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SOLVING THE "COFFEE PARADOX": UNDERSTANDING ETHIOPIA'S COFFEE COOPERATIVES THROUGH ELINOR OSTROM'S THEORY OF THE COMMONS

A Dissertation Presented

by

SUSAN RUTH HOLMBERG

Submitted to the Graduate School of the
University of Massachusetts Amherst in partial fulfillment
of the requirements for the degree of

DOCTOR OF PHILOSOPHY

May 2011

Department of Economics

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SOLVING THE "COFFEE PARADOX":
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by

SUSAN R. HOLMBERG

Approved as to style and content by:

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James K. Boyce, Chair

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Gerald Epstein, Chair
Department of Economics

DEDICATION

To Tom and Thea,
in loving memory of my mother Carolyn Ann Holmberg,
and to the farmers and families of the Oromia Coffee Farmers Cooperative Union.

ACKNOWLEDGEMENTS

I am so grateful for all the support and encouragement throughout this process from my family, friends and dissertation committee.

I would especially like to thank my chair advisor, James K. Boyce, for his guidance, support, and feedback not only through this dissertation process, but throughout my time as his student and research assistant. I would also like to thank Leonce Ndikumana for his support, especially during my fieldwork in Ethiopia, and my outside committee member, Frank Holmquist, for encouraging my interest in cooperatives.

To my sister Kathy Pachan and my brother Andy Holmberg, a special thanks for your patience, encouragement, and for always looking out for me. To my mother, Carolyn Holmberg, who was not only a dear and loving mother, but especially nourished my intellectual passions. I thank my daughter Dorothea Hilbink, for offering such a fun, spontaneous, and spirited balance to my life and to this process. Lastly, exceptional thanks go to my husband, Tom Hilbink, without whose endless love, patience, and delicious meals I could not have written this dissertation.

ABSTRACT

SOLVING THE "COFFEE PARADOX":
UNDERSTANDING ETHIOPIA'S COFFEE COOPERATIVES THROUGH ELINOR OSTROM'S THEORY OF THE COMMONS

MAY 2011

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This dissertation evaluates the applicability of Elinor Ostrom's theory of the commons to other forms of collective action by mapping it on a case study of the Oromia Coffee Farmers Cooperative Union in Ethiopia and its efforts to overcome the vast disparities that have long structured the global coffee commodity chain (the "Coffee Paradox"). The conclusions I draw are the following. While Ostrom's theory has serious omissions, it also sheds much needed light on the struggles of Ethiopia's coffee farmers to overcome their poverty. Both the design principles that Ostrom identifies for governance rules and her list of predictors for successful common property resource management institutions suggest that Ethiopia's coffee cooperatives could be in peril. However, by expanding Ostrom's governance framework to incorporate a broader enabling role for governments as well as supportive roles for civic organizations, NGOs, and social movements, we see greater potential for the success of the Oromia Coffee Farmers Cooperative Union.

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CHAPTER 1

INTRODUCTION

> It took a global crisis for anyone to point to the dismal state of the dismal science. The heroes of the mainstream economics profession and supporters of free markets and financial regulation were forced to admit mistakes. The bail-outs and recovery programmes have been multibillion-dollar lessons that mainstream economics is unrealistic. Economists such as Keynes and Minsky came to the fore again to explain the crisis. It is time that the economics perspectives of nonmainstream economists are given an ear (Mohamed 2010).

In 2009, Elinor Ostrom won the Nobel Memorial Prize in Economics, becoming the first woman to do so in the forty-year history of the award. When the Nobel committee announced their landmark decision, they stated that Ostrom, who is actually a political scientist by trade, won the prize "for her analysis of economic governance, especially the commons" (Royal Swedish Academy of Sciences 2009). Beginning with her 1990 magnum opus, *Governing the Commons: The Evolution of Institutions for Collective Action,* Ostrom's research career has focused on challenging the argument that groups cannot use and manage natural resources collectively and sustainably. In other words, Ostrom's research shows that the "tragedy of the commons" is actually not such a tragedy, but a problem—one that many communities all over the world have been solving for centuries.

Ostrom won the Nobel Prize during a time when the broader public, overwhelmed by the encroaching front of existing environmental problems, has been ripe for hearing her message. Instead of the widespread but stale belief that solving our environmental

problems is limited to two very disparate paths—the market or the state[1]—Ostrom's research has the potential to empower people and communities to collectively devise solutions to these pressing issues.

What is less known about Ostrom's work, even in academic circles, is that her underlying purpose has long been to develop a broad theory of collective action, one that moves beyond the cases of communities managing watersheds and forests, to other examples of group self-organization. "My choice of the CPR [common-pool resource] environment for intensive study was based on a presumption that I could learn about the processes of self-organization and self-governance of relevance to a somewhat broader set of environments" (Ostrom 1990, 27). Furthermore,

> What is missing from the policy analyst's tool kit—and from the set of accepted, well-developed theories of human organization—is an adequately specified theory of collective action whereby a group of principals can organize themselves voluntarily to retain the residuals of their own efforts…I hope this inquiry will contribute to the development of an empirically supported theory of self-organizing and self-governing forms of collective action (Ostrom 1990, 25).

If Ostrom's claim is true, that the framework she developed for her research on the environmental commons can be applied to other examples of collective action, then her work has the potential to shape debates about the disheartening state of our economy and the burgeoning efforts to build economic alternatives that enhance the well-being of people and the environment.

The fallout from the global financial crisis, dovetailing with the longer-term overgrowth of a neoliberal varietal of globalization, has created a public cry for fundamental changes in our economic system.

[1] Either the market will achieve the best possible outcome via private property rights or the market is so addled with inefficiencies that environmental quality can only be achieved by state regulation.

> This wake-up call is inspiring unprecedented numbers of people to take action to bring forth the culture and institutions of a new economy that can serve us and sustain our living planet for generations into the future (David Korten 2010).

Ostrom's set of ideas could very well contribute to the development of a "new economy." In the spring 2010 issue of *Yes! Magazine*, which was essentially an homage to Elinor Ostrom, Jay Walljasper, former editor of the Utne Reader and a contributor to onthecommons.org, described her Nobel win as a milestone for the "emergence of a commons-based society" (Walljasper 2010).[2]

As exciting as Ostrom's work is, and as hopeful as the prospect of applying her theory to the development of a different kind of economy is, we should be mindful of its limitations when using it. There is a genuine risk that communities will become the new panacea,[3] which puts the onus for devising economic solutions[4] on people rather than their governments (or the market) and ignores the fact that communities can be parochial and harbor bigotry (Bowles and Gintis 2002). Thus, before we indiscriminately apply Ostrom's theory of the commons to other forms of collective action, we need to think carefully about the feasibility and implications for doing so.

Beyond the commons, Ostrom identifies cooperatives as one of the main forms of collective action that can and should be included in her comprehensive framework (Ostrom 1990, 25). That claim is what this dissertation will explore.

---

[2] The magazine also published Ostrom's "8 Keys to a Successful Commons," and Fran Korten, the magazine's editor, conducted a feature interview with Ostrom.

[3] For the record, Ostrom is very clear that that there are no panaceas, but that does not negate the possibility of other people treating community-level solutions as such.

[4] This is true of environmental solutions as well.

To what extent does Ostrom's theory of CPR governance elucidate our understanding cooperatives?

I answer this question by demonstrating what Ostrom's theory looks like in a particular cooperative setting—a union of coffee farmers cooperatives in the Oromia region of Ethiopia—and evaluate the ways in which the features that are important and necessary for CPR institutions explain the achievements and struggles of Oromia cooperatives.

The International Cooperative Alliance (ICA)—the main organizing body of the global cooperative movement—defines cooperatives as "autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise" (International Cooperative Alliance 2009). In other words, cooperatives are formed, owned, and controlled by groups of people for the purpose of producing, selling, and/or buying.[5]

By grouping cooperatives with CPR institutions, Ostrom is arguing that, like CPR institutions, cooperatives are forms of collective action. Ostrom defines collective action as occurring when two or more people act collectively to achieve a common goal, which is to say, to solve an initial free-rider problem, like the "Tragedy of the Commons." But, the institutions that arise from the collective action are themselves public goods, which thereby create new free-riding opportunities. Thus, any viable group effort, in solving their initial collective action problem, must simultaneously solve the secondary free-riding problems.

[5] There are a wide variety of cooperatives types; one purpose of chapter 3 is to describe those various forms.

By linking them theoretically, Ostrom is saying that both CPR institutions and cooperatives conform to this definition of collective action. Thus, both are using institutional governance to solve free-rider problems, and both must overcome the free-riding problems that arise from the group effort itself. Other similarities to note: first, the institutions themselves are nested within broader institutional governance (locally and at the state level) and market contexts that both support and pose challenges beyond their group interactions; and second, both have broader, longer-term goals of securing sustainable livelihood security.

At this point, the comparison between CPR institutions and cooperatives becomes more complicated. While both institutions are solving collective action (free-riding problems), they diverge in terms of the nature of those problems and the specific mechanisms with which they solve them.

To be specific, CPR institutions essentially transform open-access resources into common property through the elaborate design and enforcement of informal rules. "Hardin's parable hence is better termed the 'tragedy of open access,' referring to free-for-all situations where rules for the joint use of common property do not exist" (Boyce 2002, 8). The collective action of CPR institutions, then, is the appropriation, creation, management and protection of a certain bundle of property rights for the sustainable, group management of a particular natural resource.

In terms of Oromia's coffee cooperatives, collective action does not necessarily center on managing a natural resource via property rights.[6] I argue that instead, they are

[6] Although, managing natural resources might be a secondary function.

using their collective agency and power to overcome what Daviron and Ponte (2005) call the "Coffee Paradox."

Not only were Northern coffee drinkers blissfully unaware of a devastating "coffee crisis" that smallholder coffee farmers in the global South experienced from 1999 to 2005, in the global North, there was actually a "coffee boom" occurring.

> The coffee market has gone through a 'latte revolution,' where consumers can choose from (and pay dearly for) hundreds of combinations of coffee variety, origin, brewing, and grinding methods, flavoring, packaging, 'social content', and ambience. Retail coffee prices continue to rise in the specialty market […] At the same time, coffee farmers receive prices below the cost of production (Daviron and Ponte 2005, xvi).

Daviron and Ponte argue that instead of interpreting this juxtaposition as simply a disparity in who controls market share, it is better understood in terms of the ability to "define the 'identity' of a coffee—in other words to set the language and the reference values that determine production norms and quality standards" (Daviron and Ponte: xvii).

I will demonstrate that the "Coffee Paradox" is an extremely befitting way to frame the collective action of Oromia's coffee cooperatives. Nowhere did the coffee crisis hit harder than in Ethiopia, the very birthplace of coffee. Here the farmers were already a few price points away from starvation; they rely on coffee not just for income, but also for deep cultural sustenance and connection; and they grow some of the most reputed coffees in the world. These poor coffee farmers have had no control over the valuable attributes of their supreme coffees, and, thus, the price they are receiving is well-below the "true" value of their coffees.

Thus, rather than solving the "Tragedy of the Commons," the free-rider problem that Oromia's coffee farmers are working to solve is the "Coffee Paradox." Rather than instituting property rights, the collective action of coffee cooperatives entails the creation,

appropriation, management and/or protection of a certain bundle of their coffees attributes. Defining the collective action of Oromia coffee cooperatives in terms of the "Coffee Paradox," we can then ascertain whether Ostrom's theory offers a comprehensive enough explanation of the successes and/or failures of their efforts.

The conclusions I draw are the following. In profound ways, Ostrom's theory sheds much needed light on the struggles of Ethiopia's coffee farmers to overcome their poverty and nourish their families and communities. The design principles that she identifies for CPR governance rules suggest that Ethiopia's coffee cooperatives could strengthen their sense of proprietorship over their organizations if they first played a larger role in writing their own governance rules. Her list of predictors for successful CPR institutions validate what Ethiopian activists have long been saying, that civic organizations cannot play an authentic role in the governance of their society underfoot a government that does not recognize the basic democratic rights of its citizens.

Ostrom's theory is a major methodological contribution to the social sciences. Her understanding of the role and limitations of economic theory is profound. The style of her theory, a "list of ingredients" if you will, is accessible and even democratic—something any idealistic and capable cooperative organizer could pick up and understand (as opposed to the formal models of economists written for each other or, at best, for policymakers).

Ostrom's theory, however, also has some egregious omissions, which makes it a less than comprehensive framework of Oromia's coffee cooperatives. For example, she does not address issues of power disparities or the ways that inequality in general manifests in collective action. Inequality between those who control valuable coffee attributes and

those who do not is what perpetuates the "Coffee Paradox," but in coffee cooperatives' attempts to close this "social distance" (Boyce 2002), other forms of social inequality are reproduced. (So too with CPR institutions.)

In addition, Ostrom's viewpoint on the state's role in collective action governance is overly narrow. For cooperatives to succeed, governments must nurture an enabling environment through carefully established laws and direct support to farmers in overcoming market failures (e.g. imperfect credit markets) that are beyond their capacity to solve independently. Furthermore, Ostrom pays inadequate attention to other levels of governance. She makes no mention of the roles that civic organizations, NGOs, and social movements might play. These other types of governance are all important in empowering Ethiopia's coffee farmers, especially within the context of such an authoritarian government.

Finally, although Ostrom's view of economic rationality is much broader than what has been canonized in mainstream economics, she fails to articulate or theorize any degree of altruistic intentions—for example, Amartya Sen's (1977) concepts of sympathy and commitment—that have the potential to help groups overcome free-rider problems and are, at least to some extent, present in the coffee cooperative setting. Social justice activists, whose actions have undoubtedly altruistic underpinnings, have long been working to support cooperative struggles. Oromia's cooperatives in particular can only be fully understood in light of broad efforts—especially since the coffee crisis—of the global justice movement's efforts to build alternative trade paradigms

Incorporating Elinor Ostrom's theory of collective action into cooperative analyses is an important step in improving cooperative research. Instead of assuming cooperatives

are inefficient because of free-rider problems, we can think about how some cooperatives overcome these. Furthermore, Ostrom's work forces us to ask ourselves about what theory is, what its role should be, and for whom we are constructing it. And the shortcomings of her theory are by no means fatal; they simply need to be accounted for to better tell the cooperative story.

Overview of the Following Chapters

Chapter 2 "Detaining Potential: Economic Theories of Collective Action" provides the impetus for this dissertation, which is that the existing economic models of cooperatives are insufficient and misguided.

I do this by, first, describing what Ostrom cites as the main collective action theories that are paradigmatic in economics and her critiques of them. I also discuss Ostrom's objection that the aforementioned collective action theories are misused because of the confusion within economics on the distinction between a theory and a model. In the second section, I present a literature review of the economic models of cooperatives. Finally, I provide my own argument that the problems of the models discussed in this chapter stem from their use of rational choice theory to describe human behavior, which is ultimately a distorted assumption for understanding the motivations, values, and capacities of cooperative members.

The purpose of Chapter 3, "Internalizing 'Social Distance': Cooperatives and the Global Justice Movement," is to contrast the mainstream economic approach to cooperatives with a social movement perspective by locating them both in the current movement to combat corporate-centric globalization and the older cooperative movement

to battle industrial capitalism. Instead of simply another institutional means with which to achieve Pareto efficiency, these movements portray cooperatives as a symbol of, and a mechanism for building, democracy and equality. Because cooperatives come in a wide variety of forms, a second purpose of this chapter is to elucidate their complexity by providing a brief historical account that identifies the various types of cooperatives.

Chapter 4, "Ostrom's Theory of Collective Action" gives a detailed presentation of Ostrom's work, drawn mainly from *Governing the Commons*, but supplemented with several of her other publications. First, I argue that Ostrom's greatest contribution to the social sciences (and heterodox economics) is her interdisciplinary methodology that fuses theoretical and empirical practices. Second, I define CPRs and discuss one CPR scenario in great detail. Third, I present the details of Ostrom's theory of collective action. The final section provides my critique of her theory, alluded to earlier in this chapter.

Chapters 5 and 6 provide my case study. In chapter 5, I present "Part 1: The Political Economy of the Coffee." Although coffee is similar to other food commodities in many ways, there arguably is no global commodity industry that contains such vast power disparities as the coffee trade. Because of these inequities, the global justice movement and cooperatives play a central role in the battle to weaken corporate hegemony in the global coffee trade. For example, trade alternatives, especially Fair Trade, are arising as a different route than the conventional global coffee commodity market that leaves so many small coffee farmers vulnerable to poverty. There is no better example of cooperatives battling global market forces than the vast uprising of coffee farmer cooperatives across the global South.

Chapter 5 provides a detailed picture of the global coffee industry, including its early history, its policy narrative, and the uneven impacts of the coffee crisis on coffee farmers and coffee producing countries. It then describes in detail Daviron and Ponte's (2005) concept of the "Coffee Paradox," and their framework of material, symbolic, and in-person service attributes that we can use to define the collective action of Oromia's coffee cooperatives. I then describe the prominent alternative trade paradigm being developed in response to the coffee crisis, as well as the mainstreaming debate brewing within Fair Trade about its trajectory and how it can be most beneficial to coffee farmers. Finally, I use this discussion to further specify the nature of collective action for coffee farmer cooperatives, which weighs on the mainstreaming debate.

There are several reasons why I have chosen Oromia Coffee Farmers Cooperative Union (OCFCU) as the focus of my case study (Chapter 6, "Case Study Part 2: The Political Economy of the Oromia Coffee Farmers Cooperative Union,"). First, its leadership has played a pivotal role in Ethiopia's impressive cooperative renaissance of the past decade (a revival made even more remarkable in light of the country's sordid cooperative history). Second, as the "stars" of the documentary film *Black Gold*, OCFCU has become a symbol of coffee farmers' worldwide efforts to overcome the devastating impact of the coffee crisis by forming cooperatives.

The chapter tells the story of OCFCU, which begins with the history of the country's cooperatives, continues to the challenges and opportunities of Ethiopia' coffee sector, and ends with the birth and growth of the most successful cooperative union in Ethiopia.

In Chapter 7, "Understanding Cooperative Governance: Lessons from Oromia," the final chapter of this dissertation, I assess the extent to which Ostrom's theory of CPR

institutions can explain the collective action of Oromia coffee cooperatives. The first section compares CPR institutions and Oromia coffee cooperatives, while also defining the collective action of Oromia's coffee cooperatives in terms of Daviron and Ponte's (2005) the "Coffee Paradox." The second section provides examples of Oromia's collective action, defined in terms of the attribute framework that Daviron and Ponte (2005) present for overcoming the "Coffee Paradox." The third section describes the secondary free-rider problems that could arise from these examples of collective action. The fourth section evaluates the Oromia and Ethiopian evidence and draws some preliminary conclusions, arguing that many of OCFCU's cooperatives (and Ethiopia's cooperatives in general) could be in peril. The fifth section reintroduces a discussion of Ostrom's theory, and my critiques. The final section provides some recommendations based on the results derived from this analysis, regarding both the use of Ostrom's theory to interpret the collective action of Oromia cooperatives and my broadening of it to reflect inequality considerations and the role that broader forms of governance play in Oromia's collective action struggles.

Conclusion

In a recent *New York Times* blog entry, Nancy Folbre suggests "another economics is now under way" (Folbre 2010). One of the main cornerstones of the burgeoning effort to build this new economy is, indeed, cooperatives.

The task of developing a new economy, one that fully reflects humanity's concerns and capabilities, is not simple, especially with current economic tools that are "fragmentary and incomplete and not yet adequate to the task of institutional design

(Folbre 2010). By focusing on Elinor Ostrom's work and by carefully studying cooperatives, it is my hope and intention that this dissertation contributes to this growing movement to design better economic tools and frameworks.

CHAPTER 2

DETAINING POTENTIAL: ECONOMIC THEORIES OF COLLECTIVE ACTION

Introduction

The purpose of this chapter is to explain and critique mainstream economic approaches to collective action in general, and to cooperatives in particular, in order to make the argument that developing an improved economic framework of cooperatives is imperative.

I do this by, first, describing what Ostrom cites as the main collective action theories that are paradigmatic in economics and her critiques of them. I also discuss Ostrom's objection that the aforementioned collective action theories are misused because of the confusion within economics on the distinction between a theory and a model. In the second section, I present a literature review of the economic models of cooperatives. Finally, I provide my own argument that the problems of the models discussed in this chapter stem from their use of ration choice theory to describe human behavior, which is ultimately a distorted assumption for understanding the motivations, values, and capacities of cooperative members.

Economic Models of Collective Action

Ostrom argues that there are three models that are the basis of current economic thinking on collective action: Mancur Olson's *Theory of Collective Action*, Hardin's "Tragedy of the Commons," and the prisoner's dilemma.

Before Olson's 1965 thesis, it was widely assumed across the social sciences that individuals can and will achieve the best possible outcome for the group (Azfar 2001). Olson's central argument was a counter to that supposition. "Even if all of the individuals in a large group are rational and self-interested, and would gain if, as a group, they acted to achieve their common interest or objective, they will still not voluntarily act to achieve that common or group interest" (Olson 1965, 2). Individuals might benefit from clean air, for example, but their desire to maximize their individual well-being limits their willingness to contribute to the collective good,[7] "unless there is coercion to force them to do so" (Olson 1965, 2).

Hardin's 1968 article "The Tragedy of the Commons" has, of course, become the most commonly referenced in an extensive history of arguments concluding that humans, left to their own devices, will inevitably destroy natural resources. Hardin's most famous passage is the following:

> Picture a pasture open to all. It is to be expected that each herdsman will try to keep as many cattle as possible on the commons. Such an arrangement may work reasonably satisfactorily for centuries because tribal wars, poaching, and disease keep the numbers of both man and beast well below the carrying capacity of the land. Finally, however, comes the day of reckoning, that is, the day when the long-desired goal of social stability becomes a reality. At this point, the inherent logic of the commons remorselessly generates tragedy (Hardin 1968, 1244).

Not only has Hardin's article been used to advocate population control, which was, in fact, the original purpose of the article, but it also has been frequently wielded on both

[7] This is the definition of "free-riding" behavior.

sides of the private property/free market versus state ownership/regulation debate (see Smith 1981 and Percival 1992, respectively).

Finally, according to Ostrom, the third most commonly used collective action model is the prisoner's dilemma, which articulates that two hypothetical prisoners will simultaneously choose a "non-cooperative solution." Both prisoners are better off if neither betrays the other, but the incentive immediate to each (a shorter jail sentence) is to, in fact, betray their partner. (The prisoner's dilemma is often used to formally illustrate Hardin's tragedy of the commons—see Hanley *et al.* 1997 as an example.)

What Ostrom finds problematic about collective action theory is not these models per se, but the way they are brandished.

> When models are used as metaphors, an author usually points to the similarity between one or two variables in a natural setting and one or two variables in a model. If calling attention to similarities is all that is intended by the metaphor, it serves the usual purpose of rapidly conveying information in graphic form (Ostrom 1990, 7-8).

Yet, these models are used for policy-setting. In other words, it is assumed that only the state can change fixed or exogenous variables, which crowds out collective action efforts and essentially imprisons citizen power and agency.

> The prisoners in the famous dilemma cannot change the constraints imposed on them by the district attorney; they are in jail. Not all users of natural resources are similarly incapable of changing their constraints. As long as individuals are viewed as prisoners, policy prescriptions will address this metaphor (Ostrom 1990, 7).

A poignant example is the following:

> Nationalizing the ownership of forests in Third World countries, for example, has been advocated on the grounds that local villagers cannot manage forests so as to sustain their productivity and their value in reducing soil erosion. In countries where small villages had owned and regulated their local communal forests for generations, nationalization meant expropriation. In such localities, villagers had earlier exercised

> considerable restraint over the rate and manner of harvesting forest products. In some of these countries, national agencies issued elaborate regulations concerning the use of forests, but were unable to employ sufficient numbers of foresters to enforce those regulations. The foresters who were employed were paid such low salaries that accepting bribes became a common means of supplementing their income (Ostrom 1990, 23).

In this example, it is the assumption that local villagers are powerless and incapable of working together to decide governance rules for usage—and the subsequent state intervention and control —that opened the borders to a tragedy of overuse.

Ostrom's critique stems from what she argues should be a clear distinction between a model and a theory. Theories or frameworks (will refer to them interchangeably throughout this dissertation) are meant to be general or universally applicable. Models, on the other hand, are for application in very specific contexts. The problem with mainstream economic methodology in general, and the collective action models discussed above, is they are taken as theories even though they carry with them the assumption that certain variables are fixed. As we saw above, this can undermine the goals of the policymakers, not to mention the "recipients" of the policies.

Theories, on the other hand, are loose associations of variables that "relate whole families of models together" (Ostrom 1990, 192).

> They point to the set of variables and the types of relationship among variables that need to be examined in conducting any theoretical or empirical study of a particular type of phenomenon. From a framework, one does not derive precise prediction. From a framework, one derives the questions that need to be asked to clarify the structure of a situation and the incentives facing individuals (Ostrom 1990, 192).

"Once the incentives are clarified"—in other words, once the framework is applied to a specific context—"the theorist can analyze a situation and predict likely behavior in

terms of choice of strategy and the consequences that are likely to result" (Ostrom 1990, 192).

How does Ostrom's critique of mainstream collective action theories apply to economic models of cooperatives? After presenting a literature review of these models, this chapter will answer this question.

