It should be pointed out that the Agricultural Development Bank allocated 23.8 percent of its harvest credit for the coffee growers in 1980/81, while by 1984 the percentage had fallen to 9.7 percent.\textsuperscript{48} This may reflect a lower priority for coffee in the financial policies of the bank and probably, given the importance of that institution, for the national banking system as a whole.

**Contradictory Government Policies**

As described above, the private sector has objected to the tax burden that, under current production conditions, became an additional production
cost and source of revenue for the government. Before January, 1986, there were no adjustments of tax rates. This policy clearly contradicted that of supporting small and medium producers, who have suffered net losses. Nevertheless, with no justification save perhaps that of reaping windfall gains, the government profited through the parallel exchange market from differential foreign and domestic prices between 1982 and 1985.

While the price of coffee on the international market is US$141, equivalent to 352.5 colones at the official exchange rate and 564 colones at the parallel rate, the local producers receive only 180 colones for the same quantity of coffee. (50)

Universally criticized, this practice clearly constituted an affront to the private coffee interests during the years cited above. Large, medium and small producers, including the reformed sector cooperatives, opposed this additional tax in daily press salvos which reached the crisis point in 1985, proving that there is nothing worse than a government policy inconsistent with its own objectives. In January, 1986, following unification of the official exchange rate, there was some hope for the elimination of exchange differentials.

Active Opposition from the Private Sector

As was noted above with respect to unpaid taxes, the private sector has opposed state policy. Its importance in the total area of abandoned coffee land also shows that the responsibility for the crisis in the Salvadoran coffee economy cannot be exclusively attributed to the government's policy or to its errors.

It is beyond this preliminary study to delve into the numerous obstacles which the private sector has posed against nationalization during the five years it has been in effect. Two basic attitudes can be distinguished. One seeks to substantially modify the reform without opposing it as a global
policy, thus attempting to generate a harmonious collaboration between the private and public sectors. The other would eliminate the nationalization of foreign trade as a policy, based on a blind hatred of any governmental interference in the coffee industry.

Perhaps the best example of the private sector's active opposition to the reform may be found in coffee processing. As was mentioned above, in 1980 seventeen beneficios located within the reformed sector, passed into the hands of INCAFE or of processing cooperatives. Of that year's harvest INCAFE processed 4.25 million quintales of coffee fruit, or 27.9 percent of the total amount processed in the country (see Table 6). As INCAFE's beneficios were turned over to cooperatives, these in turn were favored by private beneficios with a 3.5 to 4 colón discount (in many cases this discount does not reach the cooperative treasury, but passes directly to the manager and/or director of the cooperative)..., 2 colones for bags and 1.5 for transport....[All] of this provides a margin of 7-7.5 colones per quintal of beans. (52)

Thus private processors gradually began to monopolize this activity. From the 1983/84 harvest INCAFE processed only 558.5 thousand quintales of coffee fruit, or an insignificant 3.8 percent of all coffee processed in the country. Logically, the bargaining power of the processors for setting the transformation rate (the price charged to the producers for processing services) also increased in this period; the rate increased from 50 colones in 1980 to 55 in 1985.

Where in 1980/81 INCAFE's plants were idle 16.5 percent of the time, by 1983/84 this had increased to 83.4 percent, threatening a shutdown of their operations and consequent unemployment.53 In 1985 INCAFE's Santa Ana processing plant closed due to the lack of raw materials necessary for its
### TABLE NO. 6. PARTICIPATION OF THE INCAFE BENEFICIOS IN COFFEE PROCESSING, 1980/81-1983/84

<table>
<thead>
<tr>
<th>Beneficios</th>
<th>1980/81</th>
<th></th>
<th>1983/84</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity*</td>
<td>Percentage</td>
<td>Quantity*</td>
<td>Percentage</td>
</tr>
<tr>
<td>INCAFE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Santa Ana</td>
<td>1732.7</td>
<td>11.4</td>
<td>387.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Nahuizalco</td>
<td>734.3</td>
<td>4.8</td>
<td>68.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Santiago de María</td>
<td>245.7</td>
<td>1.6</td>
<td>102.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Chalchuapa</td>
<td>130.0</td>
<td>0.9</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total INCAFE</strong></td>
<td>2842.7</td>
<td>18.6</td>
<td>558.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Reform sector</td>
<td>1410.0</td>
<td>9.2</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Private sector</td>
<td>11011.8</td>
<td>72.1</td>
<td>13999.5**</td>
<td>96.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15264.5</td>
<td>100.0</td>
<td>14558.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Thousands of quintales of fruit

** Includes the processing done by the beneficios of the reform sector

In summary, the status of INCAFE's beneficios is critical and they may well disappear.