Economic Models of Cooperatives

The Mystery of the Disappearing Cooperatives

Providing a review of economic literature on cooperatives is a somewhat paradoxical exercise, as it first requires a discussion about cooperatives' pervasive *absence* in the literature. For example, despite cooperatives' growing presence in today's economy (described in the following chapter), both Hill (2000) and Kalmi (2007) argue that the majority of today's economists perceive cooperatives as entirely nonexistent institutions or, at best, only worth mentioning in a footnote. Their evidence comes from conducting surveys of economics textbooks, which they contend are good indicators of the fields' priorities overall.

Hill evaluated seventeen contemporary economics textbooks, finding that the "basic institutions around which production is organized […] are commonly thought of as either proprietorships, partnerships, or corporations" (Hill 2000, 281). Eight of these textbooks gave absolutely no discussion of cooperatives. Of the textbooks that did, "coverage ranges from a passing mention up to one page" (Hill 2000, 283). Hill finds that there is no in-depth discussion of, for example, why cooperatives exist in a capitalist economy, their strengths and weaknesses, and the ways they differ from investor-owned firms.

Kalmi reviewed a sample of 24 textbooks from between 1905 to 2000. He found that despite the fact that cooperative membership has increased globally over time, "textbook coverage" vastly differs between the pre-1945 period and the current period. "The main finding from the statistical analysis is that […] the textbooks of the early twentieth century contained much more analysis of cooperatives than those originating from the post-World War II period" (Kalmi 2007, 632). Furthermore, the textbook coverage in the pre-1945 period was much broader in scope. "Early authors typically examined cooperatives widely, devoting an almost equal number of pages to the main forms of cooperation" (Kalmi 2007, 631). Discussions in the later texts mainly dealt with cooperative financial institutions, while no post-World War II textbook author discussed worker cooperatives whatsoever.

Both authors claim that the absence of cooperatives from mainstream economics education prevents them from breaching the main enclosures of the discipline. "The majority of students who study some economics are exposed only to these books. These textbooks set the framework within which students are taught to think about the economy" (Hill 2000, 282) and, therefore, future economists will ultimately fail to recognize the importance of cooperatives.

• • •

Despite the absence of cooperatives from mainstream economics textbooks, there does exist a sizable amount of economic literature on cooperatives, mainly in the subfields of organizational economics and agricultural economics. Although neither of these areas of study arguably hold much sway within the mainstream, the models are useful for

illustrating how economists apply their theoretical tools to cooperatives or, in other words, how economists think about and portray cooperatives when they do study them.

The following discussion frames the cooperative literature into two schools of economic thought: the first is the neoclassical literature on cooperatives; the second is the new institutional economics literature (NIE),[8] which is organized further into two strands (transaction costs/property rights and information asymmetry).

Neoclassical Theories

Benjamin Ward (1958) is generally credited with introducing the neoclassical treatment of cooperatives (Sisk 1982 and Kamshad 1997).[9] He was writing in the midst of a debate on the feasibility of socialism, in the context of "some Eastern European countries groping toward a less centralized form of economic organization" (Ward 1958, 566). Ward devised a model of the labor managed firm (LMF)[10] that he argues closely resembles a Yugoslav industrial firm. What he designates the "Illyrian firm" operates in a perfectly competitive market, but instead of maximizing profits as the objective function (as the neoclassical firm does), the worker-managers of the LMF are maximizing their individual incomes over a specific time period.

The key result from Ward's model is called the "Ward effect" or "perverse supply reaction"—when output prices rise, employment and output do the opposite of what we

[8] Although technically the NIE school is definitively separate from the neoclassical school, their simultaneous uses of rational choice theory lumps them together in this discussion.

[9] John Stuart Mill, Karl Marx, and Alfred Marshall were actually the first economists to expound the benefits of cooperatives and, according to Staatz (1989), Stephen Enke (1945) was the first to use neoclassical theory to analyze (consumer) cooperatives as a separate kind of business firm..

[10] According to Jossa (2001), the difference between an LMF and a worker-managed firm (WMF) is that a LMF borrows capital whereas in an WMF, members inject their residual profits.

typically expect: they decrease (in the short-run). In other words, in order to maximize per-worker income, LMFs lay workers off.

Evsey Domar (1966)—arguably the second most recognized author in the neoclassical literature on cooperatives—applied Ward's model of the LMF, which he calls the "Pure Model," to the Soviet Kolkhozes (or collective farms). Domar refined Ward's model by reworking it into a more generalized production function (Sisk 1982).

And lastly, Jaroslav Vanek (1969) improved Ward's model (within the LMF example) by assuming that employees received residual income rather than wages. One of Vanek's main results was that the Ward effect was only a special case.

In contrast to the Ward-Domar-Vanek models, Amartya Sen (1966), who was also speaking to a broader debate on socialism—examining the respective welfare advantages of the principle "to each according to his needs" versus "to each according to his work"—took a very different approach to modeling cooperatives. Unlike Ward, Sen fixed the number of workers and made the amount of labor hours per person a variable and also unlike this set of models, which demonstrated an underutilization of labor, Sen's key result was to demonstrate that cooperatives can in theory result in an overutilization of labor, too. (I will return to Sen's model later in the chapter.)

Pryor (1983) observes that Sen's model (along with Israelsen 1980 and Ireland and Law 1981) had a decentralized perspective. In other words, he focused on the ways in which *incentives* (created once a production decision is made) induce the labor responses of the individual cooperative members, whereas the centralized tradition of Ward, Domar, and Vanek focused on *aggregate employment and output* and assumed that "a manager or the cooperative itself has sufficient knowledge of the production function and

the utility functions of its members so that in some unspecified fashion, a once-and-for-all production decision (quantity, labor force, production methods, etc.) is made which maximizes group utility and thereafter, each member does exactly what is decided at this time" (Pryor 1983, 140).[11]

By the late 1980s, what was a fairly strong interest in the neoclassical, Illyrian-style models had dissipated.[12] Kalmi (2007) conjectures that this demise was caused by both the unavailability of data (it is impossible to test a theory about an economy that does not exist) and the political climate of the time, i.e. it is probable that the dissolution of the Soviet Union in the early 1990s made theories of "socialist organizations" seem fairly irrelevant.

It is probable that the empirical invalidity of the Illyrian-style model also played a role, particularly with regard to the perverse supply reaction result of the Ward-Domar-Vanek approach. According to Bonin *et al.* (1993), "Plywood PCs [producer cooperatives] behave as if both earnings and employment matter and do not exhibit the perverse or inefficient behavior predicted by the simple model" (Bonin *et al.* 1993, 1300). Indeed, one would be hard-pressed to find a cooperative that fires members in response to growth!

It was widely agreed that the neoclassical, Illyrian-style models were simply not the right fit and eventually they lost the attention of economists; in its place emerged the new institutionalist school.

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[11] Pryor says that the two different traditions give opposing results. "The centralized production cooperatives leads to an underutilization of labor (vis-à-vis a twin capitalist firm), while a decentralized production cooperative yields an overutilization of labor (vis-à-vis) its capitalist twin" (141).

[12] The decentralized approach seems to have been less popular.

New Institutional Economics

As background, new institutional economics (NIE) is an interdisciplinary school of thought[13] that, like the neoclassical school, uses methodological individualism to explain social and political institutions—cultural norms, property rights, contracts, and laws—within the efficiency paradigm.[14,15] The concept of institutions encompasses such broad social phenomena that it is easy to understand why there is disagreement about what NIE is exactly (Brousseau and Glachant 2008). Bardhan (1989), however, provides a useful framing device for the NIE literature by distinguishing between two strands of the NIE school: the first strand he calls the CDAWN school (for Coase-Demsetz-Alchian-Williamson-North) and the second is built upon the theory of imperfect information (Stiglitz and Akerlof). This is an extremely useful way of sorting through the NIE literature on cooperatives.[16]

CDAWN

According to Bardhan, CDAWN originated from two papers by Ronald Coase, "which led to the flowering of a whole school of neo-classical writers on property rights and

[13] Involving disciplines such as law, sociology, political science, and anthropology.

[14] Oliver E. Williamson (1975) coined the term new institutional economics, which appears to be the point at which scholars began to self-identify as members of the NIE school and movement.

[15] Methodological individualism is what differentiates NIE from "institutional economics" or "old institutional economics", which had a much more holistic approach. One way to understand the difference between the two schools of thought is institutional economics borrows from the other social sciences to study economic institutions, whereas NIE uses neoclassical economics to apply to other social institutions. An example of the criticisms of the old institutionalist school was that it was too descriptive and theoretically lazy (Bardhan 1989).

[16] Of course, these strands overlap, especially as the field has developed over time. However, there tends to be a pattern as to the "point of entry" that NIE theorists choose, which is a useful way of understanding both NIE in general and NIE as it is applied to cooperative studies.

transaction costs" (Bardhan 1989, 4). In *The Nature of the Firm* (1937), Coase presented the idea of transaction costs to explain why firms exist (because, theoretically, in a perfectly competitive market, they do not). According to Coase, "the main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism" (Coase 1937, 390). Thus, individuals are motivated to collaborate in business activity (as opposed to producing and selling independently) to reduce the prohibitive costs that individuals face when engaging in market transactions. In other words, the cost of a good or service involves not only producing the good or service but also the costs associated with buying or selling the good or service: gathering information, bargaining, coordination, monitoring, enforcement of contracts, etc. According to Coase, the reason firms arise and evolve is to minimize these transaction costs.

Coase's discussion of property rights comes in his article *The Problem of Social Cost* (1960), in which he presents his famous theorem:[17] individuals can solve problems of externalities (without government intervention) through the process of negotiation and bargaining; the initial allocation of property rights does not matter for an efficient outcome, because rights can be transacted during this negotiation process. The exception to this rule occurs when transaction costs of negotiation are prohibitively high (arguably more often than not); moreover, when transaction costs are high, the allocation of property rights is important.

True to Bardhan's claim, transaction costs and property rights theory are major themes in the NIE cooperative literature. Transaction cost theory postulates that

[17] Bardhan (1989) calls it a "so-called theorem" because Coase never stated it as such.

cooperatives, as a particular governance structure, arise to minimize transaction costs. For example, Bonus (1986) says that cooperatives internalize important transactions, thereby avoiding rent-capturing threats to their investment. Similarly, John M. Staatz (1987) uses transaction cost theory to emphasize the ways in which cooperatives, in minimizing transaction costs, create "countervailing power," which he says stem from asset fixity.[18]

Porter and Scully (1987) offer a paradigmatic property-rights approach to cooperatives. Arguing that transaction costs are present, they look at the impacts of a cooperative's property rights structure on efficiency (and find that this very structure renders cooperatives inefficient). Other examples include Sykuta and Cook (2001), Cook (1995), and Fulton (1995), all of whom argue that cooperatives' organizational structures affect the incentives of their members, which thereby have implications for efficiency.[19]

Imperfect Information

The other NIE strand is the theory of imperfect information. When asymmetric information exists, according to Stiglitz (1994), there is an power imbalance that renders the market inefficient. Furthermore, Bardhan (1989) argues that, in the theory of

[18] Asset fixity or specificity is a term in transaction cost theory that refers to assets intended for a use in a given transaction, which are generally limited in some way to that use.

[19] The main critiques (in the literature) of the CDAWN strand fully apply to these cooperative models. North (1998) argued that many NIE theorists "simply are ignorant" about the ways institutions emerge (North 1998, 21). Instead of explaining the ways in which property right structures, for example, emerge and develop, they simply appear because there is a net benefit for them to exist. Additionally, according to Bromley (2000) "since transaction costs – indeed all costs – depend upon (are functions of) the institutional setup, it is circular to advance a theory suggesting that institutions depend on transaction costs" (Bromley 2000, 10). Finally, Valentinov (2007) argues that a transaction cost viewpoint automatically frames institutions like cooperatives to be advantageous (the most efficient), because, otherwise, they would not exist—another tautological argument.

imperfect information, institutions develop as substitutes for missing markets "in an environment of pervasive risks, incomplete markets, information asymmetry, and moral hazard" (Bardhan 1989, 4).

The theory of imperfect information is related to transaction cost theory, as information costs are a form of transaction costs. Bardhan (1989) claims, however, that the theory of imperfect information is

> usually cast in a more rigorous framework, clearly spelling out assumptions and equilibrium solution concepts, drawing out more fully the implications of strategic behavior under asymmetric information, sharply differentiating the impact of different types of information problems, and yielding somewhat more concrete and specific predictions than the usual presentations of transaction cost theory about the design of contracts, with more attention to the details of the terms and conditions of varying contractual arrangements under varying circumstances (Bardhan 1989, 6).

One example of the imperfect information analysis in the cooperative literature is Braverman and Guasch (1989). The authors evaluate the motivation of credit cooperatives in developing countries—incomplete credit markets— as well as their formation and design. They find that credit cooperatives can be extremely successful and provide important advantages to their members as long as the "intrinsical and moral hazard problems are properly accounted for" (Braverman and Guasch 1989, 353).[20]

The Tragedy of Rational Choice

[20] Agency theory, and the principal-agent problem around which it centers, is an offshoot of the imperfect information approach. The principal-agent problem describes a situation in which a principal (e.g. a shareholder) hires an agent (e.g. a manager) who does not hold the same selfish interest as the principal. The "problem" is one of moral hazard, which could potentially arise because managers shirk their responsibilities for which they were hired. Monitoring, then, becomes a fundamental issue in agency theory, as a way to mitigate the principal-agent problem (Jensen and Meckling 1976). Agency theory is applied to cooperatives in the following way: members are defined as the principals and cooperative managers are the agents (Van Bekkum 2001). The same incentive problems are theorized to exist, for which monitoring is necessary. According to Egerstrom (2004), a major accomplishment of the agency theory of cooperatives is the comprehensive list of problems it addresses (including free-rider, horizon, portfolio, control, and decision-making problems).

How does Ostrom's discussion of economic methodology apply to the economic models of cooperatives? Ostrom would argue that these models are applied out of context (inappropriately elevated to the status of theory), and thus the conclusion is made that only the state can change exogeneous variables.

Here I want to both extend Ostrom's argument and also offer a critique of it, by claiming that the way these models—the collective action models and the cooperatives models— are used "out of context" stems from the fact that the majority of them (though not all, as I discuss below) base their theories on the rational-choice/efficiency paradigm, which is especially inappropriate for cooperatives.

Notwithstanding the vast range of differences within heterodox economics, one of its defining characteristics is a rejection, or at least a modification, of neoclassical rational choice theory. Rational choice theory—the behavioral assumption that buttresses the whole of mainstream economics—is a framework that depicts individuals as solely out to maximize their benefits and minimize their costs while facing a limited amount of resources (and employing a given set of preferences). The argument then follows that the entire economy is an aggregate of individual cost-benefit analyses, which ultimately results in Pareto optimality—the most efficient outcome for society.

The foundational assumption that threads together all three of the economic collective action models discussed in this chapter is that individuals are "rational" in the neoclassical sense. For example,

> It is *not* in fact true that the idea that groups will act in their self-interest follows logically from the premise of rational and self-interested behavior" […] "rational, self-interested individuals will not act to achieve their common or group interests (Olson 1965, 1-2).

> As a rational being, each herdsman seeks to maximize his gain. Explicitly or implicitly, more or less consciously, he asks, 'What is the utility to me of adding one more animal to my herd?' (Hardin 1968, 1244).

This assumption about human behavior is directly linked to the conclusions of these models. If Hardin's herdsman were altruistic towards each, then the "tragedy of the commons" will not occur.

Ostrom herself defines her conception of rationality to be much more flexible than what is assumed in these economic models.

> I presume that individuals try to solve problems as effectively as they can. That assumption imposes a discipline on me. Instead of presuming that some individuals are incompetent, evil, or irrational, and others are omniscient, I presume that individuals have very similar limited capabilities to reason and figure out the structure of complex environments. It is my responsibility as a scientist to ascertain what problems individuals are trying to solve and what factors help or hinder them in these efforts. When the problems that I observe involve lack of predictability, information, and trust, as well as high levels of complexity and transactional difficulties, then my efforts to explain must take these problems overtly into account rather than assuming them away (Ostrom 1990, 26).

Nevertheless, what is striking in *Governing the Commons* is that despite her broadened notion of rationality, Ostrom never explicitly criticizes these collective action models for using rational choice theory. In fact she states that "these models are thus extremely useful for explaining how perfectly rational individuals can produce, under some circumstances, outcomes that are not 'rational' when viewed from the perspective of all those involved" (Ostrom 1990, 6). In other words, there are collective action circumstances whereby Olson and Hardin predict correctly. In 2000, however, she states that, although they might be useful in extremely competitive scenarios,

> Thin [neoclassical] models of rational choice have been unsuccessful in explaining or predicting behavior in one-shot or finitely repeated social

> dilemmas in which the theoretical prediction is that no one will cooperate (Ostrom 2000, 474).

Although Ostrom's prisoner metaphor in *Governing the Commons* is extremely poignant, she seems somewhat stuck in the cement of (false) positivism; she fails to follow through with her analogy by extending the problem directly to rational choice theory. I suggest that it is the very assumption that people base their collective action decisions solely on a self-interested cost and benefit calculus, instead of their motivations and actions reflecting a wide set of values, concerns, structures, goals, and behaviors—including free-riding behavior—that ultimately incarcerates their capabilities and potential, and leads to the assumption that the state needs to alter the cost-benefit structures by instituting policy in order to effect change.

Rational choice theory is even more inappropriate for understanding cooperatives, institutional forms that embody principles of democracy and equality, that foster a range of development outcomes (not just economic), and, since their inception, have been embedded in social movements that confront the abuses of capitalism, whether that be of the industrial revolution or 21st century globalization.

Just as rational choice theory informs the conclusions of collective action models, so too for cooperatives. Recall that Sen's 1966 model of producer cooperatives[21] demonstrated a possible overutilization of labor, a result that hinged on a key behavioral assumption: what Sen calls "sympathy," which could also be termed "empathy." Specifically, Sen defined the utility functions of cooperative workers to include valuing the well-being of fellow workers, which results in the opposite of "Ward effect." Maybe

[21] Stiglitz (1989) describes a "peasant rationality," one in which peasants are rational, but not fully informed. This is certainly an improvement on the neoclassical definition. However, the imperfect information is still not broad enough to capture the social and political features of cooperatives.

it is, in fact, the assumption that cooperative workers are rational in the neoclassical sense that is "perverse," for this assumption is the ultimate cause of Ward's "perverse effect."

Conclusion

The purpose of this chapter is to demonstrate that we need better a better economic framework for understanding cooperatives. Transaction costs, property rights, and imperfect information are all useful and relevant concepts to build on, but they are constrained by rational choice theory, which precludes any meaningful understanding of this organizational form that also embodies the values of democracy and social justice. Applying strict rational choice assumptions to frame the motivations of cooperative members implies they are not capable of solving their collective challenges, which incarcerates their potential and, as Sen illustrated with his model of producer cooperatives, drastically changes the range of possible results.

In proceeding to develop a more useful framework with which to identify the objectives, struggles, and achievements of cooperatives, it is incumbent upon economists— heterodox economists especially—to do better than this. The next chapter, by contrasting the economic framing of cooperatives with one that locates them in social justice movements, is an attempt to provide a more nuanced and realistic picture of cooperative motivations, functions, and possibilities.

CHAPTER 3

INTERNALIZING "SOCIAL DISTANCE:" COOPERATIVES AND THE GLOBAL JUSTICE MOVEMENT

> Cooperatives in their various forms are an […] existing example of the possibility of extending democracy to economic life (Hill 293).

Introduction

The purposes of this chapter are twofold. The first is to contrast the way mainstream economists frame cooperatives with the way they are described by social movements—namely the global justice movement and the older, global cooperative movement itself. Rather than the rational-choice/economic-efficiency paradigm, this perspective defines the goals of cooperatives in terms of a broader notion of well-being for families and communities and, still more broadly, as an effort to combat corporate-centric globalization. This dissertation will draw from this alternative conception of cooperatives and incorporate it into its analysis. The second purpose is descriptive: to provide some clarifying definitions of the various types of cooperatives.

The first section of this chapter describes the global justice movement and situates cooperatives within it. The second section reviews the early history of the various kinds of cooperatives as well as of the International Cooperative Alliance, the main organizing body of the global cooperative movement that has advanced the widely used cooperative definitions, goals, and principles from which this dissertation draws.

The Global Justice Movement

Its recipients called it the "summit special," water laced with pepper spray shot into the masked faces of protesters at the 2001 Summit of the Americas in Quebec City. This was accompanied by what were quickly becoming standbys for the "anti-globalization" protests—tear gas, rubber bullets, and water cannons. Even though it did not burn the eyes or choke a crowd out of the dead-end, cobblestone streets of the old part of Quebec City, the very misnomer "anti-globalization" was (and is) arguably just as irritating—to the protesters and the movement—as the weapons wielded by riot police.

> [In] Quebec we get painted as anti-globalization protesters, but really [who] I think we are is Canadian citizens fighting for a more just and democratic world. A world where trade lawyers don't negotiate agreements over the course of years without consulting with Canadians….We're not struggling against globalization per se. We're struggling against capitalism. We're struggling for a more democratic world (Member of Toronto Video Activist Collective. April 13th, 2001. Summit of the Americas).

Quebec City protesters interviewed by the *New York Times* mirrored this sentiment, citing their objections not to globalization, but to the ways in which multinational corporations have brandished it: impacting human rights, livelihoods, and environments. In light of the Mexican maquiladoras (otherwise known as "democracy-free zones"), one labor advocate objected to the certain demise of workers' rights across the globe. A Vermont farmer worried about the impact of corporate-held international patents that gave companies like Monsanto and Cargill legal entitlement to seeds that small farmers have been developing for centuries or more, degrading genetic diversity and leaving them economically shackled to these companies. All were focused on globalization's tendency to concentrate corporate power, while diluting rights of people (DePalma 2001).

The activists themselves have come up with much better epithets for their collective intentions—the global justice movement, counter-hegemonic globalization, alter-globalization, the movement of movements, and the anti-corporate globalization movement. Regardless of its name (I will call it the global justice movement), all can agree that its focus is building a new kind of globalization, one that offsets neoliberal globalization with more equal distributions of economic resources and power.

Globalization is a sweeping term for an extremely complex reality that is difficult to define. Scholars get quickly tangled up in debates simply *defining* globalization, i.e. its meaning, whether it exemplifies a process or event or whether its origins are economic, cultural, or social (Steger 2003).

Boyce (2004), however, articulates a clear conception that is well-suited to the motivations and beliefs of the global justice movement. First, he draws from the works of Karl Polanyi (an "old" institutionalist), who articulated the economy as a system of markets and institutions that shape and constrain market activity.

> Markets are nested within social institutions that both enable them to function and temper their effects. The rise of capitalism was characterized by what Karl Polanyi (1957[1944], p. 132) called a 'double movement': the expansion of the market, coupled with the expansion of 'social protection aiming at the conservation of man and nature as well as productive organization' (Boyce 2004, 2).

Boyce defines globalization as the global integration of that same process, the spread of economic activities (both market and institutional) around the world. But this "has long been an uneven process, not only across regions but also across the social spheres that structure economic activity" (Boyce 2004, 2). What the global justice movement objects to is that globalization, as it stands, "has proceeded furthest in the sphere of the market"

(Boyce 2004, 2), a bias that weakens society's ability to use institutions to curtail corporate concentrations of power.

This unevenness fosters what sociologists call "social distance." Social distance refers to the divisions in society among people in different social categories: economic, race and ethnicity, gender, etc.. Boyce describes social distance in the context of globalization and international trade.

> When trade occurs at prices that do not capture external costs and external benefits, market integration is accompanied by the globalization of market failure. It also can widen what can be termed the 'social distance' between the beneficiaries of cost externalization and those who bear these costs, making the latter less able to influence the actions of the former (Boyce 2004).

Boyce argues that market globalization expands social distance. The global justice movement's task at hand, then, is to counterbalance the dominant spread of market globalization, thereby narrowing the social distance between those who benefit and those who are harmed and fostering "internalization" of costs and benefits.

Visible configurations of the global justice movement are innumerable and have moved well-beyond the protests that launched it. Via Campesina, Peoples' Global Action, Jubilee 2000, and the Solidarity Economy Network are just a few of its organizational pillars. Among the many examples of direct alternatives to market-centric globalization and capitalism are Community Supported Agriculture (CSAs), community currencies, fair trade, neighborhood associations, farmers markets, and the one that is ever present in discussions and description of the global justice movement, and is the central focus of this dissertation: cooperatives.

> The economic equality that worker cooperatives strive for is a constant, vibrant catalyst for equality among sexes, nations, and races, through a

> drive towards democracy, first in our workplaces, and then in our communities and societies (Trott 2008).

Cooperatives play a central role in the global justice movement, serving as a symbol of democracy as well as a form of governance with which to counterbalance the dominance of markets in the globalization process and to internalize the social distance it causes. This is, indeed, the same mantle cooperatives have held since their inception over two hundred years ago.

The Early Cooperatives—Consumer, Credit, Worker, and Agricultural[22]

The Rochdale Pioneers of Britain—formed in 1844—are often incorrectly portrayed as the first cooperative society on record. Actually, many cooperative associations predate the Rochdales—in Britain and the rest of Europe, in North America, and in Japan. It would be more accurate to say that the Rochdales became the model that launched the global cooperative movement (Birchall 1997).

There is no exact moment when cooperatives first appeared on the economic stage. Humans have always engaged in cooperation for productive purposes, but cooperatives as a formal governance structure only appear in societies where markets have already come into existence. Fairbairn (2004) connects cooperatives' inception to the beginnings of "modernism," a period between the late eighteenth and twentieth centuries characterized by "rational pragmatism, secularism, growing urbanism, the power of nation-states, the economization of many aspects of society, and other related mentalities and behaviors"

[22] The most helpful and comprehensive sources I have found on the four main types, and the development of the International Cooperative Alliance is Johnston Birchall's *The International Co-operative Movement*. I used Birchall as my primary resource, and supplemented with other resources, which are cited in the appropriate sections.

(Fairbairn 2004, 24). Again in Karl Polanyi's terms, it was an era dominated by two parallel institutions, the state and the market. "These processes [that reshaped society to fit the state and the market] had immense impacts on the lives of ordinary people, and it is in these impacts that we see the origins of co-ops" (Fairbairn 2004, 24).

According to Digby, a historian of the early cooperative movement, although cooperatives were not fully formed until the early nineteenth century, the "germs of many cooperative ideas are to be found in [earlier] schemes: the combination of self-help and mutual aid; a voluntary, democratic, and egalitarian association for economic purposes; direct relations between producers and consumers and the elimination of the middleman" (Digby 1948, 14).

Digby traces the concept of an economic community, which operates within the state, to Protestant England of the seventeenth century, quoting a Dutchman residing in England named P.C. Plockboy. Plockboy published a pamphlet in 1659 that laid out a plan for forming "economic associations of agriculturalists, artisans, seamen, and professional men, who would all contribute capital and work to the undertaking, while retaining the right to withdraw and take their capital with them if they so desired. The products of the farm would be exchanged within the group for the products of industry and any profits would be distributed among the members" (Digby 1948, 14).

In 1695, a Quaker named John Belers published another pamphlet that expanded on the ideas of Plockboy. His *Proposals for Raising a Colledge of Industry of all Usefull Trades and Husbandry* proposed that consumer and producers, farmers and artisans form a single organization to sell on the market, with profits from these sales to pay capital costs that Belers assumed should come from outside the group.

When the first formally recognized cooperative was formed is unclear. According to Williams (2007), the very first formal cooperative on record was a fire insurance cooperative, formed in the UK in the early 1700s. Birchall claims that it was not until 1760 that groups of shipbuilders in the south of England created flour mills to bust local monopolies that sold poor quality bread at extremely high prices. "By the end of the century the idea had spread to several other ports along the east coast, and baking societies began to appear in Scotland" (Birchall 1997, 4). Birchall calls this expansion the first cooperative movement. The second movement, according to Birchall, "began in 1826 in Brighton and which by 1833 had spread all over Britain and even to Ireland" (Birchall 1997, 4). Williams (2007) states that by 1830, 300 cooperative societies had been officially recognized by the UK.

The cooperatives of this second, early nineteenth century movement were based on the ideas of Robert Owen[23] and William King—both successful men concerned with the poverty of the working people. Owen was a self-made, wealthy industrialist, who was well-known for his philanthropy and personal efforts to improve the labor conditions of his employees. King was a physician who had long worked on self-help solutions for the working poor.

Owen's influential idea was the cooperative village, where the working class could reside and work, producing for their own consumption and exchanging with each other and with other villages. He traveled across Europe and to North America to establish these communities, but they all ultimately failed. The key issue was the lack of funds:

[23] Owen is often characterized as the father of the modern cooperative movement.

the aristocracy was not interested in contributing their money and the working classes lacked the capital to establish these villages.

Many "Owenites" established cooperative shops (consumer cooperatives) as an alternative to the villages, despite Owen's skepticism on the grounds that they did not reach far enough. King, however, preferred the shops because they did not rely on the wealthy class for funding, and because the revenues from the cooperative shops could potentially be the capital used to establish the Owenite villages. In any case, King believed that establishing cooperative shops was a worthwhile goal in and of itself.

In 1833, according to Birchall, the second cooperative movement collapsed.[24] Cole (1944) provides several reasons for its disintegration: a collapse of the trade union movement, caused by government pressure and employee lock-outs; an economic downturn that pushed cooperative members deep into poverty; and the internal problem that the cooperatives did not have a way to distribute their profits, so the only mechanism members had for accessing their dividends was to dissolve their societies.

Like the cooperative shops of previous decades, the Rochdale group formed in response to the economic conditions of the era:

> The handloom weavers were being squeezed out by power-driven looms. The mills were still paying the low wages of the preceding depression. There was much unemployment […] Hours of work were long. Mean and crowded houses without adequate water or sanitation had been run up to provide for the rapidly increasing population and fill the pockets of speculative builders (Digby 1948, 21).

The Rochdales opened their own store (1844) in order to sell foodstuffs they could not afford otherwise. They began with a paltry selection (four items: butter, sugar, flour,

[24] Birchall (1996) is somewhat inconsistent in his description. Recall that he first states that the second movement had spread all over Britain (and reached Ireland) by 1833. Then on the next page claims that the movement collapsed by 1833. It is possible he meant that there was growth across Britain until 1833, at which point the movement began to implode.

and oatmeal) and were only open two nights a week. Within a few months, however, they expanded their coffers, became notable for providing high quality items, and were open for business 5 days a week. By 1850 the Rochdales established a corn mill and sold flour to their members (by then 600 strong) as well as to other cooperatives.

It is noteworthy that the original Rochdale pioneers (a group of 28 men, mostly flannel handloom weavers and a few other trade artisans, who worked in the cotton mills of Rochdale, England) were politically active. "All the pioneers were Owenites or Chartists, leaders of strikes or agitators for the ten-hour day or the repeal of the Corn Laws. They were men with a good deal of political experience, used to working with their fellows" (Digby 1948, 21).

The Rochdales were very cognizant of the mistakes made by the failed cooperatives that preceded them, and established a broad set of principles with those missteps in mind. Over time these "Rochdale Principles" became the founding principles of the global cooperative movement (Birchall 1997).

These principles were the following:

1. Open membership.
Anyone—man or woman—could be a member (up to a fixed total) and on equal terms with the founding members. There could be no discrimination of any kind. Only people known to have bad characters could be refused admission.

2. Democratic control (one person, one vote).
Power to determine the affairs of the society are distributed equally, and financial contribution should have no bearing on political influence.

3. Payment of fixed and limited interest on capital
The idea of limited interest was to strike a balance between the group's need for capital investment and its beliefs about unsavory profits.

4. Distribution of surplus in proportion to trade.

The Rochdales figured out that instead of having to dissolve the cooperative, trading surplus[25] could paid as a dividend in proportion to member purchases. This principle is often credited with the success of the Rochdale society (Birchall 1997).

> This devise solved one of the most difficult of the problems confronting the early cooperators. They had not come together to make profits. If they could, they would have provided their members with the necessities of life at cost price. But, even apart from the violent opposition this would have aroused among rival shopkeepers, cost price would have been almost impossible to determine in advance in an immature organization, with the running expenses and the overhead charges, the risks of spoilage and unsold goods, all unknown at the time when prices would have to be determined (Digby 1948, 23).

The dividend on member purchases, paid quarterly, made it possible to in effect sell at cost price retroactively.

5. Cash trading
No credit could be established for trading. This was a safeguard for the Rochdale society and a response to what was considered a social evil of the industrial era.

6. Commitment to pure and unadulterated goods
Providing quality goods, which were generally not available to the masses, was one of the main reasons for the formation of consumer cooperatives.

7. Promotion of education
The use of society funds for educating members signified that the organization, and the broader cooperative movement, was something more than just a business enterprise.

8. Political and religious neutrality
The point of this, beyond reinforcing the open membership principle, was to ensure that the society could not become tied to any church or political group.

The Rochdales were so influential that by the mid-1850s there were almost 1,000 consumer cooperatives established in Britain based on their model (Woolf 1928).

But the Rochdale's influence moved well-beyond the consumer form of cooperative.

Once the Rochdales had established a solid set of cooperative practices and principles,

[25] The Rochdales preferred the term "trading surplus" to profit.

the movement devised new kinds of cooperation—credit, worker, and agricultural.[26] According to Birchall (1997), "each form emerged mainly within one country and then, whenever the environment was congenial, spread rapidly throughout Europe and then the world" (Birchall 1997, 11). Credit cooperatives, as I will describe below, were conceived in Germany.

Credit Cooperatives

Germany's economy in the mid-nineteenth century was vastly different from Britain's, closer to that of Tsarist Russia than to the industrial transformation that seeded the Rochdales. In the towns, artisans still dominated production, selling to the surrounding rural areas. The agrarian reforms of 1848 gave peasants land rights that exposed them more to the fluctuations of the market (Birchall 1997).

The first major figurehead of the credit cooperative movement was Hermann Schulze—a judge and liberal mayor of Delitzsch, a small village in northeast Germany. Concerned about the welfare of workers and artisans, he realized that lack of capital was a fundamental economic issue for the townspeople. He established a "friendly society" in 1849 similar to those that preceded the consumer cooperatives in Great Britain. In 1850, he established the first credit cooperative, with ten members, all artisans. Members subscribed to one share each, which could be paid in installments. Liability was unlimited, and profits, after twenty percent was first placed in capital reserves, were distributed to members as dividends. The cooperative held accounts and made loans to

[26] All other cooperative forms derived from these original four sometime during the twentieth century; these are mainly insurance, forestry, fishing, electricity, and health care cooperatives.

members, and was run by a salaried professional who was chosen democratically (Birchall 1997).

While Schulze's credit cooperatives were located in Germany's towns and cities, Friedrich Raiffeisen founded the first rural credit cooperative in 1862, in which only farmers comprised the membership. Raiffeisen built on Schulze's model, but with some fundamental differences: the cooperative did not require any share capital from farmers, members used their properties and assets as collateral, no dividends were distributed (instead used for reserves), and loans were drawn from savings and deposits. The societies were also very small—kept to the village level (Birchall 1997).

Both Germany's urban and rural credit cooperative movements were a success. By 1905, there were over 1,000 urban cooperative banks with 600,000 members—a bank in almost every town. In the countryside, over half of the small farmers in Germany were members of approximately 13,000 rural credit cooperatives. According to Birchall, "Taken together, both [urban and rural] movements were an astonishing achievement which got the urban and rural workers out of debt to money-lenders and enabled them to survive in the new market society" (Birchall 1997, 13).

Worker Cooperatives

Worker cooperatives are non-agricultural production cooperatives: business enterprises owned and controlled by workers. Today the Mondragon cooperative group in Spain is the most notable—and influential—collective of worker cooperatives in the world. It began when a prisoner turned priest named Don Josè Maria Arizmendi came to the small Basque city of Mondragon to help improve the local school system. Later, when five of

his students set up a stove-making company (in 1956), they were supported by Arizmendi (and the local community), who helped by writing the statutes that would fit the cooperative into Spanish law. Soon other groups followed suit and cooperatives were being formed throughout the town (Whyte and Whyte 1991). There are now over 250 cooperatives in Mondragon, representing almost 100,000 worker-members (Mondragon Corporation 2010).

Worker cooperatives were first conceived in France and Italy in the mid-nineteenth century. Charles Fourier, like Robert Owen, was concerned about the dire poverty among France's working class. (In France, the working class was largely made up of independent, skilled workers rather than factory workers.) Fourier, too, believed in self-enclosed communities, and like Owen's they too failed. Philippe Buchez was France's William King, bringing the more pragmatic sensibility to the cooperative movement. Buchez established an association of cabinet makers and codified a set of principles for worker cooperation that resembled the Rochdale principles,[27] which prompted a workers' cooperative movement worldwide.

In Italy, the worker cooperative movement developed in Piedmont, the most industrialized region at the time. When the government granted the region freedom of association in 1948, groups began to set up mutual aid societies that insured members against sickness (informal health cooperatives). The Owen-like figurehead was a political leader named Mazzini, and the first producer cooperative was a glass-making

[27] The members elected their representatives democratically. Each would receive a market-competitive wage. However, they would also receive a return of the surplus in proportion to the work they contributed. Capital was "indissoluble". Workers had a probation period of one year, and then be eligible for full membership.

cooperative set up in the village of Altare; by the 1860s there were several others (Birchall 1997).

Worker cooperative movements did not develop significantly outside of France and Italy until the 20th century. In many countries, the movement grew sporadically, in fits and starts. For example, in the United States, there was a small worker cooperative movement in the 1930s, which revived in the 1970s. Those that survived from the 1970s became the catalyst for growth in the 1990s (Hoover 2007). "Many of them were thriving; they had demonstrated that the model was viable and they were committed to helping grow it, through replication, spinoff, and technical assistance. These older 1970s co-ops provided resources, inspiration and in many cases directed capital to help those new co-ops get started in the 1990s" (Hoover 2007, 241).

Agricultural Cooperatives

The terms "agricultural cooperative" and "farmer cooperative" do not denominate one form of cooperative, but several. A simple typology for distinguishing among agricultural cooperatives is to classify them as either production cooperatives or service cooperatives.

The function of the agricultural production cooperative is to turn an input or product into a higher value product ready for consumption (by humans or animals). In other words, production resources—land and/or machinery—are pooled and members either farm or produce jointly. Agricultural production cooperatives include the Soviet-era cooperatives that collectivized either land rights or labor power (and sometimes both). Other examples are the dairy cooperatives of Europe and North America. According to

Birchall (1997), the first agricultural cooperative was a cheesemakers cooperative in France, formed in 1750.

Agricultural service cooperatives can be broken down further, into marketing, supply, and credit cooperatives. Marketing cooperatives are comprised of farmers with individual land rights who collectively transform, package, market, and distribute their products.[28] The marketing cooperatives can also be traced to the United States in the early nineteenth century; the first marketing cooperative was a pork cooperative in Granville, NY (1820). Supply cooperatives do just that: they supply their members with agricultural inputs, e.g. seeds, fertilizer, fuel, and sometimes machinery. The first supply cooperative was established in 1865 in Switzerland for the purchasing of fertilizer (Birchall 1997).

The International Cooperative Alliance

During the second half of the 19th century, several leaders of the cooperative movement in Europe galvanized to establish a formal international cooperative body in order to further strengthen and expand the global movement. After fifty years and several unsuccessful attempts, the International Cooperative Alliance (ICA) was finally founded in 1895.[29]

[28] Birchall (1997) defines production cooperatives as those that add value to an agricultural product for use but that seems to fall in the definition of market cooperative.

[29] Furthermore, the ICA is now the largest non-governmental organization in the world and is considered by both the UN and the ILO to be extremely important to the cooperative movement. Its members are 237 national (from 89 countries) and international cooperatives representing the range of cooperative types (ICA 2010).

The ICA was formed to accomplish three goals: to provide information on the cooperative movement to member cooperatives; to establish commercial relations between cooperatives in different countries; and to elucidate the nature of cooperative principles.

The extent to which they succeeded at these goals varied. In terms of providing information, they were quite successful. In 1897, at the Paris Congress of ICA, the organization began to gather statistics, and in 1909 they began publishing their bulletin in multiple languages. They have continued to publish the *Review of International Cooperation* and gather statistics (some are presented in Appendix A), both of which have helped connect national cooperative movements. The results of the efforts to stimulate international trade amongst cooperatives were not as promising. Travel was slow and expensive, logistics intimidating, and even the committee designated to organize and promote this trade could not meet because members lived so far from each other.[30]

ICA has been hugely successful in achieving its third goal. Its cooperative principles have been widely influential in the cooperative movement, providing a standard as to whether an organization can call itself a cooperative, and have evolved gradually over time.

Three official reviews of principles were undertaken over the course of the ICA's history. In 1995, the latest set of principles was developed and accepted (see Appendix B

[30] The extent to which this is still an ICA goal is unclear. It seems, however, that the global justice movement—and globalization—at least have the potential to help the cooperative movement fulfill its original goal of building networks and trade by devising new kinds of trade paradigms that did not exist when they the ICA was established.

for the 1937 and 1966 versions), as well as this clear statement as to what defines a cooperative:

> an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

The principles, underlaid by a clear list of values, are widely used today. These are the following:

1. *Voluntary and Open Membership:*
   Cooperatives are voluntary organizations, open to all people able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination

2. *Democratic Member Control*
   Cooperatives are democratic organizations controlled by their members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3. *Member Economic Participation*
   Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. *Autonomy and Independence*
   Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. *Education, Training and Information*
   Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the

development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6. *Cooperation among Cooperatives*
Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local national, regional and international structures.

7. *Concern for Community*
Cooperatives work for the sustainable development of their communities through policies approved by their members.

This most recent iteration of the ICA cooperative principles was formulated in direct response to the efficiency approach to cooperative theory. According to Birchall, there was a "crisis of consciousness" about their ideological nature and meaning. "[This crisis of consciousness] arises from gnawing doubts about the true purpose of cooperatives and whether they are fulfilling a distinct role as a different kind of enterprise. If cooperatives do nothing more than succeed in being as efficient as other businesses in a commercial sense, is that good enough?"

The ICA's answer was no; the cooperative definition and set of principles that the organization devised in response to this question are now used by all members of the Committee for the Promotion and Advancement of Cooperatives (COPAC), which includes major development players like the Food and Agriculture Organization of the United Nations (FAO), the International Labour Office (ILO) and the United Nations general secreteriat (UN).[31]

Conclusion

[31] The International Federation of Agricultural Producers (IFAP), the Canadian Cooperative Association (CCA) and the Swedish Cooperative Centre (SCC) are also members.

This chapter has begun the process of developing an alternative framework for cooperatives. Instead of an economic institution comprised of rational-choice actors who form an organization for the purpose of reducing transaction costs and maximizing efficiency, this chapter places cooperatives in the center of global justice movement's effort to narrow the social distance created by market-centric globalization (to borrow Boyce's conception) and the much older global movement to confront the debilitating effects of industrial capitalism. This chapter also draws from the definition, goals, and principles of cooperatives developed by the International Cooperative Alliance, which is the organizing body central to the global cooperative movement.

Of course, not all cooperatives are exemplars of all that is fair and democratic, as this dissertation will well-establish in its discussion of inequality and collective action. When trying to think theoretically about cooperatives, however, it would be irresponsible and narrow-minded not to acknowledge the ICA's framings and the broader role that cooperatives serve in building democracy.

CHAPTER 4

OSTROM'S THEORY OF COLLECTIVE ACTION

Introduction

The objective of this chapter is to explain the nuts and bolts of Ostrom's theory of collective action and then provide a critique and a preliminary analysis by applying her theory to what we know of cooperatives thus far (from chapter 3).

This chapter proceeds as follows. The first section discusses Ostrom unique methodology, which I argue is what makes her work especially relevant and useful, especially to heterodox economists. The second section describes one example of the many case studies that Ostrom uses to develop her theory. The third section presents Ostrom's theory of collective action, and the final section provides a critique of her theory.

Ostrom's Methodology: Fusing Theory and Experience

In the issue of *Yes! Magazine* honoring Ostrom's work,[32] the magazine's editor, Fran Korten, conducted an interview with Ostrom in which the main emotion she expressed from her Nobel win is relief. Relief?

> Well, relieved in that I was doing a bunch of research through the years that many people thought was very radical and people didn't like. As a person who does interdisciplinary work, I didn't fit anywhere. I was

[32] Briefly mentioned in chapter 1.

> relieved that, after all these years of struggle, someone really thought it did add up. That's very nice.

Indeed, Ostrom's work is radical, not just for nullifying the "tragedy of the commons," but for how she did so—her distinct methodological style that shatters stiff disciplinary boundaries and ignores dogmatic epistemological attachments.

Ostrom explains that her research approach began developing in the mid-1980s, when she became aware of "the possibility of using detailed case studies written by other authors to obtain a sufficiently rich empirical base for understanding CPRs" (Ostrom 1990, xiv). Ostrom and her colleagues at Indiana University began collecting citations to case studies of CPR institutions, and Fenton Martin, in particular, compiled a bibliography of the list, which reached 5,000 entries by 1990 (when *Governing the Commons* was published). Several academic disciplines, across the social and physical sciences, were represented in these case studies, but the researchers found that the majority stayed within disciplinary boundaries by referencing sources strictly from within their subject area. "Consequently, a vast amount of highly specialized knowledge had been accumulated" without much synthesis or application of the knowledge to the policy problems involved" (Ostrom 1990, xv). Ostrom thought it was important to use this compilation of literature to understand empirically how institutions help users manage CPRs. With an NSF grant, Ostrom and several of her colleagues screened these case studies and selected a smaller subset for further scrutiny, coding, and analysis. "We have now developed a structured coding form that enables us to transform the indepth qualitative data into a structured database amenable to quantitative analysis" (Ostrom 1990, xv). Throughout this process, the scholars wrote several papers trying to "elucidate a theory that would help us understand the patterns we were beginning to see in reading

these diverse materials" (Ostrom 1990, xvi). The result of that work is the theory Ostrom presents in *Governing the Commons*.

Ostrom's use of such a wide range of multidisciplinary studies has nurtured a fluid epistemological approach. She uses both inductive and deductive reasoning, both empiricism and reason, in a continual back and forth interchange between observations "on the ground" and "arms-length conceptualizing" that she says gives her a deeper understanding of what she is observing.

Ostrom calls her method a blend of biology and "new institutionalism." She characterizes the biology piece as follows:

> Biologists also face the problem of studying complex processes that are poorly understood. Their scientific strategy frequently has involved identifying for empirical observation the simplest possible organism in which a process occurs in a clarified, or even exaggerated, form. The organism is not chosen because it is representative of all organisms. Rather, the organism is chosen because particular processes can be studied more effectively using this organism than using another (Ostrom 1990, 26).

Ostrom's "organism" is the "CPR situation." She defines a "common-pool resource" (CPR) as a "natural or man-made resource system that is sufficiently large as to make it costly (but not impossible) to exclude potential beneficiaries from obtaining benefits from its use" (Ostrom 1990, 30).[33] Her list of examples of such resource systems include fishing grounds, groundwater basins, grazing areas, irrigation canals, streams, lakes, oceans, and other bodies of water.

New institutionalism is a form of institutionalism that begins with "broad rationality"—the idea that human beings have purpose and plans, and are both limited

[33] Hanley *et al.* 1997 distinguish the meaning of the commons and common-pool resource as follows: the commons is the actual environmental asset, whereas common-pool resource or common property resource is the property right regime that governs it.

and capable in their abilities to find solutions to their shared dilemmas. The "institutional" piece feeds into the solution in the form of norms, conventions, and rules that both enable and constrain people in achieving their collective action goals. If strict rational choice theory argues that individual decisions are essentially a series of static, cost-benefit analyses, then new institutionalism is saying that, yes, individuals weigh costs and benefits in making those decisions, but how those costs and benefits are shaped and perceived (and sometimes not perceived) is shaped by a broad range of institutional factors.

My criticisms of Ostrom's work are not meant to overshadow the fundamental contribution she has made to the social sciences. Ostrom's methodological style is truly interdisciplinary in spirit and in practice, and refreshing in its pragmatic autonomy from both rationalism and empiricism. In academia, that is a radical way of doing things. In economics, it has had the effect of throwing not only "the Tragedy of the Commons" on its head, but also the market-state dichotomy on which mainstream economics rests. This is a profound methodological contribution, and one that heterodox economists should notice.

CPR Case Studies

Ostrom's case studies are field settings in which "appropriators" have devised their own rules for using their CPRs. The successful CPR systems are those where the CPRs—and the rules the groups have designed to manage them—have survived for long periods of time. "The institutions […] have survived droughts, floods, wars, pestilence, and major

economic and political changes" (Ostrom 1990, 58) over the course of decades or centuries (in one case, 1000 years).

One case study is located in Törbel, Switzerland (written by Robert McC. Netting 1981). In Ostrom's *Yes!* interview with Korten, she says that one example:

> that just unglued me—because I wasn't expecting it—was the work of Robert Netting, an anthropologist who had been studying the alpine commons for a very long time. He studied Swiss peasants and then studied in Africa too. He was quite disturbed that people were saying that Africans were primitive because they used common property so frequently and they didn't know about the benefits of private property. The implication was we've got to impose private property rules on them. Netting said, 'Are the Swiss peasants stupid? They use common property also' (Korten 2010).

Törbel is an alpine village of about 600 people in southern Switzerland. The terrain is steep, and there are a range of microclimates based on the variance in altitude. For hundreds of years, the peasants have raised grains, vegetables, fruit trees, and hay on their personal plots. The land they share in common includes pasture, forests, land used for waste, irrigation systems, and paths and roads that connect all of these with each other and the private land.

Legal documents dating back to 1224 detail the various land tenure and management arrangements for the five commons in Törbel. In 1483, the residents formally established an association to improve regulation over their use and, in 1507, they set specific boundaries, limiting access to Törbel residents and restricting use for those who do have access (modifying the rules over time as necessary). For example, "regulations written in 1517 stated that 'no citizen could send more cows to the alp than he could feed during the winter'" (Ostrom 1990, 62). That regulation is still enforced with severe fines imposed (by an elected local official) on anyone who violates it.

All statutes that establish CPR use are voted on by all local citizens and managed by an association of Törbel residents (who own cattle). They meet annually to discuss rules and hold elections. The elected officials have clearly specified duties: they hire staff for monitoring, impose fines, organize maintenance work, etc.

Ostrom states that the Törbel CPR institutions are not simply holdovers from a bygone era, but part of a conscious and long-term effort by residents to match land tenure to specific types of land use. Although productivity for many of these commons areas is low, they have also been sustainably maintained over the course of their collective use. "The CPR not only has been protected but also has been enhanced by investments in weeding and manuring the summer grazing areas and by the construction and maintenance of roads" (Ostrom 1990, 64).[34]

Ostrom's Theory of Collective Action

Recall from Chapter 1 that Ostrom defines collective action as any effort by a group to organize themselves to retain the residuals of their own efforts. Any theory of collective action must address how groups solve the problems inherent in that action: the free-rider problems that the group is addressing, and the secondary free-rider problems that arise within the institutions themselves (thus, they become the "commons" or public good). Ostrom's point is that people do find ways to overcome free-rider problems, and a comprehensive collective action theory should explain how they do it.