Among other factors influencing the coffee crisis are:

(1) the presence of FMLN rebels in certain coffee zones which are now abandoned. According to Table 5, the abandonment of coffee farms in 11 of the 14 provinces was due, among other things, to this situation.

(2) high interest rates on loans which increase as production increases, resulting in a new form of financial tax which punishes efficiency.

(3) corruption. An example was US$7 million dollars in contraband coffee confiscated by U.S. Customs in Puerto Rico in August, 1984.

The bags were marked with Haitian stamps "in an apparent effort to evade export taxes" and were sent by way of Guatemala, Jamaica and Aruba "in an attempt to disguise their destination." Both the Salvadoran Coffee Growers Association (ASCAFE) and INCAFE denied any responsibility in the shipment.... (55)

In summary, domestic factors have played the greatest role in the coffee crisis. The decline in international prices had a negative effect only in 1981 and 1983, while for the rest of the period production volume indicators help to explain the decrease in export income. On the other hand, both the private and public sectors must assume part of the responsibility. Public sector policies have diverged from their own objectives, while the private sector has frequently blocked reform mechanisms by looking for larger profits, especially in the coffee processing sector. Land abandonment is by far the worst problem and reflects in turn more serious issues. Finally, the armed conflict cannot fully explain the coffee growing crisis, nor even the defaults on loans. This points out the importance of analyzing economic variables which are specific to production.
RECENT DEVELOPMENT AND PERSPECTIVES

The sudden rise in international coffee prices near the end of 1985 awakened hopes of an improvement in the Salvadoran coffee grower's situation. This optimism did not last long. The "economic package," decreed by the government in January, 1986, contained measures which directly or indirectly aggravated the coffee crisis. Among these measures the following stand out:

1. The minimum wage for field workers was increased from 5.20 to 8.00 colones.

2. The exchange rates were unified (a devaluation) at 5 colones per dollar, theoretically eliminating the exchange variation between foreign and domestic prices.

3. Producer prices rose from 220 to 400 colones per 500 pounds of coffee fruit based on a price of US$200 FOB. If the international price exceeded US$200, the coffee growers would be paid the amount beyond 400 colones in two-year bonds from the Central Reserve Bank bearing 5.5 percent interest. If the price FOB fell below US$200, the 400 colon producer price would be reduced. In addition, the bonds could be used to settle outstanding loans.

4. A Provisional Tax on Windfall Profits was levied on coffee exports, as the prevailing high prices and the exchange rate adjustment permitted part of the extra revenues obtained to be used for essential necessities. This would apply when the international price exceeded US$135 FOB.

These measures were preceded by a so-called Economic Development Plan for the Salvadoran coffee economy, announced on May 14, 1985. This provided
for new lines of financing for outstanding loans, reseeding and equipment, and for the prevention of coffee rust and borers; the increase in the producer price from 180 to 220 colones per quintal of coffee fruit at the end of the 1984/85 harvest; and the authorization for INCAFE to sell on the parallel market up to US$90 million of coffee export revenues, both from traditional and nontraditional markets. Thus it represented an effort to channel the windfall from coffee exports to the government, rather than to producers and processors.

From the outset the new lines of financing were criticized as "palliative measures that do not solve the problem of profitability." Since they were not accompanied by other measures, the problem was not whether or not they were sufficient, but rather that they did not reach the root of the matter: the low guaranteed price. Although the 400 colón figure approved in the package represented a nominal increase in the producer price, it did not correspond to the evolving international price at a time when the latter was extraordinarily high. The producer price rose about 180 colones, but with devaluation and the increase in international prices from US$140 to US$200, the FOB price climbed from an average of 350 colones per quintal in 1985 to 1000 colones in early 1986. These increases, assuming constant processing and service costs, were clearly disproportionate to the detriment of the private production sector, and increasingly so as the international price exceeded US$200. The compensation in bonds for an international price above US$200, meanwhile, was yet another source of government revenue, insofar as the inflation rate for 1986 (very high after the devaluation) exceeded the 5.5 percent yield on the coffee bonds.