What Ostrom has discovered is that groups devise complex sets of rules to overcome free-riding problems. They create rules with which members must make a "*credible commitment*" to comply and they set up comprehensive *monitoring* to ensure compliance

34 Ostrom has evaluated thousands of case studies like the Törbel system.

with those rules. Ostrom's theory of collective action identifies how this is accomplished by identifying the specific design principles of those rules and identifying the specific factors that predict whether the rules of groups will conform to the design principles. The following is a discussion of both of these pieces of Ostrom's theory.

Design Elements of Governance Rules of Successful CPRs

According to Ostrom, the rules of every successful CPR system conform to the following design principles, which I will briefly describe in order:

1. Clearly defined boundaries
2. Congruence between rules and local conditions
3. Collective choice arrangements
4. Monitoring
5. Graduated sanctions
6. Conflict-resolution mechanisms
7. Minimal recognition of rights to organize
8. Nested enterprises

1. Clearly defined boundaries:
   Individuals or households who have rights to withdraw resource units from the CPR must be clearly defined, as must the boundaries of the CPR itself.

Ostrom calls this the "first step in organizing for collective action" (Ostrom 1990, 91). If the boundaries of the resource and the rules about who can use it are fuzzy, "no one knows what is being managed or for whom" (Ostrom 1990, 91). The benefits are likely to be appropriated by free-riders, and the CPR could be destroyed.

> If there are substantial numbers of potential appropriators and the demand for the resource units is high, the destructive potential should all be allowed to freely withdraw units from the CPR could push the discount rate used by appropriators toward 100%. The higher the discount rate, the closer the situation is to that of a one-shot dilemma in which the dominant strategy of all participants is to overuse the CPR (Ostrom 1990, 91).

This is a necessary, though not sufficient, condition for the transition of a natural resource from "open access" to "common-property."

2. Congruence between appropriation and provision rules and local conditions:
   Appropriation rules restricting time, place, technology, and/or quantity of resource units are related to local conditions and to provision rules requiring labor, materials, and/or money.

"Well-tailored" appropriation and provision rules is the second condition that accounts for the sustainability of the successful CPRs. In every case study, the rules reflect the specific features of the particular natural resource. For example, small differences in levels of water scarcity are reflected in different rules for allocating water.

3. Collective-choice arrangements:
   Most individuals affected by the operational rules can participate in modifying the operational rules.

When CPR institutions apply this principle they are better able to fulfill principle #2 and design their rules to the specific circumstances of their resource.

4. Monitoring:
   Monitors, who actively audit CPR conditions and appropriator behavior, are accountable to the appropriators or are the appropriators.

Even in situations where social reputation is important and there are norms for upholding agreements, these are not necessarily sufficient for ensuring compliance of CPR rules. Thus, in all of the successful cases, monitoring systems are in place.

5. Graduated sanctions:
   Appropriators who violate operational rules are likely to be assessed graduated sanctions (depending on the seriousness and context of the offense) by other appropriators, by officials accountable to these appropriators, or by both.

"Now we are at the crux of the problem—and with surprising results. In these robust institutions, monitoring and sanctioning are undertaken not by external authorities but by the participants themselves" (Ostrom 1990, 94). Collective action theories often assume that participants will not sanction (and monitor) because it takes too much time and effort. But Ostrom's case study examples of successful CPR systems demonstrate that participants do. "The appropriators in these CPRs somehow have overcome the presumed problem of the second-order dilemma" (Ostrom 1990, 94).

6. Conflict-resolution mechanisms:
   Appropriators and their officials have rapid access to low-cost local arenas to resolve conflicts among appropriators or between appropriators and officials.

Unlike collective action models that assume the rules that structure the strategies of all participants are unambiguous, in the CPR systems applying rules is complicated.

> Even such a simple rule as 'each irrigator must send one individual for one day to help clean the irrigation canals before the rainy season begins' can be interpreted quite differently by different individuals. Who is or is not an 'individual' according to this rule? Does sending a child below age 10 or an adult above age 70 to do heavy physical work meet this rule? Is working for four hours or six hours a 'day' of work? Does cleaning the canal immediately next to one's own farm qualify for this community obligation? (Ostrom 1990, 100).

The fact that these rules can be interpreted in various ways creates opportunities for shirking them. Conflict-resolution mechanisms allow the participants to navigate this ambiguity.

7. Minimal recognition of rights to organize:
   The rights of appropriators to devise their own institutions are not challenged by external governmental authorities.

When external governmental officials do not give some level of recognition to the legitimacy of the CPR rules, and they presume they themselves only have the authority to

set the rules that govern, for example, inshore fisheries, then anyone who wishes to circumvent the CPR rules created by the fishers can do so by getting the external officials to overturn them.

8. Nested enterprises:
   Appropriation, provision, monitoring, enforcement, conflict resolution, and governance activities are organized in multiple layers of nested enterprises.

Ostrom argues that "all the more complex, enduring CPRs" fulfill this last design principle (Ostrom 1990, 101). By nested enterprises, she means that the CPR systems are organized in three or four nested layers of rules, which are in turn nested in local, regional and national government in some capacity. As an example,

> There are two distinct levels in the Philippine federation of irrigation systems. The problems facing irrigators at the level of a tertiary canal are different from the problems facing a larger group sharing a secondary canal. Those, in turn, are different from the problems involved in the management of the main diversion works that affect the entire system. Establishing rules at one level, without rules at the other levels, will produce an incomplete system that may not endure over the long run (Ostrom 1990, 102).

Predicting Institutional Change

The second piece in Ostrom's theory is a list of predictive factors:

1. Most appropriators share a common judgment that they will be harmed if they do not adopt an alternative rule.
2. Most appropriators will be affected in similar ways by the proposed rule changes.
3. Most appropriators highly value the continuation activities from this CPR; in other words, they have low discount rates.
4. Appropriators face relatively low information, transformation, and enforcement costs.
5. Most appropriators share generalized norms of reciprocity and trust that can be used as initial social capital.
6. The group appropriating from the CPR is relatively small and stable.

As Ostrom's research has progressed, this list has evolved. In Gibson *et al.* 2000, the list of predictive factors for sustainable forestry management included:

1. Salience:
   Users are dependent on the forest for a major portion of their livelihood (or for other variables of importance to them).
2. Common understanding:
   Users have a shared image of the forest and how their actions affect each other and the forest
3. Discount rate:
   Most users have a sufficiently low discount rate in relation to future benefits to be achieved from the forest.
4. Trust and reciprocity:
   Users trust one another to keep promises and relate to one another with reciprocity
5. Autonomy:
   Users are able to determine access and harvesting rules without external authorities counterdemanding them.

Finally, in a 2004 International Food Policy Research Institute brief, Ostrom includes these attributes:

1. Agreement by the involved individuals that the problem at hand is important.
2. The degree of autonomy a group has to take collective action on its own or within a nested institutional setting.
3. Secure property rights.
4. Participants must also have some level of trust in the reliability of others and be willing to use broad strategies of reciprocity.
5. Prior organizational experience & presence of supportive local leaders.

The following is a discussion of the most current list.

1. *Agreement by the involved individuals that the problem at hand is important.*

Individuals must share the idea that they will be worse off if they do not adopt a new rule or set of rules. "At first this characteristic sounds trivial, but it is not. Government agencies frequently complain that local populations do not perceive collective action

problems as either relevant to their concerns or within their abilities to address" (Ostrom 2004, 1).

2. *The degree of autonomy a group has to take collective action on its own or within a nested institutional setting.*

Indeed, collective action can prove to be dangerous for the participants. "In a highly authoritarian regime, independent action is perceived as threatening to the center. Individuals who have lived in such regimes for long periods of time are always nervous about independent action, even when assured that the regime has changed" (Ostrom 2004, 1).

3. *Secure property rights.*

Ostrom argues that those who have been successful in overcoming collective action problems typically have a lower discount rate in regard to the particular situation at hand. In other words, they value the future and, therefore, exiting is not a viable short-term option. Resource users with a higher discount rate lack the motivation to commit time and effort to creating a healthy, long-term governance system.

> These individuals [with a low discount rate] live side by side and farm the same plots year after year. They expect their children and their grandchildren to inherit their land. In other words, their discount rates are low. If costly investments in provision are made at one point in time, the proprietors—or their families—are likely to reap the benefits (Ostrom 2004, 1).

Holding secure property rights, Ostrom argues, is the key ingredient in reinforcing low discount rates and the long-term perspective.

4. *Participants must also have some level of trust in the reliability of others and be willing to use broad strategies of reciprocity.*

Ostrom doesn't elaborate, but simply says, "If participants fear that others are going to take advantage of them, no one will wish to initiate costly actions only to find that others are not reciprocating" (Ostrom 2004, 2). I will further discuss trust in the inequality section.

5. *Prior organizational experience & presence of supportive local leaders.*

Ostrom tags these two factors as mechanisms for reducing the transaction costs of solving collective action problems. The costs associated with market transactions—information gathering, bargaining, coordinating, monitoring, and enforcement—all apply to solving problems of the commons (and to cooperatives). Ostrom has found that the two fundamental ways to minimize transaction costs are ensuring organizational experience in the leadership as well as the existence of support from community leaders. Unfortunately, she does not explain how effective leadership is accomplished. This is probably easier said than done.

Critiquing Ostrom: Inequality, Rational Choice, and Collective Action

This dissertation is founded on the conviction that the majority of mainstream economists have failed to understand and portray the economy and society adequately.[35] The power of the mainstream school to dominate policy and popular rhetoric is not benign, and can be damaging to human and environmental well-being.

[35] Heterodox economics is an umbrella term for a range of economic theoretical and methodological approaches—institutional, Marxian, Post-Keynesian, feminist, Austrian, evolutionary, ecological, and so forth. The essential element that links all of these, often contradictory, approaches—and defines their place in the heterodox tradition—is their explicit objection to mainstream economics.

Heterodox economist Neva Goodwin (2008) states that "in graduate school I was told that 'economics is about equity and efficiency: we don't really know how to deal with equity, so we will focus on efficiency.' The outer circle [heterodox economists], as I see it, includes those economists who reject that conclusion, who are at least as concerned with equity as with efficiency" (Goodwin 2008, 38). Heterodox economics takes equity seriously, and addresses one of the foundational premises of mainstream economics—the alleged tradeoff between efficiency and equity.

Ostrom's Nobel Prize win is a promising recognition of the need to combat the ideological dominance of neoclassical economics. Ostrom's framework, however, does not push the boundaries of the mainstream far enough; it is severely lacking any analysis of power disparities, and other forms of inequality, which is a primary focus of many, if not most, heterodox economists.

In a 2010 symposium[36] of distinguished political scientists that was formed to understand and critique Ostrom's work in response to her Nobel win, Margaret Levi argues,

> Ostrom does […] incorporate issues of power into her analysis, but it is the power to enforce […] By largely considering societies in which the power differences are relatively small and where the most important conflicts are often between higher levels of government and local communities, she does not go as far as she might in identifying inequalities of power (Levi 2010, 574).

One of the predominant criticisms heterodox economists have of the mainstream's rational-choice theory is its complete lack of awareness of the presence of power

[36] The title of the symposium was "Beyond the Tragedy of the Commons. A Discussion of Governing the Commons: The Evolution of Institutions for Collective Action."

disparities that distort individual decisions and market outcomes (See Folbre 1983 for this critique within the realm of economic fertility models).

Indeed, neither Ostrom's "broadened" rationality, which is the behaviorial foundation of her theory, nor the theory itself, provides a discussion of the ways in which power disparities manifest across wealth and social structures to impact individual-level decisions and collective action outcomes. As Fine (2010) argues, Ostrom's "theoretical points of reference" might not conform to "the cruder forms of rational choice" (Fine 2010, 538), but she still conforms to its neglect of the role of power in the economy.

Since Ostrom wrote *Governing the Commons*, the research on the merits of community-level natural-resource management has been growing (Jodha 1986; Baland and Platteau 1996; Leach *et al.* 1999 to name a few). Along with these studies, however, are the scholars, heterodox economists included, who have been voicing their concerns that decentralized approaches to natural resource management tend to neglect issues of inequality. This concern has gradually become a stronger theme in the collective action literature,[37] and has centered on whether inequality is instrumentally good or bad for collective action.

Olson (1965) himself addressed this question, arguing that inequality promotes cooperation among groups by increasing the opportunity for the wealthy few to obtain enough benefit of the public good to be willing to provide it, regardless of free-riders.

Wade (1988) made the argument that a wealthy and powerful minority in the group can be particularly effective in leadership roles and are likely to have the political

[37] Culminating in an impressive edited volume by Baland, Bardhan, and Bowles (2007)

connections that others will lack. This argument is especially relevant, as Ostrom does not address how effective leadership is best achieved.

On the other side are those who argue inequality within CPR institutions has the undesirable effect of only being reproduced and expanded via the motion of collective action. Agarwal (2006) calls this "participatory exclusion:" the idea that "new institutions built on a bedrock of pre-existing inequalities can further entrench those inequalities" challenging our "notions of communities as benign institutions" (Agarwal 2006, 6).

For example, according to Beteille (1983), access to local common-property in Indian villages is determined by caste position, which further perpetuates this social division. Hildyard *et al.* (1998) argued that more powerful groups enjoy "structural dominance" in collective forest management. Finally, Agarwal (2006) argued that not only are women typically excluded from decision-making in forest communities, but their gendered division of labor means they have a profound stake in the sustainability of the resource as well as a deep knowledge of it. Thus, gender inequality undermines the efficiency of the community management of the resource because women's possession of decision-making power can make dramatic improvements in environmental outcomes.[38] Disturbingly, this duality is "unfolding across the globe—in the Amazon, in Africa, and most especially in the forests of India and Nepal" (Agarwal 2006, 3).

Trust and Inequality

[38] Boyce's (2003) finding that power inequities can exacerbate environmental degradation complements Agarwal's result. "The extent of pollution and resource depletion is shaped by the distribution of power: the greater the power of the winners vis-à-vis the losers, the greater the extent of environmental degradation. Hence a solution requires a more equitable distribution of power" (Boyce 2003, 12).

Returning to Ostrom's theory, all is most certainly not lost. The entry-point within her framework in which we can think about the impact of inequality on collective action is via her emphasis on the social underpinnings of trust and reciprocity.

Ostrom, with Janssen (2007), defines trust as follows:

> While many definitions of trust exist, all involve a trustor extending something of value to a trustee based on an assumption that the trustee will reciprocate the faith that the trustee has extended. A core aspect of most definitions of trust is the 'intention to accept vulnerability based upon positive expectations of the intentions of the behavior of another (Janssen and Ostrom 2007, 67).

Again quoting Levi (2010), however, "[Ostrom] does not go as far as she might in identifying inequalities of power that inhibit trust and constraints on that power, which might facilitate trust" (Levi 2010, 574). True, but in the Janssen and Ostrom (2007) piece, she does at least hint at a link between inequality and the presence of trust in writing that, along with factors like available information and repeated interaction (in a game setting), "the identity and homogeneity of the individuals involved all appear to affect the level of trust" (Janssen and Ostrom 2007, 69).

Levi cites Henry Farrell's recent work (2004), which distinguishes amongst modest and extreme power asymmetries. In the former, trust is often present and possibly even fostered by minor differences in power. In the latter instance, trust is essentially impossible to obtain. Cardenas (2007) writes that "heterogeneous groups may find it more difficult to cooperate if, for instance, there are wealth distances in the group that limit the possibility of getting group communication to be effective for building trust, cooperation, and a commonly shared goal" (Cardenas 2007, 229).

Inequality and Cooperatives

The body of research on inequality and collective action typically focuses on the instrumental aspects of inequality, i.e. the way it functions to impact collective action outcomes. What is important to note in the case of cooperatives is that inequality is also *intrinsically* problematic. For cooperatives, inequality in any of its potential dimensions (economic and social) is contradictory to the underlying philosophy (at least for the cooperatives that adhere to the principles the ICA has set forth and those that interact with the global justice movement) and undermines the development goals they have set out to achieve.

There are very few studies exploring how inequality impacts cooperatives. The most prominent is a piece by Banerjee *et al.* (2001) in which they find that increased heterogeneity of landholdings (amongst 100 sugar cooperatives in Maharashtra) causes productive inefficiency by causing a lower input price and a lower level of production capacity.

Another piece by Mayoux (1993) analyzes the role that Nicaraguan agricultural cooperatives play in empowering women. Despite the fact that women have been encouraged to participate in farmers cooperatives by the Nicaraguan government, gender issues have been generally ignored in national cooperative policy and, not surprisingly, women's empowerment via-a-vis cooperatives is insufficient, especially considering existing roles of production, which include "childcare responsibilities, the heavy burden of housework, and husband's opposition limited women's involvement" (Mayoux 1993, 67). And Lodhia (2009) documents the fact that in many countries in Asia and Pacific the participation of women in cooperative leadership positions has not occurred despite efforts of policymakers, academics, and NGOs.

Bringing the discussion back to trust, Jones (2004) argues that trust is a mechanism by which wealth inequality positively affects cooperatives' efforts. "Specifically, the presence of perceived economic differences between members of small agricultural cooperatives in northwest Ecuador's agricultural frontier encourages trust in the wealthy, thus facilitating coop development during the initial stage of cooperative formation" (Jones 2004, 691). But such inequality may later undermine cooperative efforts. Jones does not argue this, but one reason for this later effect may be that the poorer members expect their income and asset levels to rise (relative to the wealthier members) through cooperative participation. If and when this does not happen, members have less incentive to be active.

Conclusion

Ostrom's theory makes a substantial contribution to understanding how groups overcome their collective action problems. Her methodology should be lauded and used as an example, especially for heterodox economists. However, her lack of attention to how inequality functions to impact collective action outcomes is problematic, especially for the purposes of this dissertation. Inequality, particular gender inequality, is an important issue in Oromia's coffee cooperatives. How the theoretical framework should contend with that is something this dissertation will address in Chapter 7.

CHAPTER 5

CASE STUDY PART 1: THE POLITICAL ECONOMY OF COFFEE

> All of the major issues of the twenty-first century—globalization, immigration, women's rights, pollution, indigenous rights, and self-determination—are being played out through [a] cup of coffee, in villages and remote areas around the world (Cycon 2007, viiii)

Introduction

The movie *Black Gold*, produced and directed by British filmmakers Nick and Marc Francis (2006), tracks the massive coffee industry from gatherings of Master Cuppers to the New York Board of Trade to the virescent highlands of western and southern Ethiopia, the reputed birthplace of coffee. The movie features Tadesse Meskela, general manager of the Oromia Coffee Farmers Cooperative Union (OCFCU) in Ethiopia and follows him over the course of three years as he visits Oromia coffee farmers, travels to London to meet with buyers, and attends the 17th Annual Specialty Coffee Association of America conference in Seattle—all in a single-minded quest to generate business outside of the volatile market for coffee as a mass commodity.

Black Gold brings to staggering visual form the deep fissures that split the coffee world: the image of the western consumer drinking her daily grande latte juxtaposed with the malnourished and uneducated children of Ethiopia's coffee farmers; the image of New York traders betting on fluctuations in the price of coffee (the very fluctuations that pushed these coffee farmers into such dire poverty); and the footage of a WTO meeting

where marginalized representatives of developing countries battle to abolish egregiously unfair trade policies.

Since its release in 2006, US showings of *Black Gold* at independent theatres, colleges and community libraries are creating a broad awareness of the economic plight of the world's coffee farmers, as well as of the new trade paradigms that are gradually building momentum. Fair Trade, the "third wave," direct trade, organic certification, and so forth are all part of a broad attempt to harness the power of coffee cooperatives by developing alternative pathways to global commodity chains. However, as these trade alternatives—especially Fair Trade—develop, there is much debate about the trajectory that will be most beneficial to coffee farmers, their families, and their communities.

This chapter provides a detailed picture of the global coffee industry, including its early history, its policy narrative, and the uneven impacts of the coffee crisis on coffee farmers and coffee producing countries. It then describes in detail Daviron and Ponte's (2005) concept of the "Coffee Paradox" and their framework of material, symbolic, and in-person service attributes that we will use to define the collective action of Oromia's coffee cooperatives. I then describe the prominent alternative trade paradigm being developed in response to the coffee crisis, as well as the mainstreaming debate brewing within Fair Trade about its trajectory and how it can be most beneficial to coffee farmers. Finally, I further specify the nature of collective action for coffee farmer cooperatives, which relates to the mainstreaming debate.

The History and Policies of the Global Coffee Industry

The Early History of Coffee

Coffee is an ancient global commodity—one of the world's oldest. Common lore pinpoints its origins to the verdant highlands of Ethiopia over fifteen hundred years ago. As the story goes: when a herder named Kaldi came across his goats dancing, he realized that the source of their frenzy was the bright red "cherries" hanging from an unfamiliar bush. Kaldi took the cherries to a nearby monastery, where the monks confirmed that, whatever this plant was, it had a powerful, magical effect on humans as well as goats (Cycon 2007).

The Abyssinians were creative in using *bunn* (their word for coffee). They initially chewed the beans and leaves, but eventually moved on to brewing tea, grinding the beans with animal fat for energy, and making wine—kisher—from fermented pulp (Pendergrast 1999).

The coffee trade began when the beans found their way across the Red Sea to Yemen, around the the sixth century. The Yemenis were the first to roast coffee beans. It was not until the Ottomans occupied Yemen in the mid-sixteenth century, however, that longer trade routes developed—beginning at Yemen's port of Mocha—and coffee and coffee plants were transported to the rest of the Arab world, and then to Europe, Asia, and the Americas (Pendergrast 1999).[39]

[39] Coffee consumption was introduced in Europe (via the coffeehouse) in the seventeenth century; the first coffee trees had been introduced in the New World in the eighteenth century; and coffee arrived in Latin America in the nineteenth century (Pendergrast 1999).

The Regulatory Era: the International Coffee Agreements

By the nineteenth century, the world trade in coffee had risen dramatically, and with it the inherent price volatility of the global coffee market. This volatility prompted the formation of the International Coffee Agreement (ICA) in 1965. The ICA (1965-1989) was an intergovernmental agreement among producing and consuming countries, designed to stabilize market prices by setting export quotas. "The aim was to keep the price of coffee relatively high and relatively stable, within a price band or 'corset' ranging from $1.20 to $1.40/pound" (Petchers and Harris 2008, 44). Producers controlled their supplies by stockpiling coffee, destroying it, and selling it at lower prices to non-ICO member countries, namely Soviet-block and developing countries.[40] When prices rose above the agreed ceiling level, they were able to export above their quota limits to member countries.

According to Petchers and Harris (2008), producer countries found the ICA agreeable because prices remained generally high and stable throughout the quarter century the ICA was in place. Daviron and Ponte (2005) characterize the ICA regime as relatively successful for several reasons. First, both producer *and* consumer countries negotiated the quota system (not very common in commodity regulation). Second, governments of producing countries had a certain level of control in export decisions. Last, Brazil, the largest exporter, accepted its shrinking market share, which was a direct result of the ICA agreements.

The International Coffee Agreement, however, was also beset with problems that

[40] Not always made explicit, an underlying motivation of the ICA was the Cold War. During a Senate Committee on Finance discussing the U.S. ratification of the 1962 ICA, Wendell Rollason of a Miami anti-Castro Organization said of Latin American farmers, "They seek a piece of land, a steady job, a full belly, a child's education...It is going to be us or the Russians. It's that simple" (Pendergrast 1999, 278-79).

eventually overwhelmed it. The quotas were extremely costly to negotiate—partly because members squabbled over what they should be—and hence they often remained unchanged even when consumption varied. This undermined the participation by roasters, who could get coffee from non-members at lower prices (Daviron and Ponte 2005). This, along with the waning of United States Cold War concerns in Latin America, the ICA was eventually abandoned by its major supporters—the roasters, the small producer countries, and the U.S. government—and it was dissolved in 1989.[41]

The Global (South) Coffee Crisis

In 2001, twelve years after the ICA ended, coffee prices in real terms fell to 100-year lows, causing devastation for farmers and coffee-exporting countries all over the global South. The standard explanation of the cause of the coffee crisis was oversupply caused by several factors: the aforementioned breakdown of the ICA; the increasing presence of Vietnam as a coffee producer; and an industry-wide trend of overproduction.

According to Prince (2002), in the early 1990s Vietnam was producing about 90,000 tons per year of Robusta[42]—very low quality Robusta. "There's good robusta, and not so good robusta—Vietnam had stuff that was just about the worst robusta you could grow," akin to drinking a cup of "burning rubber" (Prince 2002, 1). Nevertheless, with the help

[41] By 1994, the International Coffee Organization (ICO), the formal organization associated with the ICA, had essentially become an industry promotion group.

[42] There are two primary commodity futures markets—located in New York, New York Board of Trade, and London, London International Financial Futures and Options Exchange—that determine global prices for coffee. The New York market represents Arabica beans; London, robusta beans. Arabica beans are considered to be of higher quality. Robusta beans are lower quality, have a higher caffeine content, have a more bitter flavor and are generally used as filler for blends.

of loans from the World Bank, government provision of cleared and irrigated land,[43] subsidies to encourage farmers into coffee, loans by "the big 4" (Nestle, Kraft, Sara Lee, and Proctor and Gamble), and the implementation of new techniques that lowered production costs on plantations, by 2000 Vietnam had become the world's second-largest producer of coffee (after Brazil)—producing close to a million tons, an eleven-fold increase in ten years. Again, "quality of product was not a concern—maximum profits and yields were" (Prince 2002).