Beyond these benefits, the government expected further gains from the provisional tax on profits. Under certain hypotheses which do not seem
unrealistic, in 1986 the government would experience a rise in fiscal revenue of 420 million colones—almost twice as much as the fiscal deficit of 213 million originally anticipated for the 1986 budget.

Far from soothing the already angry private coffee sector, these measures have worsened the situation. Without adequately evaluating the industry's situation, the reactivation policies give the impression of governmental clumsiness, ignorance and disdain in their negotiations with that sector. If indeed private benefits were excessive for many years, the present crisis of profitability profoundly threatens the future of the national coffee economy. Very likely the government wanted the coffee sector to share the costs of the war, but in doing so by extracting exorbitant gains from the product, it has not only hurt the small, medium and large producers, but also the field workers. The latter, although accorded a nominal wage increase (which barely compensates for the loss of buying power over the last five years), could expect a generalized increase of prices in 1986 which would wipe out the supposed increments in their real wages. A state intervention that does not generate an income redistribution toward those who supported it in hopes of realizing that benefit, risks becoming a bureaucracy which simply substitutes public for private appropriation, with little or no benefits for the people in general.

Of grave significance is that, following these governmental measures, intransigent demands for INCAFE's immediate abolition increasingly have prevailed over the willingness to cooperate with this institution. The two main private coffee associations—ASCAFE and ABECafe—have called for the immediate dissolution of INCAFE on the grounds of unconstitutionality, giving rise to a complicated legal debate on Decree 75. In late February, 1986, President Duarte himself publicly acknowledged the imminence of a coup
d'état principally led by the big coffee-growers. If these trends were to continue, the recent reinforcement of state intervention in foreign trade would paradoxically face constant threats to its survival, ruining a potentially transcendental change for the country's principal crop.
NOTES

1. This study derives from research for a more comprehensive work entitled "Inserción externa e intervención estatal en El Salvador: el caso de la nacionalización del café." The author thanks the Latin American and Caribbean Center for the opportunity to contribute to its Central American Research Program.

2. The concept of backwardness is doubly apt. On the one hand, in a temporal sense, the majority of Latin American countries have had diverse experiences with nationalization for many decades. On the other hand, in the fiscal sense, at the end of 1979 the Salvadoran coefficient of taxation (11.1 percent), among Latin American countries, exceeded only those of Colombia, Paraguay, Haiti and Guatemala, countries which also have a long anti-interventionist tradition.

3. There is still some confusion about the exact date on which this decree was published. This is due to the secretiveness that surrounded its discussion and publication. The date used here comes directly from INCAFE. Victor Orellana states the date as December 20, 1979. See "El Salvador: crisis y reforma estructural," Occasional Papers Series, No. 13, Latin American and Caribbean Center, Florida International University, 1985, p. 20.


5. Ibid., p. 537.


7. Instituto de Investigaciones Económicas, op. cit., p. 537.

8. Hector Lindo, in his article "La economía en época de guerra," Estudios Centroamericanos, 403-404 (May-June 1982), defends the second thesis while opposing the first.


10. It was radical in the sense that there were other ways and lesser degrees for nationalizing foreign trade than decreeing an almost total monopoly on the foreign and domestic marketing of coffee.

11. The data are from CEPAL, the Central American Monetary Council, and the International Monetary Fund.

12. INCAFE, op. cit., p. 2.

14. Interview carried out in late 1985. The official (a Christian-Democrat) did not want his name used. The quote is exact.

15. Instituto de Investigaciones Económicas, op. cit., p. 530.

16. In the cotton industry, which was not nationalized because of the serious crisis of recent years, the Cotton Cooperative Ltd. (COPAL), made up of private producers, has long monopolized foreign and domestic cotton marketing.

17. In both cases the law stipulated that in a period of not more than three years these beneficios (or ingenios) would be placed under the control of cooperatives and/or mixed companies, wherein the governmental agency would retain 25% (INCAFE) or 51% (INAZUCAR).


19. Because domestic prices were subsidized at the same time as international prices were down, private sector interests have turned to the local market.


21. The 1985 data are estimates by CEFSASA, based on official figures.

22. Not only the one stemming from variations in the relation of variable international prices to fixed domestic prices, but principally that coming precisely from earnings generated by exports.