Vietnam's surge in coffee production was matched by a broader industry trend of oversupply in the 1990s. For example, production increased in India, Uganda, Guatemala, and Ethiopia by 20 to 30 percent, while Brazil had a bumper crop in the 1998-99 growing season (Luttinger and Dicum 2006). Some of this increase was caused by structural adjustment policies that demanded developing countries service their debts through increased exports. "With so many of the coffee-producing nations in the same straits, these demands only worsened the worldwide glut, driving countries deeper into debt they were even less able to pay" (Luttinger and Dicum 2006, 101).

The result of Vietnam's ascendancy as a top producer of coffee and the industry-wide production increases was that the price of coffee fell to historic lows. By 1999, the "coffee crisis"—a five year period of record-low coffee prices—had begun.[44] What ensued was nothing short of a disaster for coffee producing countries and farmers across the global South.

The impacts of the coffee crisis have been long-lasting. "National economies are

[43] The country cleared 300,000 acres of forestland to plant.

[44] The "C" price did not rise above a dollar per pound for six years until poor weather hit Brazil and Vietnam.

suffering and some banks are collapsing. Government funds are being squeezed dry, putting pressure on health and education and forcing governments further into debt" (Mayne *et al*. 2002, 2). Coffee farmers, the majority already living at the edges of poverty, plunged even deeper:

> Families dependent on the money generated by coffee are pulling their children, especially girls, out of school. They can no longer afford basic medicines, and are cutting back on food. Beyond farming families, coffee traders are going out of business (Mayne *et al*. 2002, 2).

Farmers had little protection or support at the national or local level, as coffee boards, extension services, and other mechanisms had been dismantled during the deregulatory era under pressure from neoliberal policies.

The Coffee Paradox

According to Daviron and Ponte (2005), while the global South was experiencing a coffee crisis, the global North was having a "coffee boom."

> The coffee market has gone through a 'latte revolution,' where consumers can choose from (and pay dearly for) hundreds of combinations of coffee variety, origin, brewing, and grinding methods, flavoring, packaging, 'social content', and ambience. Retail coffee prices continue to rise in the specalty market […] At the same time, coffee farmers receive prices below the cost of production (Daviron and Ponte 2005, xvi).

Daviron and Ponte call this "the Coffee Paradox." They argue that a typical way to understand the dynamics of market power in the coffee industry (and in primary markets in general) is by defining the growing gap between the price of the raw product ("green" coffee beans) and the final product as "oligopolistic rents captured by an increasingly concentrated roasting industry" (Daviron and Ponte 2005, xvii). As an alternative, they suggest that "the Coffee Paradox" is better understood in terms of who controls "the

ability to define the 'identity' of a coffee—in other words to set the language and the reference values that determine production norms and quality standards" (xvii). In other words, market power is not just a question of market share but of "capturing the most valuable attributes while underming the value of the attributes that need to be purchased" (Daviron and Ponte 2005, xvii).

Daviron and Ponte categorize coffee's attributes into three groups: material, symbolic, and in-person service.

Material Quality

Material quality is based on official grade standards and includes color, size, shape, moisture content, number of defects, presence of disease or mold, etc. These are called "objective parameters" by the coffee industry and can be measured by the senses and by machines that separate and sort coffee beans. Mainstream or commodity coffee (coffee traded on the New York and London exchanges) is evaluated in producing countries solely in terms of material quality.

Symbolic Quality

Symbolic quality is developed through branding, packaging, retailing, and consumption. These are based on reputation, signaled through methods like trademarks and geographical indications, often protected by intellectual property rights.[45] When

[45]Daviron and Ponte argue that the main difference between brands and indications lies in the collective nature of property for the latter. Labels are awarded to products provided by enterprises or organizations that meet specific criteria. They are also protected, to some degree as intellectual property, but are in principle open to all actors who can match their criteria" (Daviron and Ponte 2005, 128).

symbolic attributes do not play an important role in a producer country, its coffee is nothing more than a primary commodity crop to be processed and consumed elsewhere.

In-Person Service Quality

In-person service quality is a "product of interpersonal relations between producers/providers and consumers". These attributes are about not only the quality of a physical transformation, but a quality of the "affective work" (Daviron and Ponte 2005, 128). This can include the interactions between consumers, the expertise of the barista, and the ambience of the coffee shop, or even the particular language used by coffee chains like Starbucks.

Alternative Trade Paradigms

In response to the coffee crisis, there has been a broad movement to develop new trade paradigms in the coffee world. The most well-known of these is Fair Trade.

Fair Trade

The aim of the Fair Trade system is to directly connect producers in the global South with consumers in the North, while ensuring that small-scale farmers earn a price that is reflective of the cost of production.[46] In turn, the farmers comply with established economic, social, and environmental requirements, one of the main standards being that only producer cooperatives, defined as formally organized groups of farmers, are eligible

[46] There are a variety of Fair Trade products, including crafts and textiles as well as food commodities like banana, sugar, rice, nuts, tea, as well as coffee.

for Fair Trade certification and they, in turn, must follow specific guidelines, such as following democratic decision-making processes.

The Fair Trade movement started in Europe in the late 1950s as missionary church groups began importing textiles and hand-made crafts from developing countries. In the 1960s, "world shops" began to sell these wares with the goal that the artists and producers get a better price than what they received from intermediaries in the traditional commodity chain (Conroy 2006).

As these grassroots efforts progressed, the movement became more organized and both the Dutch Max Haavelar Foundation and Transfair International in Germany began developing specific standards for selling these goods. In 1998, these organizations merged and established the Fairtrade Labeling Organizations international (FLO), an international Fair Trade certifying body with over 24 associative national organizations in the global North, including Transfair USA—the sole US FLO certifier (FLO International 2010).

For Fair Trade coffee, certification occurs for the two main groups: the producers, and the importers or buyers. Fair Trade eliminates the middlemen in the typical coffee commodity chain, and requires that coffee importers pay coffee cooperatives $1.31 per pound of coffee and $1.51 per pound of organic coffee.[1] The importers also required, if requested by the producer organization, to pre-finance 60% of the contract value, which helps prevent farmers from incurring debt.

In exchange, coffee farmers are required to comply with the following rules: only coffee cooperatives of small farmers are eligible for certification; the cooperatives must "have a democratic structure and transparent administration, which enables an effective

control by the members and its Board over the management"; they "must not discriminate regarding membership and participation;" they must meet a set of specific environmental standards; and they must direct ten cents from each pound of Fair Trade certified coffee to the cooperative as a whole[1] (Fairtrade Labelling Organization 2007).[47]

Fair Trade is not without its controversies. As the system grows and adopts more formal rules and practices, there is arising a "mainstreaming" debate that separates those whose main aim is to expand the Fair Trade market and those who are concerned that this kind of growth is diminishing the relationship qualities that are the philosophical underpinnings of the system.

Proponents of Fair Trade "mainstreaming" (a.k.a. the "market niche camp") argue that this induces the steady growth of Fair Trade demand, which can only be beneficial to impoverished coffee farmers. The simple reality is that coffee farmers need a steady demand for their coffee, and an expanding the Fair Trade market is essential for that to happen.

Opponents argue that mainstreaming is eroding the integrity of support that existed for indigenous and peasant farmers and their struggle for political and economic rights within the context of their nation states. "Active and explicit engagement with the politics of solidarity and social justice for producers in the global South is being dissipated" (Goodman 2008). This kind of advocacy diminishes as a more standardized system implements regimented visits of unknown Fair Trade inspectors only once annually.

[47] After voting to decide how to allocate their funds, many cooperatives use the "social premium", as it's called, to build community schools, clinics, roads and bridges, and coffee producing infrastructure.

Moreover, as the Fair Trade system expands and corporate roasters enter the market, the activist side argues that these buyers are out of touch with coffee farmers. According to Dean Cycon, owner of a small 100% Fair Trade and organic coffee roaster, "Green Mountain doesn't even know where 50% of their coffee comes from"[48] (Cycon 2006, 1). He argues that according to Green Mountain Coffee's own website, in 2003 only 10% of their coffee was Fair Trade certified.

Another worry is the deluge of certification schemes that have hit the specialty coffee market and the concern that this saturation weakens the Fair Trade standards of social and economic justice and environmental sustainability. Some of these certification schemes have been instituted by large-scale coffee companies accused of "greenwashing."[49]

Starbucks's C.A.F.E. (Coffee and Farmer Equity) practices and Utz Kapeh[50] are examples of these alternative certification programs. Starbucks maintains its own certification practices, which critics find problematic because it erases the objectivity of third-party monitoring. Utz Kapeh was developed in 1997 by Ahold, a Dutch food retail giant, with Guatemalan coffee producers, and is generally considered less strict than Fair Trade's criteria (Courville 2008). Furthermore, both Starbucks and Utz Kapeh use a pure premium model, meaning they pay a premium above the "C" price, rather than using a

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[48] A Vermont-based coffee roaster that supplies Newman's Own Organics coffee line.

[49] Another potential problem is that behemoth companies like Nestle and Starbucks are becoming "Fair Trade companies", but are only selling a miniscule portion of their coffee as Fair Trade. Thus they engage in a form of "greenwashing" in which a company takes credit for environmental or social virtue that is essentially unjustified. The worry is that consumers will buy from these companies, thinking that they are supporting Fair Trade, when they are actually only diluting the much needed consumer demand for Fair Trade.

[50] "Utz Kapeh" means good coffee in the Mayan Quiche [remember to add accent on e] language (Courville 2008).

price floor (as Fair Trade does). This allows for the possibility that the price farmers earn could be well below their production costs.

Advocates of mainstreaming often argue that it is too simplistic to view corporate involvement in Fair Trade as a greenwashing ploy (Grodnik and Conroy 2007). Instead it reflects the ways that companies are shifting their emphasis to social and environmental accountability, in part due to consumer demand and in part to cultural changes within companies stemming from employee pressure. Green Mountain has moved from resistance to Fair Trade to embracing dual-certified organic and Fair Trade coffee, which is becoming its fastest growing sales sector (Grodnik and Conroy 2007).

As Fair Trade shifts to the mainstream, activists, scholars, and coffee buyers are moving beyond it to preserve that original goal of building relationships between producers and consumers. Some call this the "third-wave," out of which a new system called "direct trade" is brewing.

The Third Wave of Coffee

> After you break the crust, inhale its fragrance. Write down the sort of aromas you smell….Stir the coffee very gently to lull the grounds to the bottom. Now take a spoonful, take another sniff, and slurp quickly to aerate ….
>
> Brooklyn, NY January 2008

So went the instructions given at my first coffee cupping, held by Counter Culture Coffee at one of several "third wave" coffee shops around New York City in 2008. "Use your memories to draw out the subtle perfumes and flavors." I thought back to my childhood backyard in Minnesota, pretending to taste prairie grass and crabapple; others claimed

spelt flour, watermelon Jolly Ranchers, seaweed, and rubber gloves. Clearly, at least at our amateur level, this was not an exact science.

The recent manifestation of coffee cuppings–long the domain of professional "master cuppers"–offers aspiring connoisseurs a chance to explore and compare the characteristics of coffees from the different growing regions in Africa, Asia, and Latin America. Coffee aficionados claim that the subtle and complex features of a coffee come from the environmental characteristics of its particular region, much the way wine's celebrated terroir or appellation system produces grapes with their own distinguishable features. Coffee cuppings offer an opportunity to explore the delicate regional variations that make a Jamaican Blue Mountain or Tanzanian Peaberry so unique.

The "third wave of coffee" is a burgeoning movement within the specialty coffee industry that elevates coffee making to new heights, and is largely responsible for making coffee cuppings a public forum. If the first wave of coffee was Chock Full o'Nuts and Folgers freeze-dried instant breakfast blend—coffee in a can—and the second wave was half-caf skinny lattes with a double shot of sugar-free hazelnut syrup, the third wave is something else entirely.

Baristas, tired of pumping candied coffee drinks that no longer taste like coffee, are refining their work into craftsmanship. Their efforts, formalized into the Barista Guild of America, involve perfecting techniques for steaming milk to a silky microfoam, extracting honey-thick espresso shots topped with caramel-shaded crèma and, more philosophically, the promotion of coffee preparation as the art and science of brewing a perfect cup. The third wave has resulted in exuberant sales for contraptions like the Clover and the Japanese siphon bar, both reputed to brew transcendent single cups to

order with machine prices ranging between ten and twenty thousand dollars. This is no freeze-dried breakfast blend.

Beneath the obsession—or even fetishism—of coffee's third wave is something more than innovative latte art or the strongest pistons and levers for extracting espresso. By emphasizing the importance of coffee's origins, the third wave is also emphasizing the relationship between specialty coffee buyers and the coffee farmers at the origin.

John Moore of Counter Culture Coffee, the organization responsible for many of the public coffee cuppings in New York (as well as in DC and its base in Durham, North Carolina) describes his company's "relationship-based business model" as identifying unique, high-quality coffees and working directly with the growers as well as customers to help them perceive the special characteristics of their coffee. "It's the reason we cup the way we do" (Moore 2008). Meaning, they don't just organize public cuppings for coffee drinkers, but also hold tastings with the coffee farmers.

This is critical because most growers do not know the attributes of coffee that are prized by consumers; indeed, some do not drink coffee at all. These cuppings, according to Moore, help the coffee farmers develop a palate for the beverage, which in turn helps them design growing methods that enhance distinct aromas, mouthfeel, and flavor profiles that the company and farmers identify together.

Illy, an Italian espresso company that has expanded from its humble origins in the 1930s to become a massive international company that sells to over 130 countries, buys directly from the source. According to Ernest Illy, interviewed in *Black Gold*, "We purchase a coffee that is special, a lot that you cannot exchange with any other lot, which is unique, so this is something that does not belong to the kind of negotiation that is made

in New York. New York is commodity, we don't purchase commodity" (*Black Gold* 2006).

Along with ensuring supreme coffees, third-wave's relationship-based business model also focuses on farmer empowerment and building livelihoods.[51] Many third-wave coffee roasters operate within the direct trade certification system. Stumptown, a Portland-based coffee roaster that participates in direct trade believes that quality and fairness go hand-in-hand. The company, like Counter Culture, shares its ideas about production methods with coffee farmers, which they argue ensures better quality and empowers producers to have more of a stake in their own success. Furthermore,

> Stumptown guarantees premiums paid out at the farm level for coffees with the Direct Trade logo on the bag. We'd be happy to show you verifiable documentation proving it. It's about great coffee here at Stumptown, but it's also about forming and nurturing relationships with coffee farmers in the producing world that have become our friends.
>
> Is there a greater satisfaction than knowing you're about to release a coffee worthy of philosophical conversation while simultaneously doing what's right, at a uniquely innovative level, with the folks who created the experience? Perhaps only by drinking it in… (Stumptown 2010)

Framing the Collective Action of Coffee Cooperatives

Across the global South, basic patterns have emerged in the ways that farmers have responded to the coffee crisis. Some abandoned their farms and migrated to cities or

[51] Beyond coffee, Jaffe and Bacon (2008) see, in the plethora of certification programs that are developing, a broader interest in developing alternative, locally-based food networks that are in direct opposition to the conventional food system. One example, in the US, is the growing movement for the Japanese community supported agriculture (CSA) model. CSAs are a system in which community members buy produce shares from a local farmer, for which they receive food throughout the growing season but gives the farmer early season revenues to purchase seeds, fertilizer, etc. (avoiding debt) and spreads the risk inherent in farming among all the participants. It, of course, benefits the consumer by providing them with a consistent supply of fresh, often organically grown, food.

outside their home countries.[52] Some farmers ripped out their coffee plants and began growing other crops, including illegal drugs. And others formed coffee farmer cooperatives to build power and wealth in the face of a newly restructured coffee industry and as a means to access the alternative trade paradigms that developed, and are still developing, in the wake of the coffee crisis.

Daviron and Ponte's (2005) conceptualization of coffee as a bundle of attributes is an extremely useful way of understanding the nature of the collective action problems of cooperatives. Put in terms of the globalization discussion of chapter 3, social distance underlies the "Coffee Paradox." If coffee is the aggregate of material, symbolic, and in-person service produced by different actors along the value chains, and market power is a matter of capturing the most valuable of those attributes, the power disparity between who controls the valuable attributes and who does not (or who controls less valuable attributes) creates externalities—vis à vis price distortions—that create free-rider problems. As I will discuss in detail in chapter 7, Ethiopia's poor coffee farmers have had little control over the valuable attributes of their highly reputed coffees, while cafè chains like Starbucks have had considerable control. Thus, while Ethiopia's coffee farmers are receiving a price well-below the "true" value of their coffees, Starbucks is selling them at a premium.

The objective of the coffee farmers is to internalize external benefits via cooperative governance, in order to capture these valuable attributes for the purpose of ensuring their own sustainable livelihoods. They can do this by not only accessing the existing

[52] In fact, some scholars argue that the coffee crisis is one of the main causes of the escalation of illegal immigration from Mexico and Central America to the U.S.; "several Mexican coffee farmers were among those who have died attempting to cross the U.S. border" (MacDowell 2005).

attributes, but also by defining new ones that they can subsequently control. Coffee cooperatives can, for example, help their member farmers enhance their coffees' quality by teaching them improved processing methods or can create symbolic attributes through branding, packaging, and retailing. (In-person service attributes are more difficult to appropriate by producers because, by definition, this occurs in the consuming country.) I will discuss further examples from Ethiopia in chapter 7.

What role do the alternative trade paradigms have in this story? Daviron and Ponte (2005) call Fair Trade a "sustainability label" and categorize it as symbolic. More specifically, they describe Fair Trade, as well as labels like certified organic, as process-oriented standards that signal to consumers which products conform to specific criteria. Organic certification defines the characteristics of inputs whereas Fair Trade articulates the rules regarding the way decisions are made and income streams are partitioned.

Daviron and Ponte, and others (see Weber 2007) argue that the main problem with sustainability labels is that the markets for them are small. Because there is such a small market for these labels, accessing these attributes is difficult. The cooperatives that tend to gain access are those who can afford the certification process. This perpetuates inequality among coffee farmers—in this case, between rather than within cooperatives—translating income inequality into disparity in the access to the value derived by sustainability labels.

The critique that can be drawn directly from their analysis is that certification labels do not *necessarily* change the power relations of the global coffee trade. While the mainstreaming advocates argue for expanding the market, Daviron and Ponte's framework suggests that the same multinational coffee conglomerates that benefit from

"the Coffee Paradox" can also benefit from expansion of the market for the labels, without giving coffee farmers much added value. I would add that many farmers feel no sense of ownership over the governance process of Fair Trade, in part because so few serve within FLO's decision-making bodies (Cycon 2006).

The "third wave" and "direct trade" were not very formed when Daviron and Ponte (2005) articulated their framework. But this new paradigm arguably does more to strengthen farmers' power position in the coffee trade than the other labels, because it operates at the material as well as symbolic level, thereby addressing a greater sum of coffee attributes.

Stumptown, for example, helps farmers improve the material attributes of their coffee by giving feedback and technical advice on several stages of the production process. Through the joint cuppings, they also empower farmers and cooperatives to *identify* the material attributes in their coffee, effectively giving them "the right to know" its value.

Conclusion

The "global" coffee crisis, in truth, is a misnomer. The dire impacts of the coffee crisis stood in stark contrast to the vast growth in consumption of "grande lattes," a juxtaposition known as the "Coffee Paradox." The extent to which Oromia coffee cooperatives have been able to overcome their own experiences of the coffee crisis is something Chapter 6 will seek to answer.

CHAPTER 6

CASE STUDY PART 2: THE POLITICAL ECONOMY OF THE OROMIA COFFEE FARMERS COOPERATIVE UNION

Introduction

Western minds generally associate Ethiopia with despairing images of famine and war, of children's swollen bellies and Soviet supplied AK-47s. To be sure, there are substantive reasons for these stereotypes—Ethiopia has been mired in conflict for decades (with Eritrea and Somalia and, within its borders, among its many ethnic groups) and Ethiopia is one of the world's poorest countries.

Despite Ethiopia's overwhelming challenges, poverty and war are far from its only narrative. Extraordinary demonstrations of collaboration, entrepreneurship, determination, and hard work are also emerging. One such example is the Oromia Coffee Farmers Cooperative Union (OCFCU), whose offices bustle with the commotion of selling the world's finest coffees to the world's most caffeinated consumers.[53] OCFCU provides an inspiring story of farmers, once debilitated by the global coffee crisis's deep plunge in prices, working together to overcome their perennial hardships, access better coffee markets, and give back to their communities.

The purpose of this chapter is to tell the story of OCFCU, which begins with the sordid history of the country's cooperatives, continues to the challenges and opportunities

[53] Including the U.S., Japan, Australia and parts of Europe (Daviron and Ponte 2005).

of Ethiopia's coffee sector, and ends with the birth and growth of the most successful cooperative union in the country.

The History of Ethiopia's Cooperatives

Figure 1 Ethiopia's First Cooperative Proclamation

PROCLAMATION No. 31 of 1975

"ETHIOPIA TIKDEM" (ETHIOPIA FIRST)

WHEREAS, in countries like Ethiopia where the economy is agricultural a person's right, honor, status, and standard of living is determined by his relation to the land;

WHEREAS, several thousand *gashas* of land have been grabbed from the masses by an insignificant number of feudal lords and their families as a result of which Ethiopian masses have been forced to live under conditions of serfdom;

WHEREAS, it is essential to fundamentally alter the existing agrarian relations so that the Ethiopian peasant masses which have paid so much in sweat as in blood to maintain an extravagant feudal class may be liberated from age-old feudal oppression, injustice, poverty, and disease, and in order to lay the basis upon which all Ethiopians may henceforth live in equality, freedom, and fraternity;

WHEREAS, the development of Ethiopia of the future can be assured not by permitting the exploitation of the many by the few as is now the case, but only by instituting basic change in agrarian relations which would lay the basis upon which, through work by cooperation, the development of one becomes the development of all;

WHEREAS, in order to increase agricultural production and to make the tiller the owner of the fruits of his labor, it is necessary to release the productive forces of the rural economy by liquidating the feudal system under which the nobility, aristocracy and a small number of persons with adequate means of livelihood have prospered by the toil and sweat of the masses;

WHEREAS, it is necessary to provide work for all rural people;

WHEREAS, it is essential to abolish the feudal system in order to release for industry the human labor suppressed within such system;

WHEREAS, it is necessary to narrow the gap in rural wealth and income;

NOW, THEREFORE, […] it is hereby proclaimed…

The fact that cooperatives are having a resurgence in Ethiopia is, well, a marvel. The Derg instituted cooperatives across the countryside as part of their land reform and for constructing their particular brand of socialism.[54] By the time the Derg collapsed, in 1991, cooperative buildings had been looted, arsoned, and abandoned, and many

[54] History often credits the Derg with being the first to introduce cooperatives to Ethiopia. In fact, it was Haille Gabre Sellasie's regime (1930-1974) that was the first. But these were fairly limited in scope and generally considered ineffective at enhancing agricultural productivity and generating income (Mengisteab 1989).

cooperative organizers were thrown in jail. But not ten years later—thanks both to remarkable efforts from new organizers who learned how cooperatives can successfully function using democratic practices within a market system, and to the substantial support of organizations, especially the International Labor Organization—cooperatives are increasingly on the rise in Ethiopia.

Land Reform

Prior to the 1974 revolution that overthrew Haile Gabre Selassie (1930-1974), Ethiopia has an extremely complex land tenure system. "In Welo Province, for example, there were an estimated 111 types of land tenure" (Ofcansky and Berry 1993). By the mid-1960s, Ethiopia's land reform movement, led mainly by university students, argued that the complex land tenure system was archaic and an obstacle to agricultural productivity and rural development. The force of these arguments was central to the 1974 revolution, and land reform was one of the first policies that the Derg instituted.

In 1975, the Derg initiated its land reform program, nationalizing all rural land through proclamation No. 31. The "Proclamation to Provide for the Public Ownership of Rural Lands" was considered one of the most radical of its kind at the time, on par with China's and South Korea's.

According to Dessalegn (1984), by changing the system of landholdings, the Derg's land reform was intended to change the social profile of rural Ethiopia.

> It has abolished landlordism, tenancy, the hiring of labor, and envisages a self-laboring peasantry of small-holders, all of whom have only possessory or usufructurary right over the land they cultivate. All land resources and rural assets are 'the collective property of the Ethiopian

> people'. In the rist[55] areas, the abolition of recurrent land claims and therefore of the 'corporate' family system […] is bound to have profound social and familial implications. In the South, and especially the tenancy areas, the elimination of landlordism, and the removal of 'outsiders' who previously exercised control over the land of the indigenous population, will do away with some of the causes of ethnic discontent which was common in the past (Dessalegn 1984, 39).

The Derg also instituted land reform to foster agricultural productivity, which had been mired in stagnancy. "The basis of this development is founded upon a new agrarian order in which the independent smallholder will become the major force in rural production" (Mengisteab 1989, 37).

Ethiopia's land reform policies involved two specific processes: declaration of land tenancy rights and the establishment of peasant associations. Specifically, the Derg's land reform proclamation of 1975 bestowed the right to own land to the state. Peasants could not own, sell or transfer land, but they could claim use rights (usufruct rights) of a maximum of ten hectares of arable land.[56]

The government mobilized 60,000 students to organize peasants into peasant associations (PAs). The purpose of the PAs was to set in motion the provisions of the land redistribution policies, as well as to coordinate and strengthen the peasantry. "These rural organizations, which are open to all peasants, were to enable peasants to give up or modify their isolated and scattered form of existence, and become involved in activities of common concern and benefit" (Dessalegn 1984, 74).

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[55] Dessalegn (1984) explains that, rather than the term "communal land," the term "rist" is the technically appropriate name for land collectively owned by kin. In this context, "rist rights" in a farming community were held "if he was able to establish descent from one who was recognized to be the original holder of the land in question or the founder of the community" (Dessalegn 1984, 17). Thus, what Dessalegn means by "rist areas" are areas in Ethiopia predominated by the rist tenure structure. Ofcansky and Berry (1993) further explain that the principle of rist rights exist mainly in the Amhara region, with some variation among the Tigray.

[56] Peasants could inherit usufruct rights from family members.

Each PA was assigned a minimum of 800 hectares of land to allocate (via usufruct rights) to farmers. Land to be allocated came from those having more than the allowable amount, commonly shared farmland, land left fallow or abandoned altogether, and government-owned land (Engdawork 1995). Members of PAs included former tenants, landless laborers, hired agricultural workers, and landowners holding fewer than 10 acres. Former landowners who had held more than 10 hectares could join only after their land was redistributed.

The land reform proclamation gave peasant associations a broad range of functions and power:

> [The PAs] general assembly is the highest decision-making authority, and elects the leadership of all subsidiary bodies as well as its own executive council. More importantly, PAs have assumed many of the functions of the old local administrative apparatus of the previous regime. It is the PA which is responsible for collecting taxes, resolving community conflicts, providing services and maintaining law and order. The agrarian reform has thus drastically restructured rural society, and promises the peasant the opportunity to administer his own affairs (Dessalegn 1984, 39).

The peasant associations were also the main apparatus for organizing cooperatives in Ethiopia.

Cooperatives

Between 1975 and 1981, the government issued several proclamations outlining specific procedures for forming cooperatives. Proclamation 71/1975 targeted cooperatives as the basis for socialist agriculture, introduced both types of cooperatives—service and producer—and outlined their objectives, powers, and duties.

The service and producer cooperatives were designed to complement each other. Service cooperatives were intended to teach socialist philosophy and the cooperative

system for the purpose of raising the political consciousness of the peasantry. The producer cooperatives collectivized individual land holdings and labor power, and thus were seen as the primary mechanism for creating the Derg's socialist economic system (Dessalegn 1984).

Service Cooperatives

Beyond their function as a political apparatus, service cooperatives (SCs) were marketing and purchasing cooperatives organized by PAs. SCs held tasks like supplying members with consumer goods (based on perceived need), selling members other goods at reasonable prices, providing loans, providing storage facilities, promoting small businesses, and school development, etc. (Engdawork 1995).

SCs were promoted to Ethiopians as demonstrating the merits of cooperative activity: building capital, making consumer items available to peasants, and releasing producer cooperatives (PC) members from shop management duties.

Because service cooperatives were affiliated with PAs, and membership in PAs was not voluntary for farmers, membership in service cooperatives was also compulsory. "It was the Peasant Association rather than the individual that was a member of service cooperatives, and the individual peasant, who of course was a member of the PA, had no choice in the matter" (Dessalegn 2002, 115).

Producer Cooperatives

The Derg's conception of PCs was directly taken from the Soviet Union and Eastern European models. "To those who easily fell into the traps of the revolution, the borrowed

concept of PCs had seductive appeal at face value, tempting them to embrace it without questioning" (Engdawork 1995, 356).

In 1979, the government issued a policy edict called the National Policy of Cooperative Organization that defined the objectives, responsibilities, and powers of its producer cooperatives. It stated the government's intentions for the development of cooperatives, how the means of production were to be used, membership requirements, organizational structures, government support, etc.. (Teka 1988). It defined producer cooperatives as "an economic organization whereby individual peasant proprietors willingly combine their means of production, in part or in whole, under one economic management and into collective ownership" (Teka 1988, 129).

The specific stated objectives for the PCs were as follows:[57]

1. to bring to an end to capitalist exploitation to see that it is not reinstated in the rural areas, and to do away with the exploitation of man by man;
2. the use of modern agricultural technology to transform fragmented and small-sized farms to large-scale farming and to develop small-scale industry;
3. by creating socialism in the rural areas, to safeguard the political, economic and social rights of the peasantry; and
4. to prepare the ground for national planning.

In 1983, the Derg government articulated its expectations for the growth of its service and producer cooperatives. According to its "Ten Year Development Plan (1984-1993)," by 1994, more than half of the country's cultivated land would be collectivized into producers' cooperatives (Ofcansky and Berry 1993).

[57] A PC could be established by a minimum of three people who were willing to give their livestock and other means of production to the collective and who clearly stated their understanding of the responsibilities and benefits of producer cooperatives. Once a cooperative had 30 members it could be registered with the local PA and enjoy legal rights.

Neither goal was met. For a variety of reasons, most peasants felt alienated from the Derg's cooperative ideals and policies:

> The kinds of cooperative activities advocated by the Military government were […] foreign to the Ethiopian people. Socialist cooperatives […] were not well received at all by the peasantry. Although the general public shared the concern of resource degradation in rural Ethiopia, only a handful of people endorsed collectivization as a policy to tackle the problem. As a result of imposing a socialist policy, serious damages occurred on various aspects of the life of the people including disintegration of established norms of communities (Engdawork 1995, 354).

Ethiopian social and cultural lives are a mosaic of collective activities and groups. For example, an Equb is an informal money or credit market organization in which money is collected from each member on a specified day of each week and the participants take turns receiving the full amount of the funds each week. Edir's are groups that contribute money to an emergency fund, for times of illness and deaths in families. Mahber have more of a social focus: members take turns preparing meals and gather to eat and discuss matters of community interest. Debo, Jige, and Wonfel are rural work groups that gather to share work tasks, as well as eat together (Taye 2007).

Yet despite these norms of collectivity, most rural Ethiopians despised the Derg's cooperatives because they were instituted with "destructive vigor by party ideologues and callous functionaries" (Dessalegn 1994, 195). This "profoundly destabilized the peasantry, exacerbated its vulnerability and ruined what little chances the farming population had of improving its livelihood, income and nutrition (Dessalegn 1994, 195).

It did not help matters that the new cooperatives were notoriously mishandled and corrupt. Money laundering was common and overlooked when party members or anyone close with officials was involved. Leadership was typically ineffective; party and

government officials approved all decisions, which forced peasants to wait for instructions, sometimes about the most menial issues. The cooperative leaders promised too much, out of their own ignorance and desire to hold power, and often failed to deliver on their commitments. The system never lived up to its espoused ideals of "democratic centralism." Cooperative leaders felt emboldened by their affiliation with party and government officials, threatening members not to ask questions regarding the operation of their own cooperatives. A two-year term limit was never enforced, leaving corrupt leaders in place indeterminately (Engdawork 1995). Finally, many farmers were coerced into membership. "They recalled how they were pushed into becoming a member of a cooperative simply because the local political leaders wanted to get credit for organizing them….Campaigns were launched by cadres to form as many PCs as possible regardless of individual or community point of views or prevailing circumstances" (Engdawork 1995, 356).

The Demise of the Derg Cooperatives

> It is very important to note that the peasant's conception of [the Derg] government initiated cooperative endeavor has been seriously distorted (Engdawork 1995, 359).
>
> When Derg regime fell…it was a really bad time for the cooperative movement in Ethiopia… There was so many problems in cooperative movement during Derg, the members didn't like to continue. So they withdrew…simply dismantled the cooperatives. And some of the cooperatives were looted (Jena 2007).

In 1990, the Derg regime began to implode. As the government became more desperate, it introduced a new mixed economic policy that, among other things, made cooperative membership voluntary. Not surprisingly, most farmers promptly reallocated cooperative lands back to the original individual holders and dissolved their cooperatives. "Hence,

most members did not lose time to take action in partitioning the land and their common property as soon as they got hold of the new policy news" (Engdawork 1995, 359).[58]

In 1991, the EPRDF (Ethiopian People's Republic Democratic Front) overthrew the Derg regime. The new government upheld the public ownership of rural land, but viewed cooperatives as mechanisms of the corrupt and violent regime of the past. Meanwhile, farmers looted and set fire to any cooperatives that were still in place during the regime change. "Thus the cooperative experiment of the Derg period ended in bitterness and violence" (Dessalegn 2002, 115).

Ethiopia's Cooperative Resurgence

It took several years for the new government to change its course on cooperatives, a shift in mindset and policy that was pushed by the steadfast determination of cooperative activists and organizers who held a vision of what cooperatives can and should look like. Ethiopian cooperatives would be organizations that farmers joined freely and that they operated for their own wealth-building and livelihood security. They would harness the bargaining power of the group to obtain better prices for their products and to buy more affordable farm inputs. These cooperatives would be democratically managed by farmer members who are elected, and their profits both shared (paid out as dividends) and reinvested back in the cooperative (Jena 2007).

In 1993, the ILO Cooperative Branch came to Ethiopia and organized study tours to neighboring countries "to expose Ethiopian cooperative leaders to the cooperative experience in a free-market system" (ILO 2005). The tours were then proceeded by

[58] The exception were the few model cooperatives that were heavily subsidized by the government and remained functioning for some time.

programs that trained cooperative managers to be leaders in the cooperative movement. (ILO 2005).

Among those trainees were Tadesse Meskela and Dessalegn Jena, the manager and deputy manager, respectively, of what is now the Oromia Coffee Farmers Cooperative Union.

Meskela, a young agricultural extension worker from the Oromo region, came back from his cooperative training in Japan in 1994 with a fierce cooperative fever. Jena, having worked in both the Ministry of Coffee and Tea Development and in the Ministry of Agriculture, trained (at the same time as Meskela) in Israel and Tanzania. Together, along with other cooperative activists, they began the slow process of organizing farmers, and the government, towards building a cooperative resurgence in Ethiopia.

The first step for the organizers was to lobby the government to legally support cooperatives. They were successful—the EPRDF issued its first cooperative proclamation in 1994.[59] The proclamation declared the importance of making "conditions convenient so that an Ethiopian peasant living in rural areas in scattered manner by being organized on free will may be able to solve jointly the economic and social problems facing him" (EPRDF 1994, 1). To this end, the proclamation established a policy framework for cooperatives to be established on a voluntary basis. It also articulated clear objectives, rights, and guiding principles for cooperatives.

The cooperative organizers considered this proclamation to be weak as it focused solely on agricultural cooperatives and lacked sufficient detail. However, for the first time in Ethiopian history, the legal space opened to organize cooperatives democratically

[59] Proclamation No. 85.

and within a market setting.

Once the proclamation was issued, the next order of business for the promoters was organizers farmers. "After [the law was written] we started restrengthening or reregistration according to new proclamation" (Jena 2007). But their early reception was dismal. According to Jena, "It was very very big problem. Because still [the farmers] had bad image of Derg regime. And members didn't like to be organized."

They decided to do a demonstration project in East Shoha and "after one year they started paying dividend to their members" (Jena 2007). They broadly publicized this initial success, which prompted many farmers to form new cooperatives or rejoin their old ones.

Eventually the cooperative promoters pushed the government to issue a new proclamation (147/1998), expanding beyond the agriculture sector and creating an organizing body—the Federal Cooperative Agency. It added two features that the Derg had forbidden: it set up a clear payment system and a broad organizational structure. The 1998 proclamation mandates that cooperative unions deduct 30% of the net profit and divide the remaining 70% among member cooperatives. The member cooperatives, in turn, provide 70% of their profit to cooperative members.

In addition, the proclamation allows cooperative societies to have four organizational layers: primary cooperatives, unions, federations, and cooperative leagues. This organizational structure is designed to foster the broader growth of the movement and further capture economies of scale. Thus far, only primary and union levels have been formed.

By the end of the 1990s, the attitude towards cooperatives thus had changed dramatically—with both farmers and the government becoming more aware of the role cooperatives could play in improving their lives. This was timely because in 1999 the global price of coffee sunk to historic lows, devastating the already vulnerable birthplace of coffee.

The Political Economy of Ethiopian Coffee

Some Economic Indicators

Ethiopia is an extremely poor country; its GDP per capita is ranked 171st out of 182 countries and its HPI-1[60] is 50.9%, ranking it 130th among 135 countries. Its annual growth rate is rising but its GDP per capita is only $779 (UNDP 2010). Approximately forty-four percent of the Ethiopian population[61] lives under the poverty line. Most of the country's impoverished live in rural areas—they are mainly small-scale farmers—and most rural households subsist on a daily per capita income of less than 50 cents. A little more than half of Ethiopia's 12 million smallholder farmers have 1 hectare or less of land, and about one-third cultivate less than one-half of a hectare—simply not enough to sustain the average household (International Fund for Agricultural Development 2010).

Coffee Indicators

In 2008, the agriculture sector comprised almost 45% of Ethiopia's GDP, with coffee its main primary crop (World Bank 2008). Ethiopia, arguably the world's first exporter of

[60] The HPI-1 measures deprivation in health by the percentage of people not expected to live to 40 (UNDP 2010).

[61] Ethiopia's population for 2008 was over 80 million (World Bank 2009).

coffee (Aregay 1988),[62] is currently the world's 8th largest coffee producer and exporter[63] (International Coffee Organization 2010). Coffee comprises 60% of Ethiopia's exports, and the country is the largest producer and exporter of coffee in Africa (Petit 2007).

There are more than 1.2 million coffee growers in Ethiopia and, including coffee workers, approximately 15 million households are dependent on coffee for their economic livelihoods (Transfair 2007). The majority of Ethiopia's coffee farmers are impoverished small producers, with the majority holding less than 1 hectare of land.

Coffee Culture

Coffee is central to Ethiopia's culture. In homes in Addis Ababa, in huts in Yirgacheffe, even at the airport, elaborate coffee ceremonies are performed—to welcome guests, to gather women, to conduct business, to celebrate life, and to mourn death. During these ceremonies, coffee is roasted over a flame, then ground, poured into a pitcher with water, boiled until thickly brewed, and served to guests in tiny cups in three rounds.

Coffee Quality

Ethiopian coffee holds a reputation as being among the best in the world. "Top Ethiopian coffees are sold at high premiums over the New York market price and are essential to give 'character' to blends. They are also sold as single origins in the specialty market" (Daviron and Ponte 2005, 99). According to a Master Cupper interviewed in the documentary film *Black Gold*, "There is one coffee here that is probably the best coffee

[62] The other possibility is that it was smuggled, not traded, to Yemen.

[63] This is down from 6th, probably due to the trade disputes Ethiopia has had recently with Japan, one of its major buyers.

that I have ever tried. It's a coffee that you can put in an espresso or you can sell straight or…it's beautiful…just unbelievable when you find something like this. It's Ethiopian Harar. It's absolutely fantastic" (*Black Gold* 2006).

Ethiopia is the only major coffee exporting country that consumes so much domestically: approximately 35-40% of coffee grown in Ethiopia is consumed there (Petit 2007).

National Coffee Policies

When the EPRDF came to power in 1991, the new government instituted several reforms that reflected broader structural adjustment prescriptions at the time and impacted most sectors of the economy, especially coffee. Coffee market reforms began in 1992 as a method for increasing the export price, which would thereby promote production and reduce the amount smuggled out of the country. According to Petit (2007), Ethiopia's coffee reforms have been a gradual process, occurring in phases, and have focused on removal of the old state monopoly, more involvement of the private sector at various levels, and abolishing price controls and the quota system. Nevertheless, only partial liberalization has occurred and strict government controls have remained in several areas. For example, the government continues to maintain the auction; the extent of vertical integration is extremely limited through licensing rules; multinational companies are not allowed to register as exporters; and local consumption of coffee is severely restricted (only rejected coffee can be consumed domestically).

The Coffee Crisis in Ethiopia

Given how fundamental coffee is to Ethiopia's economy and culture, the impacts of the coffee crisis in the country were that much more devastating. At the household level, coffee farmers had no choice but to sell assets (like cattle), take their children out of school, and reduce their food purchases (Oxfam 2002). It was described by one Ethiopian coffee farmer:

> I have no other income, just coffee. I don't even have animals. I depend on coffee for all clothing, food, to pay taxes, children's uniforms, and medical expenses. Our lives depend on coffee. Coffee is everything for us…Five to seven years ago I was producing seven sacks of red cherry and this was enough to buy clothes, medicines, services, and solve so many problems. But now even if I sell four times as much, it is impossible to cover all my expenses….I had to sell my oxen for only 400 Birr to pay back the loan I took out for fertilizers for corn, or face prison…My brother has died and I have to help his four sons. Three of them can't go to school now because I can't afford the uniform…We have stopped buying teff this year and edible oil. We are just mainly eating corn (Oxfam 2002, 2).

Farmers' struggles were worsened by the "dry check" problem. "Some coffee exporters simply purchased coffee at auction without paying any money by issuing post-dated checks" (Jena 2007). Those checks never cleared, pulling farmers deep into debt they are still trying to pay back.

Mirroring the global pattern of farmers shifting from coffee to illicit crops, in response to the coffee crisis Ethiopian farmers began ripping out their coffee bushes to grow an amphetamine called "chat" (or "khat"). Indeed, chat is much easier to grow than coffee, not as susceptible to pests, can be harvested several times a year, and typically brings a better price. Beyond the cultural (and genetic)[64] loss of switching from coffee to chat, there are health impacts, especially from the fact that it is extremely addictive. "The more we chew khat, the more we become addicted" (Thompson 2003).

[64] As the birthplace of coffee, Ethiopia is the *in situ* storehouse of coffee's genetic diversity.

Furthermore, coffee has long been a key source of tax revenues for the Ethiopian government. Thus, the coffee crisis hit the country very hard, rapidly depleting the country's foreign exchange reserves. The country lost $814 million in tax revenue from coffee exports between 1998 and 2003; it lost more still when, in 2002, it reduced the export tax in response to the coffee crisis (Petit 2007).

The Oromia Coffee Farmers Cooperative Union

In response to the problems that coffee farmers were facing during the coffee crisis, Meskela and Jena directed their organizing efforts to their home region, Oromia,[65] the largest coffee-growing region in the country and the place where coffee was first discovered. "We wanted to establish cooperatives in order to minimize those [coffee crisis] problems, to minimize problem of post-dated checks" (Jena 2007). They also wanted to cut down on the role of intermediaries in the Ethiopian coffee industry. "We wanted to avoid middlemen. If we could export the coffee directly the farmers can be beneficiary. This is how [coffee cooperative] idea emerged" (Jena 2007).

The Ethiopian coffee industry is indeed a complex network involving many players: smallholder coffee farmers, state farms, primary collectors (*sebsabies*), suppliers (*akrabies*), processors, the cooperatives and unions, exporters, government institutions, and international NGOs.

Farmers sell their coffee to *sebsabies*, who sell it to *akrabies* (both must be licensed) who deliver to the coffee auction in Addis Ababa (the country's capital) or Dire Dawa (the main exporting outlet). At the auction centers, the beans are tested by the Coffee and

[65] Ethiopia is a federalist state, with administrative levels: federal, regional, zonal, district (*woreda*), and village (*kabele*). Regions are divided ethnically, Oromia being the largest coffee producing region in the country.

Tea Quality Control and Liquoring Unit (CLU) and graded according to quality (measured by the number of defects) and processing-type.

There are two basic processing types: wet and dry. The wet method (washed coffee) involves removing the hull before the beans are dried, and requires specific equipment and a large amount of water. The dry method is less capital-intensive and involves cleaning the cherries and drying them in the sun on tables or other surfaces (Jena 2007).

As opposed to most other coffee-producing countries, which grade and classify by bean size, at the two Ethiopian auction centers the coffees from different regions are kept separate in order to maintain the distinctions of their respective flavor profiles.

The coffees that do not fulfill the auction's export standards are rejected and sent to the domestic market. It is impossible to know how much coffee is consumed in Ethiopia, as much of it occurs farm households, but the estimate for local consumption is approximately 40% of production (Petit 2007).

OCFCU has grown dramatically since it was established in 1999. As of 2008, the union has 146 cooperatives and almost 140,000 members (their initial membership had 22,000 and 34 cooperatives). In 2001, their total sales volume was 126 tons of coffee; in 2007, it was over 3200 tons (OCFCU 2007). Ambitious expansion plans include building a coffee business center in Addis Ababa, Ethiopia's capital. OCFCU has been lauded for its role in *Black Gold* (2006), which has shed light on the severe economic and power disparities that structure the global coffee industry.

Table 1 Membership of Oromia Coffee Farmers Cooperative Union

Year	Member Cooperatives	Farmer Members

1999/00	34	22,503
2000/01	34	22,821
2001/02	34	23,043
2002/03	34	23,593
2003/04	34	23,593
2004/05	74	47,912
2005/06	101	74,795
2006/07	115	102,950

Source: OCFCU Powerpoint (2007)

Table 2 Volume (in Tons) and Value of Output Sold by the Union in Years

Year	Sales Volume	Sales Value (Birr)
2001	126	2,271,157
2002	375	7,679,344
2003	967	18,796,130
2004	2432	45,309,011
2005	2691	67,207,845
2006	3182	86,644,278
2007	3248	102,725,628

Source: OCFCU Powerpoint (2007)

Meskela specifically credits both the International Labor Organization and the Fair Trade system for OCFCU's growth and success (Meskela 2007). The ILO targeted most of its cooperative support in the Oromia region, which is now, according to the organization, "leading the way in cooperative development in Ethiopia" (Meskela 2005, 2). In 2005, Oromia's cooperative unions comprised almost one-third of all unions in the country.

Conclusion: Ethiopia's Cooperative Resurgence

The cooperative movement in Ethiopia is expanding. The number of cooperatives has grown from what remained after the Derg was overthrown[66] to almost 15,000 in 2005. Cooperatives now exist in every region of Ethiopia and in most sectors of its economy (Lemma 2008).

But this burgeoning movement is very young, and the extent to which Ethiopia's cooperatives in general, and Oromia's coffee cooperatives in particular, will be successful at fostering development in this very poor country remains unclear. The final chapter of this dissertation uses Elinor Ostrom's theory of collective action in an effort to answer this important question.

[66] According to Lemma (2008), there were about 7,336 cooperative organizations in 1991, but it is unclear whether those are pre or post-Derg numbers.

CHAPTER 7

UNDERSTANDING COOPERATIVE GOVERNANCE: LESSONS FROM OROMIA

Introduction

This dissertation has explored several layers of the Ethiopian cooperative narrative: the mainstream economic perspective of cooperatives; the early history of cooperatives and cooperatives' relationship to the global justice movement; the main tenets of Ostrom's theory, as well as some general critiques; the political economy of the coffee industry, including the "Coffee Paradox" and examples of alternative trade paradigms; and, finally, the Ethiopian cooperative history, its coffee sector, and the story of the Oromia Coffee Farmers Cooperative Union. We can now draw from this material, especially the OCFCU and coffee stories, and return to Ostrom's theory and the main question of this dissertation.

Can Ostrom's theory of CPR institutions help to explain whether OCFCU's coffee cooperatives will or will not endure as viable, long-lasting forms of collective action? More specifically, does Ostrom's theory of collective action make sense for understanding when coffee farmer cooperatives will be successful at obtaining the most valuable of their coffees' bundle of attributes?

I begin this analysis by comparing CPR institutions and Oromia coffee cooperatives, highlighting their main similarities and their differences. In this section, I also define the

collective action of Oromia's coffee cooperatives in terms of Daviron and Ponte's (2005) the "Coffee Paradox."

The second section provides actual and potential examples of Oromia's collective action, all defined in terms of obtaining the material, symbolic, and in-person service quality framework that Daviron and Ponte (2005) present for overcoming the "Coffee Paradox."

The third section describes the secondary free-rider problems that could potentially arise from these examples of collective action.

The fourth section applies Ostrom's theory to the way I have defined Oromia's collective action and secondary free-rider problems; these are attempts to connect Ostrom's theory to Oromia and then draw from the Ethiopian evidence. For example, what do Oromia cooperative by-laws look like in terms of Ostrom's design principles (of CPR governance rules)? To what extent do the Oromia cooperatives exhibit the traits that Ostrom argues predict successful efforts at collective action? Does the evidence support the view that these indeed are the factors that foster strong Oromia cooperatives?

The fact that Ethiopia's cooperative resurgence is still in its infancy means there is no better time to ask these questions, but it also makes trying to answer them problematic. Cooperative research conducted in Ethiopia is, thus far, sparse. Nevertheless, drawing from available sources I am able to offer some tentative conclusions. These sources include my personal interviews with Oromia cooperative leadership; the 2005/06 OCFCU annual report (the only one translated into English); and, in the spirit of Ostrom's own research methodology, secondary sources that have been essential in gaining an

institutional understanding of how cooperatives function in Ethiopia. From this evidence I offer some preliminary conclusions.

The fifth section of this chapter returns to a discussion of Ostrom's theory and economic methodology more generally. I address my criticisms of Ostrom's theory, particularly focusing on her too narrowly-defined frame of governance and her inattention to social inequality, which I argue are related. I then discuss these in the context of Oromia.

The final section provides some recommendations based on the results derived from this analysis.

Solving the Tragedy of the Commons or the Coffee Paradox: Similarities and Differences between CPR institutions and Coffee Cooperatives

CPR institutions are collective governance institutions that manage commonly-used natural resources. In general, cooperatives are collective governance institutions that democratically operate business enterprises. In particular, OCFCU's coffee cooperatives are collective governance institutions of coffee farmers who collaborate to process (sometimes), market, and sell their coffees.