23. Various authors estimate that only 14 percent of the total land used for coffee growing was affected by Phase I of the reform. Moreover, a number of the properties affected that were later returned to their owners "contained very valuable coffee plantations...." See Laurence Simon and James Stephens, Jr., El Salvador Land Reform Impact Audit 1980-1981, Oxfam America, 1982, p. 29.

24. The nationalization of foreign trade did not affect in the same way other traditional products, like shrimp, nor non-traditional export products. Instead, to strengthen them, the government created the Ministry of Foreign Trade, whose principal activities have been oriented toward trying to take advantage of the Caribbean Basin Initiative, discovering new markets, especially for nontraditional products, and stimulating foreign investment. In early 1986 studies were being done on the possibility of creating specialized offices for each of those activities, as other countries like Costa Rica have set up in their new development strategy known as export promotion.

25. Formally the intermediaries are temporary, according to Article 67, for as long as INCAFE does not have the facilities necessary to directly receive coffee from producers in all zones of the country where it is harvested.
26. The decrease in area planted is not the same as the abandoned area, which will be examined later.

27. As far as worldwide export production is concerned, and after Brazil, Colombia, the Ivory Coast and Indonesia.


29. INCAFE, op. cit., pages 2-5. Note that the list of achievements is not exhaustive. Only those that correspond to the original objectives are used.


31. Orellana holds that capital flight through coffee export underbilling has not been solved; excepting cases of official corruption (which he does not mention) his thesis cannot be valid. See op. cit., p. 21.

32. Official data from the Junta Monetaria of El Salvador show, nevertheless, that capital flight under the last two categories has decreased since 1982 (see INFORPRESS, Centroamérica 1983, Guatemala, p. 30). This could be interpreted in two ways: as a consequence of better government controls, and/or as the result of the lack of private capital, where the process of private decapitalization would have reached its lower limit.

33. Instituto de Investigaciones Económicas, op. cit., p. 533.

34. Ibid., p. 534.


36. According to CEPAL, these urban readjustments were due to "strong labor pressure during the first half of 1984." See CEPAL, "Notas para el estudio económico de América Latina y el Caribe: El Salvador 1984." Doc. LC/Mex/6.3, Mexico, p. 53.


38. FUSADES, op. cit., p. 21.

39. Apparently Decree 836, which the Ministry of Finance upholds, and Article 44 of Decree 75, which created INCAFE, are at odds.


41. INCAFE, "Implicaciones económico-sociales...," p. 6.

42. The calculations are based on MAG estimates in "La producción cafetalera nacional y la roya de cafeto," San Salvador, August 20, 1982, p. 12.

43. INCAFE, op. cit., p. 6.

45. Ibid.

46. FUSADES, op. cit., p. 19.


48. Ibid., Table V.8.10.

49. Although they do not have direct access to the international markets, they are indirectly affected as the tax is taken into account to fix the internal production price.

50. MAG, "Cuarta evaluación del proceso de Reforma Agraria," San Salvador, December 1984, p. 31. The original figures were poorly calculated and have been modified. The exchange rate used in the parallel market was 4 colones = US$1.

51. Note that even in the case of the lowest average price for the period examined, US$107 in 1983, its value in colones (428) on the parallel market is superior even to the 352.5 colones obtained in the earlier calculation at the official exchange rate for a higher price.


57. According to INFORPRESS (December 5, 1985), this measure was taken under direct pressure from AID, which was promised by the Salvadoran government US$90 million from the coffee exports would be thus channeled. This promise is tied to some of the assistance packages.


59. Thus, this translates into additional profits for the government and, in theory, for the private processing sector; in reality, however, at the end of March, 1986, there had not been any change decreed with regards to the price in colones that the processors received for coffee delivered to the docks. This is completely at the discretion of the government(!). While the processors awaited payment for their exports in dollars, equivalent in colones to the day's rate, the government barely raised the processing tax price by 20 colones per quintal of green beans.
60. At the end of March the international price was still over US$240.

61. The hypotheses foreseen for 1986 are: a 15% increase in the tax; an average international price of US$200 (FOB); an annual export volume of 2,800 thousands of quintales; a 30% export tax without a price increase; a 45% export tax with a price increase; and a basic deduction of US$6.75. See, "Que es realmente el programa de estabilización y reactivación económica?" Universidad de El Salvador, January 1986.