Both CPRs and cooperatives are forms of collective action, which, as Ostrom defines it, occurs when two or more people act collectively to achieve a common goal: to overcome some kind of public good/free-rider problem (whether that be the "Tragedy of the Commons" or the "Coffee Paradox"). The very act of solving collective problems produces what Ostrom calls "secondary" free-rider problems. In other words, the institutions themselves are a commons or public good, thereby creating opportunities to enjoy the benefits of membership, but shirk responsibilities of producing those benefits.

Ostrom says that what defines a successful governance institution in achieving its collective action goals is whether or not it is able to overcome these secondary free-rider problems. How groups accomplish this is what Ostrom is trying to explain with her theory.

The key differences between CPR institutions and cooperatives involve the nature of their "original" free-rider problems and the mechanisms each form of governance institution uses in solving them.

The original free-rider problem that CPR institutions are solving is "the Tragedy of Open Access." Individuals using natural resources in a "free for all" scenario (to borrow from Boyce 2002) will ultimately degrade the resource. However, by collaborating in a CPR, they transform the open-access resources into common property through the design and enforcement of informal rules.

The collective action of CPR institutions can be described as the *creation, appropriation, management and protection* of a certain bundle of property rights for the joint, sustainable management of a common property.

The primary free-rider problem that Oromia cooperatives are trying to solve is the "Coffee Paradox." The global trade of coffee has created a vast "social distance" (borrowing from Boyce 2002) between who controls the value of coffee attributes and who does not. It follows, then, that the objective of Oromia cooperatives is the *creation, appropriation, management and protection* of the most valuable bundle of their coffee's quality attributes.

Another key difference between CPR institutions and Oromia's coffee cooperatives involves who makes up the members of the "group" in the respective group action. In

her 8th "design principle" of CPR governance rules, Ostrom claims that the enduring, complex CPRs were nested in broader forms of governance: mainly local, but also state and national governments. Coffee cooperatives are nested not only in local and national layers of governance, but also their collective action expands to global governance structures involving the global justice movement activists (described in Chapter 3), coffee buyers who are developing alternative trade channels to help coffee farmers overcome the "Coffee Paradox", and other supportive organizations like the ILO and Oxfam. These forms of global governance play key roles in the efforts of coffee farmers and cooperatives to empower themselves.[67] Their collaboration fosters an enabling environment, without which the Oromia farmers could not achieve their collective action goals. This environment includes carefully-designed laws established by the government to help lessen conflict and confusion amongst individual cooperatives; the information provided by coffee buyers on market conditions and coffee quality that the cooperatives could not otherwise access; and the efforts by movement activists in changing Northern mindsets from seeing coffee only as their morning beverage to seeing it as a means of economic empowerment and self-determination for coffee farmers around the world.

With this broader picture of collective action—and its range of participants—in mind, the following describes some examples of specific collective action efforts (in terms of material, symbolic, and in-person service attributes) by OCFCU and member cooperatives, which includes the role their broader partners play.

[67] Their collective action, in fact, involves a variety of players: the government and its various federal and regional agencies, Ethiopian civic organizations, global governance institutions like the ILO, USAID, and Oxfam, global justice activists, and a host of coffee industry actors, and, most importantly, coffee buyers.

The Collective Action of Solving the "Coffee Paradox" in Ethiopia

Material Quality in Ethiopia

Recall that Daviron and Ponte (2005) define *material quality* attributes as what can be perceived by the senses (and machines that separate and sort coffee beans). Mainstream or commodity coffees (coffee traded on the New York and London exchanges) are evaluated in producing countries solely in terms of material quality attributes that are defined by the industry as "objective parameters:" official grade standards that are defined by features like color, size, shape, moisture content, number of defects, presence of disease or mold, etc.

One of OCFCU's most profound achievements was persuading the Ethiopian government to allow its cooperatives to bypass the country's coffee auctions, which thereby authorized coffee roasters to purchase directly from the cooperatives. This has allowed coffee roasters to work directly with the farmers and cooperatives, giving them technical assistance to improve the quality of their coffee and empowering them with knowledge of their coffee's material quality. Bypassing traditional trade channels has also enabled farmers to get better price information with which to bargain with the industry's *sebsabies* (see Chapter 6). Finally, many of the cooperatives run their own processing stations, which internalizes another layer of quality control.

By avoiding Ethiopia's main trade channels, Oromia cooperatives are able to sell their coffees for a price that reflects their very distinct material attributes, which also gives farmers further incentives to improve their coffees material quality and potentially provides an even higher price.

Symbolic Quality in Ethiopia

Symbolic quality is developed through branding, packaging, retailing, and consumption. These attributes are based on reputation and signaled mainly through trademarks and geographical indications, which are protected by intellectual property rights.

One of the most obvious ways OCFCU has worked to symbolic quality attributes is by trying to access the value derived from sustainability labels, particularly organic[68] and Fair Trade certification.

In 2003, OCFCU was the first Ethiopian coffee union in which one of its cooperative members obtained Fair Trade certification. The Fair Trade system has had important impacts on Ethiopia's coffee cooperatives. These include helping coffee farmers pay off debt incurred during the coffee crisis; the creation of savings and credit services; and investments in community development projects (Grundy 2005). However, the problem with certification labels, as mentioned in Chapter 5, is that not all coffee cooperatives have access to them, and this is true of Oromia's cooperatives as well. When I was visiting in 2007, Meskela was battling (to no avail) with FLO to get all Oromia cooperatives dual-certification (organic and Fair Trade). As of 2008, however, only 20% of OCFCU's cooperatives were Fair Trade certified (Jena 2008).

Another way OCFCU and its cooperatives have worked to control the symbolic attributes of their coffees is via the "The Ethiopian Fine Coffee Trademarking and Licensing Initiative." Started in 2004, this is a collaborative project between Light Years IP,[69] the Ethiopian Intellectual Property Office, and the Ethiopian Fine Coffee

[68] All OCFCU coffees are organically grown.

[69] Lightyears Trade is a non-profit organization committed to helping developing country producers access their intellectual property, use it to increase their export income, and improve their livelihood security.

Stakeholder Committee, which is comprised of coffee unions (including OCFCU), coffee exporters, and other groups.

The purpose of the collaboration is to help Ethiopians free themselves of the generic Arabica commodity market by branding Ethiopia as the birthplace of coffee—the home of Arabica—and obtaining a better price for their coffee.

> Prior to the trademarking and licensing initiative, Ethiopia was receiving as low as 6% of the final retail price for its fine coffees. Farmers were receiving about $1 per kilo, with the exporting sector receiving about $2 per kilo. Wholesalers receive about $6-11 per kilo, with the final retail price about $20-28 per kilo. In one promotion in the United States in 2005, the retail price for Sidamo reached an astounding $57.20 per kilogram (Light Years IP 2009).

The group specifically targeted Ethiopia's three most prominent coffees: Yirgacheffe, Harar, and Sidamo. The three main brands were secured with trademark registrations in around 30 countries and distributors were required to obtain licenses to sell them.

The first year of licensing saw improved bargaining positions and, thereby, higher export prices. For example, OCFCU reported that in 2007 that farmers in the Yirgacheffe region saw their incomes double from 2006 (Jena 2008).

In-Person Service Quality

In-person service quality attributes are a "product of interpersonal relations between producers/providers and consumers" (Daviron and Ponte 2005, 128). They are not only about the quality of a physical transformation, but a quality of the "affective work" (Daviron and Ponte 2005, 128). This can include the interactions between consumers, the expertise of the barista, and the particular ambience of the coffee shop, even the particular language used by coffee chains, an example being Starbucks's naming

practices for its coffee sizes: “tall,” “grande,” “venti,” and “trente,” which is the newly-tested 32 ounce size.

Accessing in-person service quality is, of course, more difficult for cooperatives because, by definition, they must have direct contact with the coffee consumer. However, there are some examples of cooperatives in Latin America that have established coffee shops that sell their own farmers’ coffee. It might be possible for Oromia to follow suit. Another potential course of action would be performing their coffee ceremony in coffee shops in consuming countries. As a kind of cultural program, coffee shops could host (women-led) coffee ceremonies featuring their coffees, a “service” that only Ethiopians could provide. Finally, coffee shops could invite coffee farmers to visit and speak about their coffees, their experiences during the coffee crisis, the impacts that the sustainability labels and the trademark initiative have offered their communities, etc..

Potential Second-Order Free-Rider Problems

According to Ostrom’s theory, solving collective action problems (free-rider problems) brings with it new, “secondary” free-rider problems. The following provides some potential free-rider scenarios that arise via Oromia’s collective action to obtain the value of their coffees’ material and symbolic quality. (I have excluded a discussion of in-person service attributes because, at this point, there are no tangible examples coming from Oromia.)

Material Quality

There is a vast range of opportunities for shirking in this setting. For example, farmers could try to get a higher price for their coffee than its value by adding rocks to their coffee bags. They might be unwilling to invest in the cooperative's capital improvements, e.g. washing equipment and storage facilities. They could simply not sell their coffee to their cooperative, opting to sell to the *sebsabies* (for a higher price) instead. They might skimp in their growing methods, knowing they will get the cooperative price regardless. At the same time, cooperative managers could cheat the farmers by, for example, not paying them in full or in a timely manner.

Similar free-rider problems could occur amongst cooperatives within OCFCU. For example, cooperatives, or their representatives, could try to shirk their organizational responsibilities to the union. Any carelessness in a cooperatives' processing methods would also impact the marketing efforts of the union as a whole.

Symbolic Quality

Daviron and Ponte (2005) defined Fair Trade etc. as "sustainability labels" under the umbrella of symbolic quality. Free-riding problems associated with fair trade, for example, would involve cooperatives somehow "shading" (Princen 1997) their labor or organizational practices. Direct trade buyers could try to capture part of the farmer's and cooperative's coffee price for themselves. Finally, roasters could 'greenwash" altogether, using a sustainability label without paying the premium for it or falsifying a coffee's symbolic quality altogether.

These are just a few examples that free-riding problems can arise from collective action (framed in terms of obtaining valuable coffee attributes). The next step in this

analysis is to consider how the two main aspects of Ostrom's theory—the design principles of CPR rules and predictors of CPR institutional success—apply to the collective action of Oromia's coffee cooperatives. Can the features of her theory explain whether Oromia can and will overcome its secondary free-rider problems?

Ostrom and Oromia

The Design Principles of OCFCU Cooperative By-Laws

As review, Ostrom argued that in order to overcome secondary collective action problems (and be successful), any CPR institution must have rules in place that conform to the following design principles.

1. Clearly defined boundaries
2. Congruence between rules and local conditions
3. Collective choice arrangements
4. Monitoring
5. Graduated sanctions
6. Conflict-resolution mechanisms
7. Minimal recognition of rights to organize
8. Nested enterprises

We can proceed by looking at the analogous "design principles" for cooperative governance rules. Most of Oromia cooperatives have instituted by-laws that are prescribed by Ethiopian law, which itself was shaped by the ICA principles and recommendations (via ILO consulting). These specifications for cooperatives are analogous to Ostrom's design principles for CPRs.

The 1998 Ethiopian cooperative proclamation (#147) mandated that every society have by-laws. The specifications for Ethiopia's cooperative by-laws are as follows:

(1) name and address of the society;
(2) objectives and activities of the society;

(3) working place (area) of the society;
(4) requirements necessary for membership of the society;
(5) the rights and duties of members of the society;
(6) the powers, responsibilities, and duties of management bodies;
(7) conditions for withdrawal and dismissal from membership;
(8) conditions for reelection, appointment, term of office and suspension or dismissal of the members of the management committee or other management bodies;
(9) conditions for calling of meeting and voting of the society;
(10) allocation and distribution of profit;
(11) auditing;
(12) employment of workers;
(13) other particulars not contrary to this Proclamation.

Furthermore, the Federal Cooperative Agency (FCA)[70] has now prepared ten by-laws for cooperatives to use, which most Ethiopian cooperatives simply appropriate (Emana 2009).

How do these specifications compare to Ostrom's design principles? Specifically, do they conform to what she observed makes good CPR governance rules? Do her design principles make sense in the Oromia context?

Ostrom's principle of "clearly defined boundaries" would not fit for cooperatives in general because, by ICA definition, cooperatives are meant to be "open to all people able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination" (Birchall 1997). Because most cooperatives explicitly embody principles of democracy and economic and social equality, they do not have a size restriction. Ethiopia's cooperative laws also adhere to the ICA principle of open membership.

The particular design element that I want to focus on is the need for monitoring and enforcement. According to Ostrom, the design of monitoring rules and punishment *by*

[70] Founded in 2004 by the Federal government

the group gives the group a sense of ownership and accountability that could not develop if an external agent was trying to detect cheating and deciding the punishments.

The Ethiopian recommendations include a specification for auditing. According to a manual on the design of cooperative by-laws (for U.S. agricultural cooperatives), auditing is "a condition sine qua non for the existence of any cooperative system. As it becomes difficult to involve the members directly in the running of the cooperative enterprise, it becomes ever more important to provide for transparency of the management in order to preserve the democratic nature of the cooperatives" (Henry 2005, 49). The hitch is that most cooperatives, and this applies to Ethiopia's cooperatives, employ independent auditors.[71] In fact, Henry (2005), in writing recommendations for the design of cooperative legislation (for the ILO), argues auditors should be "qualified and independent." In other words, auditors should be external agents.

What would Ostrom say to this recommendation and the general practice of external auditing? I think her broader point is that groups working together should feel a sense of ownership over their efforts and one way that happens is through the design and enforcement of their own rules. To feel a sense of ownership over their own cooperatives, they need to feel a sense of proprietorship over the by-laws that they use to govern themselves.

In Ethiopia, unfortunately, this does not seem to be the case. On the surface, the Ethiopian legal specifications for by-laws leave room for context-based adaptation, but according to Lemma (2008), cooperatives are on a fairly short-leash (in general, and in terms of by-law design). For example, cooperatives are required to submit to the Federal

[71] Interestingly, monitoring and sanctioning of other forms of community-based collective action in Ethiopia (Edir, Equb and so one) are governed by the group, not externally.

Cooperative Agency (also formed in the 1998 Proclamation) the minutes of the founding meeting, the by-laws of the cooperative, names, addresses and signatures of all members, and the names of the management committee. Furthermore, the enforcement of the by-law specifications is often very strict. For example, it is difficult for cooperatives to change the number of terms for serving on a board (e.g. from 2 to 3 years) and to engage in any economic activities not clearly specified in earlier by-laws. In other to change the by-laws in any substantive way, it has to re-register the cooperative (and pay the registration fee again).[72] "According to the information of local NGOs working with cooperatives, the by-laws as allowed by the proclamation are not flexible enough to accommodate the interests of cooperatives" (Lemma 2008, 136). Kodama's (2007) fieldwork with the Yirgecheffe Cooperative Union (YCFCU) supports this claim, finding that while its cooperatives seem to function democratically—e.g. the selection of management was conducted according to the by-laws—there was a lot of apathy exhibited and his interviews revealed that most members did not feel any sense of ownership of their cooperatives, that they were not "their" organizations.

Ostrom's theory would argue that without a sense of agency, independence, and ownership over their own organizations, which at least partially stems from designing their own rules, Oromia and Ethiopia's cooperatives are less able to overcome their free-rider problems, which ultimately threatens their long-term viability.

Predictive Factors of Success

[72] In 2008, the registration fee was Br. 60 (and Br. 30 if they needed to replace their certificate (Lemma 2008).

Ostrom argued that there are elements she observed across all successful CPR institutions that predict whether or not CPR institutions will institute governance rules that conform to the above design principles. As review, these factors are the following:

1. Agreement by the involved individuals that the problem at hand is important.
2. The degree of autonomy a group has to take collective action on its own or within a nested institutional setting.
3. Secure property rights.
4. Participants must also have some level of trust in the reliability of others and be willing to use broad strategies of reciprocity.
5. Prior organizational experience & presence of supportive local leaders.

Because some of these issues in Ethiopia are more complicated than others, I discuss the simpler elements first.

1. Agreement by the involved individuals that the problem at hand is important.

Ostrom's point was that local populations need to "perceive collective action problems as either relevant to their concerns or within their abilities to address." Residents will not engage collective action to support a wildlife refuge, for example, if they do not benefit in tangible ways.

I would rephrase this to "Participants agree that the solution at hand is viable and have reasonable expectations for it." Considering Ethiopia's cooperative history, the status of farmers' perception of cooperatives is a fundamental issue. Meskela and Jena both described the great difficulty they had in convincing farmers that cooperatives were a viable route out of poverty. On the other hand, they now face the dilemma that some farmers have outsized expectations of their cooperatives and union, well beyond the aims and the capacity of these organizations (Jena 2007). A successful cooperative has a

membership base that believes in cooperatives (both philosophically and practically), but also has reasonable expectations about the capacity of cooperatives to serve its members.

2. Prior organizational experience & presence of supportive local leaders.

Ostrom very briefly explains (2004) that these are the key elements to overcoming the transaction costs associated with organizing collective action. I would emphasize the importance of supportive, experienced leadership *within* the organization (not just locally).

I would also add that these leaders must uphold the cooperative idea strongly. When we look back at the early history of cooperatives in Europe (Chapter 3), the birth of each type of cooperative was directly linked to the role of strong leaders (usually more than one) who carried with them the vision and belief in the cooperative idea and worked steadfastly to bring that vision to reality.

The relationship between the EPRDF and Ethiopia's citizens has had a problematic effect on the presence of leadership in Ethiopia's cooperatives. According to an article in the *Economist* (2010), "Ethiopia has a cheap and disciplined workforce," but few with the skills and capacity to think creatively and take on leadership roles. Many among those who do have these are either in jail, in the diaspora, or generally disinterested in supporting what they perceive to be a government program or worse, a reprise of the Derg's cooperative program.

Successful Oromia cooperatives specifically require skilled and committed leadership to promote cooperatives (especially considering Ethiopia's history), run the

organizational meetings, host coffee buyers, and other players in the coffee world, and serve as the main conduit between OCFCU and the coffee farmers.

Meskela argues that the ILO leadership training and support has been crucial to the growth of OCFCU (Jena 2007). But, competent, educated leadership in Oromia cooperatives is not abundant, which OCFCU argues is a substantial impediment to cooperative success (The Oromia Coffee Farmers Cooperative Union 2005/06).

3. Participants must have some level of trust in the reliability of others and be willing to use broad strategies of reciprocity.

Ostrom argues that it is necessary for CPR appropriators to trust each other to keep promises, which impacts their sense of reciprocity. "If participants fear that others are going to take advantage of them, no one will wish to initiate costly actions only to find that others are not reciprocating" (Ostrom 1990, 2).

As described in Chapter 4, trust is a primary entry point for thinking about the instrumental ways inequality functions in collective action. But the extent to which wealth and power inequality fosters or hinders collective action outcomes is not clear, especially in Ethiopia where so little research has been done.

Recall that Farrell found that moderate disparities can foster trust, whereas larger inequalities undermine it. Cardenas (2007) argued that when heterogeneous groups also have large wealth distances, it undermines the ability to build trust. Finally, in terms of cooperatives, Jones (2004) found that inequality fostered trust in the initial stages of cooperative development, but undermined it in later stages.

The few studies on Ethiopia's current cooperatives include no discussion of the role that trust plays in overcoming collective-action problems, nor of the ways inequality

encourages or undermines the development of trust. Nevertheless, we can proceed with the assumption that Ostrom is correct; trust is extremely important, not only within cooperatives, but across the other forms of collective action between cooperatives and their union and between cooperatives, the union, and coffee buyers.

4. Secure property rights.

Ostrom argues that those who have been successful in overcoming collective action problems typically have a lower discount rate in regard to the particular situation at hand. Resource users with a higher discount rate lack the motivation to commit time and effort to creating a healthy, long-term governance system.

> These individuals [with a low discount rate] live side by side and farm the same plots year after year. They expect their children and their grandchildren to inherit their land. In other words, their discount rates are low. If costly investments in provision are made at one point in time, the proprietors—or their families—are likely to reap the benefits (Ostrom 2004, 1).

Holding secure property rights, Ostrom argues, is the key ingredient in reinforcing low discount rates and the long-term perspective.

There is a well-developed body of research on security of tenure and its impact on agricultural productivity. The need for tenure security is also brandished in land reform debates, typically by proponents of private property (see Abegaz 2004 for this argument applied to Ethiopia). Thus, tenure security could potentially be important for cooperatives. It shapes the incentives for contributing to institutional development, but it also shapes the incentives for enhancing coffee production, which itself is crucial to successful coffee cooperatives and their efforts to obtain the attributes of their coffees.

What is the evidence regarding tenure security for OCFCU cooperatives? The EPRDF has made minimal changes to Ethiopia's land policy since the Derg's 1975 proclamation. According to wa Githinji (2005), the EPRDF "realizing the political sensitivity of the land question and also as a matter of practical political purposes, decided to retain the public ownership of rural land" (wa Githinji 2005, 7). (In fact, according to Nega *et al.* 2003, it upheld state ownership in the new federal constitution of 1995.)

Despite these measures, the land reform debate is alive and well in Ethiopia, with arguments falling along the standard fault lines of state versus private ownership. The state and ruling party advocate for public ownership while most external economic advisors and opposition political parties tend to favor private ownership.

Deininger *et al.* 2003 asked the Ethiopian farmers themselves how they perceived their tenure stability. They found that farmers indicated attaining tenure security was more of a priority than the ownership form. Their data suggest that the farmers preferred a flexible landholding system centered on providing security of tenure. From Ostrom's theory, we can conclude that the farmers' lack of a sense of security in their user rights to land could pose a problem for the viability of cooperatives in Oromia and Ethiopia.

5. *The degree of autonomy a group has to take collective action on its own or within a nested institutional setting.*

Ostrom's point is a group's collective action can prove to be dangerous for the participants, since "in a highly authoritarian regime, independent action is perceived as threatening to the center. Individuals who have lived in such regimes for long periods of

time are always nervous about independent action, even when assured that the regime has changed" (Ostrom 2004, 1).

For the CPR institutions, the threat of a political regime is delivered via hostility the rights of its citizens, lessening their incentives to organize. The other threat, as Ostrom described in *Governing the Commons*, is the threat of underestimating the capacity of citizens to effect the outcomes that are best for them.

For OCFCU cooperatives the threats from the government to collective action efforts are reversed to some extent. There is indeed the general threat of tyranny, but, in terms of cooperatives, there is also the threat of *forced* participation (even if not with the threat of force, then via political pressure), not the *prevention* of participation. For OCFCU cooperatives, for all Ethiopian cooperatives, both of these threats remain a serious concern to their viability, and the viability of the country's cooperative movement.

The Ethiopian government, ruled by Meles Zenawi since 2000, has severely restricted individual political freedom. Several international institutions, including the Human Rights Watch, claimed that the 2005 election violated basic fair voting practices (Human Rights Watch 2010). That election, and its violent aftermath, exposed the current lack of civil liberties.

"When the EPRDF came to power in 1991, it adopted a national charter and to their great joy, journalists were informed that except in matters concerning state security, they were free to enjoy full rights to disseminate information in any shape or form without state interference" (Milkias 2006, 21). In reality, this has not come to pass. The Ministry of Information frequently cancels the licenses of publications it deems "irresponsible."

Much worse, between 1992 and 2005, 16 Ethiopian journalists were killed by the state's armed "death squads." Many more are still in prison.

According to the *Economist* magazine, as part of his "revolutionary democracy," Prime Minister Meles "contends that a strong hand and development in the villages—rather than liberalizing markets—is the way forward" (The Economist 2010). Part of that "way forward" is a national cooperative policy that plans to restructure and strengthen cooperatives, increasing membership as a proportion of the Ethiopian population from 30% in 2005 to 70% by 2010 (Teshome 2006).

Critics of the current cooperative movement argue that it has devolved into a government program and that the individuals running these organizations "are not peasants themselves but government functionaries who favored those who voted for the EPRDF and punished those who supported the opposition parties" (Milkias 2006, 25).

We thus have a situation in which a government does not the respect the democratic rights of the Ethiopian people, while at the same time it has turned the cooperative movement into a government policy. In light of Ostrom's argument that group's cannot overcome their collective-action problems in such a context, it is logical to conclude that cooperatives in Ethiopia will, at the very least, not meet their full potential. At worst the political setting will hamper the cooperative movement altogether.

Preliminary Conclusions

The conclusion that can be drawn by applying Ostrom's theory to the collective action efforts of Oromia's (and Ethiopia's) cooperatives is not encouraging. Many cooperatives lack experienced, effective leadership; many farmers bring with them, from the Derg era,

their tarnished perceptions of cooperatives (and yet some now have outsized expectations of their potential); farmers on the whole report feeling that their property rights are insecure; and the autonomy of cooperatives is threatened by the state's general treatment of its citizens and its cooperative policies.

The only potentially auspicious element for Ethiopian coffee cooperatives, in overcoming their collective-action problems is the role of trust, which is a heavy burden on one particular factor, for which we have no evidence. Before I offer some potential opportunities for building trust amongst Oromia cooperative members, the union, and their coffee buyers, as well as recommendations in general, I want to return to my broader discussion of Ostrom's theory.

Returning to Ostrom's Theory

This dissertation has called into question mainstream economic methodology, which, according to Grapard (1999), can have two meanings. First, it is an epistemological process involving the ways that economists decide what is economic knowledge.

> As such it deals with issues of disciplinary authority and legitimation: it addresses questions about who gets to define the domain of economic inquiry, how it is decided which activities will be the subject of economic inquiry, which variables will be considered important economic variables, and which assumptions the world and the nature of scientific analysis economists will adhere to (Grapard 1999, 545).

The second meaning refers to the tools and techniques economists use—the theoretical models and empirical methods—to articulate economic relations. To my mind, what defines neoclassical economics is the convergence of these two meanings of methodology. In other words, from the perspective of the mainstream, what conforms to the standard economic models is, indeed, what is "economics."

Given that standard economic models are described through the language of calculus (the same language of mechanical physics), what is defined as "economic" is essentially the market and its various components. The economy is comprised of "rational" actors spontaneously converging via perfectly competitive markets on the holy grail, Pareto efficiency.

Anything that diverges from that narrative gets a rewrite to fit into the main storyline. Individual rational actors, not collaborative groups comprised of members with a range of motivations and abilities, simultaneously use (and degrade) natural resources. Cooperatives, comprised of rational actors, form organizations not to redress social injustice, but to maximize profit.

Given that these narratives were born in the academy, it is easy to assume they are harmless. But, as the "queen" of social sciences, economics plays a predominant role in shaping popular rhetoric about the economy (McCloskely 2000, 236),.

As Ostrom has articulated so well, economics also profoundly shapes the way policy is designed and implemented. When models that are meant to be illustrative metaphors are used to set policy, they threaten the communities that are trying to develop solutions to the problems before them, efforts that are essentially ignored or at best "exogeneous" in the models.

What happens when we change our definition of the economy? Instead of viewing the economy simply as a vast set of markets, we follow Boyce's (2002) lead and take Karl Polanyi's (and "old" institutionalists in general) conception of the economy as comprised of markets and the social institutions that shape and constrain market activity. Add to that picture a much broader conception of human behavior than what underpins

the market-efficiency paradigm, and our picture of the economy is more comprehensive and more complex. It also allows us to ask more questions.

Trying to identify and understand patterns in this more comprehensive economic sketch becomes more difficult than when the economy is so narrowly defined. This is especially true for framing collective action. According to Bowles and Gintis (2002), "communities solve problems in a bewildering variety of ways with hundreds of differing membership rules, de facto property rights, and decision-making procedures" and thus "there can be no blueprint for ideal community governance" (Bowles and Gintis 2002, F31).

Instead of the mainstream economic theories to which we are accustomed—which Ostrom argues are really models, not theories—the best we can do is to identify the common elements that make "good governance" at the group level. Rather than a mathematical model, this style of theory reads more like a recipe, one that can be passed from hand to hand and adapted as needed, the way a cake recipe is often slightly altered to account for changes in kitchen humidity, altitude, the hot spots of an old oven, and the temperament and preferences of the baker.

With that in mind, this "baker" wants to make a few changes to Ostrom's "recipe." In particular, I want to add to her "list of ingredients" to better address and incorporate the issues of inequality and more comprehensive portrayals of various governance institutions.

These two modifications go hand-in-hand. Proposing solutions for the ways in which one form of governance reproduces inequality involves including other forms of governance into the mix. In other words, it involves a broader picture of who and what

comprises an economy, expanding beyond the market and the state to forms of collective action that exist locally and at the global level.

It also requires recognizing that no single form of governance is wholly ideal or objectionable. Markets can, in fact, offset "participatory exclusions" reproduced by cooperatives and CPR institutions. No one form of governance is a panacea; all are part of a broader economic system that we can harness to articulate the world we want to have. But any theory of a "new economy" must first recognize that a comprehensive economic framework, while including the market, should not be imprisoned by its contours.

Cooperative Inequality in Oromia

How is inequality reproduced in Oromia cooperatives? There is very little literature on how cooperatives perpetuate various inequalities or how inequality might impede or foster (via trust or otherwise) cooperative outcomes in Ethiopia. One piece, written by Bernard *et al.* (2007), identified some key factors determining who joined cooperatives.

For example, Bernard *et al.* (2007) found that land ownership is a major predictor of cooperative membership; participation increases by five percent with each additional hectare. They also found a ten percent increase in probability that a household will participate in a cooperative if the head of household is literate. Finally, the more remote *kebeles* (peasant associations) are less likely to have a cooperative than those closer to markets.

This article does not address the extent to which these inequalities between who does and does not participate in cooperatives translate into disparities of well-being. Many of

the Fair Trade projects developed by Oromia cooperatives benefit those outside of it. The roads, the wells, the schools, and the health clinics are not for the exclusive use of cooperative members, but are explicitly intended for the use of the broader community. According to Lemma (2008),

> Cooperatives generally do not explicitly target the poorest. However, they mix the poorest with the less-poor members. They care about the wellbeing and economic problems of all their members. Due to their cohesive nature, they address the issues of poverty at an individual level through various means such as providing opportunities for casual labor, waiving contributions and mobilizing resources from members to support the very poor (Lemma 2008, 146).

The extent to which this statement is true needs to be a major focus of future research.

Gender Inequality[73]

According to the Chairman of the Board of Oxfam USA, Oromia cooperatives have a long way to go in empowering the women in their communities (McKinley 2008). Indeed, only a small proportion of OCFCU's members are women (see Table 3), most having inherited their memberships from their husbands.[74]

[73] The gender inequality amidst OCFCU cooperatives are not surprising given Ethiopia's GEM rating. The UNDP's GEM combines measures for economic participation and decision-making, political participation, and decision-making and power over resources. According to the UNDP (2006), the country's GEM ranking is extremely low, placing the position of Ethiopia's women at 170th out of 177 countries.

[74] This gender disparity is not restricted to OCFCU, female members of the Yirgacheffe Coffee Farmers Cooperative Union (YCFCU) account for only 6.5% of the total membership despite the fact that 20% of landholders (and thus, by definition, household heads) in that region are women. Actually, Kodama (2007) interviewed a female coffee producer who "lost her household's membership because of the death of her husband. She had not asked for entry to the cooperative, and had not been asked to join the cooperative" (Kodama 2007, 100).

Table 3 The Percentage of Women in OCFCU's Cooperatives

Year	Member Cooperatives	Farmer members			
		Male	Female	Total	%
1999-2003	34	21,342	1,161	22,503	.2%
2004	74	45,237	2,675	47,912	.6%
2005	101	70,816	3,909	74,795	.2%
2006	115	98,247	5,315	103,562	.1%
2007	129	122,461	5,720	128,361	.5%

Source: OCFCUa (2007)

Why is female membership in cooperatives important? Along with ethical concerns, which are reflected in the principles laid out by the ICA and the Ethiopian government, another important reason is the existence of gendered intrahousehold spending patterns. The feminist development literature has demonstrated that in many areas of the global South, women and men spend money differently, with women spending a larger proportion on children's welfare, including food, health care and education. "Research shows that when women have direct control over income they are more likely than men to spend it on the well-being of the family, particularly on improving the nutritional status of the more vulnerable members" (SEAGA 2003, 12). Sam Daley-Harris, director of the Microcredit Summit Campaign, described this pattern in an interview on the radio show *Against the Grain* (2007).

> What [the Grameen Bank] realized was that a loan that went [into] the family through the woman, the proceeds from the little accrued more to the family and the children when it went through the woman than when it went through the man. The man might take the proceeds or benefits and spend it on drinking or taking friends to a movie or something and the woman would more volitionally focus on improving the health of the children or get the kids in school or whatever it was…If your goal was the

> transformation out of poverty than it was more powerful that the loans go through the woman (Daley-Harris 2003, 1).

Using Ethiopian Rural Household Survey (ERHS) data, Quisumbing and Maluccio (2003) show that spending on food increases when Ethiopian women control income, whereas alcohol and tobacco expenditure shares rose with assets controlled by men.[75] Jena (2007) confirmed to me that these gendered spending patterns were generally true for Oromia coffee households, too (Jena 2007).

There are also participatory exclusions within cooperatives to consider. Very few women participate on decision-making boards. Meskela, the general manager of OCFCU, is well aware of these disparities and has appealed to cooperatives to elect women to decision-making boards. But Meskela seems defeated, saying that when women are elected, they still do not participate (Meskela 2007).

Given some interesting threshold effects that Agarwal's (2006) research shows, this lack of women's active participation is not at all surprising. She found that the higher percentage of women serving on the executive committee of a particular CPR institution, the more likely the women members will actively participate (attend and speak up in them). "This supports the idea mooted by some political scientists (although rather little tested empirically) that we need a critical mass of women to ensure effective voice" (Agarwal 2006, 10).[76]

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[75] See also Karl 1996, Katz 1995 and Phipps and Burton 1998.

[76] Furthermore, Agarwal (2006) demonstrates that ensuring a certain threshold of women's "effective participation" impacts collective action outcomes. "The larger the percentage of women in the EC the less the likelihood of firewood shortages, although again this makes a difference only after reaching a threshold of 25% or more women in the EC. A critical mass of women in the EC are able to induce the CFG to open up the regenerated forests a few times in the year, so that more firewood can be extracted sustainably" (Agarwal 2006, 10).

With that in mind, one possibility for ensuring effective participation would be not only electing more women to cooperative boards, but to form women's committees at the union and cooperative level. This would give women in coffee-farming households an opportunity to voice their concerns in a comfortable environment. At the union level, these meetings could be attended by activists, for example lawyers from the Ethiopian Women's Lawyers Association, arguably the strongest feminist civic organization in Ethiopia, which had a major hand in writing most of the family legislation since the EPRDF took power (Paulos 2007).

Another possibility would be for the women of OCFCU cooperatives to build micro-enterprise projects. However, when I spoke with Jena, the deputy manager of OCFCU, about potential micro-enterprise projects for women in coffee households—in particular, the possibility of women raising bees to sell honey—he gave me a confused look and said "Beekeeping is not women's work."

To solve the problem of gender inequality, other forms of governance must be involved, including the state, various examples of global governance via NGOs, and social movements.

Broadening State Governance

Bowles and Gintis (2002) argue that all forms of governance—states, markets and those at the community level—have their capabilities as well as their failures. The challenge is finding the right institutional arrangement such that they complement rather than undermine each other. Boyce (2002) emphasizes the importance of various forms of global governance. I have already articulated how various forms of global governance

play a role in Oromia's effort to overcome the "Coffee Paradox," thereby broadening Ostrom's conception of other forms of governance. But Ostrom's portrayal of the state's role in collective action, which is to say, hands off, is also too narrow. State governance is crucial to the success of cooperative governance, especially in places where cooperatives fail. The state should provide a policy environment that "complements the distinctive governance abilities of communities" (Bowles and Gintis 2002, 15). For example, "a comparison of Taiwanese and South Indian farmer-managed irrigation organizations shows that the greater success of the former is due to the effective intervention of national governments in providing a favorable legal environment and handling cases in which the informal sanctions of the community would not be adequate" (Bowles and Gintis 2002, 15). Thus, the state can help cooperatives to overcome market failures.

My conjecture is that the government's role (beyond not threatening the basic civil freedoms of its citizens and not imposing cooperatives upon farmers) should be both to establish a cooperative law that complies with international standards and to create institutional support to help cooperatives alleviate market failures (by, for example, building roads to more easily access markets, providing extension services, and helping transmit market information).

Recommendations

Based on Ostrom's framework, and the above comments, the following are recommendations that might improve the viability of Oromia cooperatives. These target a range of players involved in the collective action of Oromia cooperatives to overcome

the “Coffee Paradox” by gaining power over the supreme quality of their own coffee building improved livelihoods for themselves, their families, and their communities.

Oromia Cooperatives

OCFCU and its cooperatives should seek alternative trade relationships outside of the Fair Trade system, particularly amongst “direct trade” buyers. This is true not only because, as I argue from Daviron and Ponte’s (2005) attribute framework, direct trade has the potential to offer more of their coffees’ bundle of coffee attributes, but because the market expansion that is occurring within the Fair Trade system (mainstreaming) is losing the quality of trust-based relationships that Ostrom argues is so important to any collective action effort. Given the nature of the cooperatives’ relationship with the Ethiopian state, these relationships are even more important for empowering farmers, whose human rights are generally not recognized at home. As discussed in Chapter 5, the more Fair Trade expands, the more these concerns are undermined in favor of market expansion, which as Daviron and Ponte (2005) have demonstrated, does not necessarily translate to coffee farmers gaining power over their coffees attributes.

OCFCU should also explore another potential source of symbolic value: a labeling system that would indicate to consumers the rich genetic diversity of Ethiopian coffee. The celebrated Russian botanist Nikolai Vavilov “hypothesized that the ancient centers of crop origin tend to be the modern centers of crop diversity, a suggestion that, by and large, has stood the test of time” (Boyce 2004, 5). This correlation holds true for coffee as Ethiopia is coffee’s center of origin and today has the greatest genetic diversity of coffee in the world (Wale and Mburu 2006).

Unfortunately, the southwestern and southeastern rainforests where Ethiopia's wild coffee grows are threatened by deforestation—for agricultural land, new settlements, and timber extraction. Conserving these forests, and thereby protecting the main *in situ* source of coffee's genetic diversity, has national and international importance. It also holds significance as part of the broader Eastern Afromontane Biodiversity Hotspot, a region globally recognized for its rich plant diversity as well as its vulnerability to habitat destruction (Schmitt and Grote 2006).

One possible solution for stemming the deforestation process—and creating further economic value for Ethiopia's coffee farmers—is by identifying Ethiopia's genetic coffee resources as symbolic attributes of Ethiopia's coffees through environmental certification, akin to the forest certification provided by the Forest Stewardship Council (FSC). The FSC is an international umbrella organization established in 1993 by a range of actors: timber users, traders, and environmentalists and human-rights groups. The FSC International Center, located in Germany, defines and maintains the agreed upon standards and policies of sustainable forestry, and certifies forestry professionals who comply with these standards.

In Africa almost two million hectares of forest in seven countries (Cameroon, Namibia, South Africa, Swaziland, Zimbabwe, Uganda, and Kenya) have been certified by FSC. The majority of these certifications are for private forests, because the FSC system is "expensive to implement and difficult to apply to informal community-based projects" (Schmitt and Grote 2006, 6). Nevertheless, FSC is beginning to attempt certification for community groups. Collaborating with FSC on the potential for

certifying wild coffee cultivation could be seems a potential way for Oromia to further create and define the unique attributes of their coffees.

OCFCU and its cooperatives should also work to find ways to create in-person service attributes, particularly by member farmers, and Oromian women in coffee households, visiting consuming countries to talk about their experiences, as well as "perform" their elaborate coffee ceremony.

OCFCU cooperatives should also continue to try to empower women in their communities, through microenterprise projects, cooperative committees that focus on their economic and political empowerment, and via leadership training.

The Ethiopian Government

Meles and the Ethiopian government should be lauded for enacting proclamations that support cooperatives and setting up institution support for building and sustaining coffee farmers. Clear cooperative laws and institutional support are key elements to creating an enabling environment for successful cooperative efforts. Laws enrich the soil required for restructuring and strengthening a wide range of cooperatives, as well as germinating new ones, while institutional support is necessary for helping coffee farmers overcome market failures that are beyond their collective ability to solve.

However, they should also be less concerned with setting target goals for cooperatives and be more concerned with honoring the basic human rights of its citizens. Many of the educated class, who are arguably well-suited to serve in leadership and organizing positions, are in prison or amongst the diaspora. This political "brain drain" is severely hindering the cooperative movement in Ethiopia.

Fair Trade Players

Fair Trade players should not lose sight of the crucial role that trust plays in the collective action of building alternative trade relationships and the work coffee cooperatives are doing to empower themselves. There is a genuine risk that in expanding the specialty markets to build the wealth of coffee farmers, the trust-based relationships on which the Fair Trade system was founded, are degraded. As Ostrom has demonstrated, trust is a main ingredient to the success of collective action efforts. For Oromian and Ethiopian coffee farmers, it is the most viable ingredient.

Global Governance Organizations

The ILO has been fundamental to building Ethiopia's cooperative movement. They, and other supportive international organizations should continue to identify particularly vulnerable cooperatives and target those for leadership training. (This would relieve OCFCU's leadership somewhat as they now do much of the training and organizing.)

They should also focus on creating by-law recommendations *for cooperatives*. (Their current recommendations only target policymakers.)

These organizations should also focus on leadership trainings for women and gender mainstreaming for OCFCU's leadership.

Economists

One of the underlying concerns of this dissertation has been the importance of properly defining human behavior and the way those assumptions impact the construction of

theories and the explanations those theories derive. In the cooperative literature, Sen (1966) demonstrates this by assuming some level of sympathy among cooperative members, an assumption that can generate the opposite result than Ward's "perverse supply."

This is true of collective action theories in general. A well-worn concept across the social sciences, collective action is generally understood to be the pursuit of a goal or set of goals by two or more people. In economics, the definition of collective action is very narrow. Bardhan *et al.* (2007) defines collective action as the "voluntary provision or use of collective goods" (Bardhan *et al.* 2007, 36). Another way of saying the economic version is the following: *collective action is the provision and use of public goods by two or more people*.

Sociologists define collective action as the following:

> at its most elementary level, [it] consists of any goal-directed activity engaged in jointly by two or more individuals. It entails the pursuit of a common objective through joint action—that is, people working together in some fashion for a variety of reasons, often including the belief that doing so enhances the prospect of achieving the objective (Snow *et al.* 2004, 6).

Sociology tends to conflate collective action with social movements, the goal is some kind of social change (whether that be the 1960s-era Civil Rights movement working for racial justice in America or its backlash by racial hate groups). According to Goldberg (1991), "a social movement is an organized group that acts consciously to promote or resist change through collective action" (Kendall 2010, 562).

> Social movements are one of the principal social forms through which collectivities give voice to their grievances and concerns about the rights, welfare, and well-being of themselves and others by engaging in various types of collective action, such as protesting in the streets, that dramatize

> those grievances and concerns and demand that something be done about them (Snow *et al.* 2004, 3).

The *action* in movement-level collective action can involve a range of activities, e.g. violet or non-violent protests.

Finally, Ostrom's definition of collective action lies somewhere in the middle. She defines collective action as any effort by a group to organize themselves to retain the residuals of their own efforts.

What is striking about all three of these definitions of collective action is that all three conceptions of collective action come from three different understandings of human motivation and behavior, which range from economics' strict rational choice, Ostrom's somewhat broader rationality, and sociology's, which seem to be broad enough to allow for at least some degree of altruism.[77] There is obviously a direct linkage between theories about human behavior and theories about human institutions. If we are strictly rational, then any attempt at collective action will ultimately fail. If our motivations and abilities are opened up, however, then we have the capacity to do more than weigh costs and benefits. We have the capacity to build institutions that reflect our values and our goals.

If, in the words of Folbre (2010), another economics is really underway, than it is imperative that economists, especially heterodox economists, recognize the relationship between how we define humans and how we define the economy. The more credibility

[77] At least more than in the first two treatments. During the civil rights movement in the United States, many white activists from above and below the Mason-Dixon line risked their physical well-being, sometimes their lives, definitely their freedom, in participation of various marches in the cause for racial justice. Some maybe did it because they were in a bi-racial relationship. Some possibility went to upset their parents. But it is reasonable to assume that at least one of the reasons white individuals participated was altruistic or "sympathy" or "commitment" (Sen 1966)—to further the cause of civil rights for minority groups in America.

we give people, the more we can understand their behavior as the collective action of "building an economy," which thereby defines the economy as a public good and, in the spirit of Elinor Ostrom, allows people to feel ownership over what we share in common.

Question for Future Research

One key question that arises from this project is the extent to which the coffee industry is unique in its vastly uneven power structure. Is the "Coffee Paradox" generalizable to other commodities? This is an important question because if the power disparities are similar, then it is arguable that the solutions for overcoming them are analogous as well. Certainly coffee is unique in that it is the second most traded commodity (after petroleum) in dollar value and it has the most well-developed certification network of any crop. Nevertheless, the global industries for cocoa, cotton, tea, and sugar have all faced global policy shifts similar to those that ultimately destabilized the coffee industry. The extent of the power inequities within each industry might vary, but the push for export-led growth and simultaneous effacement of regulatory controls and protection have left commodity producers unilaterally vulnerable to dramatic market shifts. The collective solutions that Oromia's farmers and farmers in coffee growing regions all over the world have devised to protect themselves may prove to be a viable approach for producers of other food commodities. Mapping Ostrom's framework onto the collective action efforts of cooperatives across a range of global food industries would be a viable future research project.

Concluding Remarks

The Oromia Coffee Farmer Cooperative Union office in Addis Ababa is a site of commerce and commotion: an inspiring froth of coffee buyers coming in and out of offices, workers rushing down the hallways seeking a signatures on a purchase order, and cars pulling out of the driveway carrying journalists and Fair Trade activists visiting coffee farmers in Ethiopia's highlands.

How does an economist frame this story in a way that is most consistent with the aspirations of the Oromia coffee farmers (along with coffee farmers all over the coffee regions of the global South)? Rather than using the rational-choice/efficiency paradigm that would essentially strip them of their cooperative and democratic ideals, their sense of community, and their range of development objectives, I have drawn from Elinor Ostrom's theory of the commons—and Daviron and Ponte's framework of the "Coffee Paradox"—to analyze how OCFCU's coffee farmers can and do seek to build the wealth and well-being for themselves, their families, and their communities. Elinor Ostrom's theoretical framework represents a significant step forward in devising a comprehensive theory that captures the essence of collective action while not shrouding its inherent complexities.

If Nancy Folbre is right and a "new economics" is indeed taking root, then both cooperatives like those in the Oromo region of Ethiopia and Elinor Ostrom's theory of collective action are essential to its cultivation.

APPENDIX A

GENERAL BACKGROUND STATISTICS[78]

Europe

- In Belgium, there were 29,933 co-operative societies in 2001
- In Finland, S-Group has a membership of 1,468,572 individuals which represents 62% of Finnish households.
- In Germany, there are 20 million people who are members of co-operatives, 1 out of 4 people.
- In Norway, 1.5 million people of the 4.5 million people are member of co-operatives.
- In Portugal, approximately 3000 co-operatives are responsible for 5% of the Gross National Product of the country.
- Co-operatives and mutuals in Scotland account for 4.25% of the Scottish Gross Domestic Product, having an annual turnover of GBP 4 billion and assets of GBP 25 billion.
- In France, 21,000 co-operatives provide over 4 million jobs.
- In Germany, 8,106 co-operatives provide jobs for 440,000 people.
- In Italy, 70,400 co-operative societies employed nearly 1 million people in 2005.
- In Slovakia, the Co-operative Union represents more 700 co-operatives who employ nearly 75,000 individuals.

Latin America

- In Argentina, co-operatives are responsible for providing direct employment to over 233,000 individuals.
- Argentina, there are 12,670 co-operative societies with over 9.3 million members - approximately 23.5% of the population. 2008
- In Bolivia, 2,940,211 people or one -third of the population is a member of the 1590 co-operatives 2008

[78] International Cooperative Alliance (2010).

- In Bolivia, 1590 co-operatives provide 32,323 direct jobs and 128,180 indirect jobs.

- In Colombia over 4.4 million people or 10.7% of the population are members of the 7,833 co-operatives in the country. The movement reports an annual growth rate of 11.27% with 453,180 new members joining co-operatives in 2008.

- Costa Rica counts over 10% of its population as members of co-operatives.

- Colombia, the over 7,300 co-operatives are responsible for 5.61% of the GDP in 2007 - up from 5.37% in 2006 and 5.25% in 2005. They employ over 110,000 people and some sectors are providing a significant proportion of the jobs - 24.4% of all health sector jobs are provided by co-operatives, 18.3% of the jobs in the transport sector,8.3% in agriculture and 7.21% of the jobs in the financial sector. Co-ops provide 87.5% of all microcredit in the country; they provide health insurance to 30% of all Colombians and are responsible for 35.29% of Colombian coffee production.

- In Colombia, the co-operative movement provides 123,643 jobs through direct employment-providing 3.74% of all jobs in the country.

North America

- In the United States, 4 in 10 individuals is a member of a co-operative (25%).

- In Canada, four of every ten Canadians are members of at least one co-operative. In Quebec, approximately 70% of the population are co-op members, while in Saskatchewan 56% are members.

- In the United States more than 30 co-operatives have annual revenue in excess of USD 1 billion. In 2003 the top 100 US co-operatives had combined revenues of USD 117 billion.

Asia

- In Indonesia, 27.5% families representing approximately 80 million individuals are members of co-operatives. Cooperatives provide jobs to 288,589 individuals.

- In India, over 239 million people are members of a co-operative.

- In Japan, 1 out of every 3 families is a member of a co-operatives.
- In Malaysia, 5.9 million people or 24% of the total population are members of co-operatives.

- In Singapore, 50% of the population (1.6 million people) are members of a co-operative.

- In Vietnam, co-operatives contribute 8.6% of the Gross Domestic Product (GDP).

- In Korea, cooperatives produce an output of USD 11 billion.

Africa

- In Kenya, co-operatives are responsible for 45% of the GDP. 1 in 5 is a member of a co-operative, 250,000 people are employed by co-operatives and 20 million Kenyans directly or indirectly derive their livelihood from them.

- and 31% of national savings and deposits. They have 70% of the coffee market, 76% dairy, 90% pyrethrum, and 95% of cotton.

Middle East

- In Iran, there are over 130,000 co-operative societies with 23 million members or approximately 33% of the population.
- In Iran, co-operatives have created and maintain 1.5 million jobs.

- In Iran, co-operatives contribute 6% of the Gross Domestic Product (GDP).

APPENDIX B

ROCHDALE PRINCIPLES

At the 1937 ICA Congress, a special committee presented a revised set of principles.

1. Open membership
2. Democratic control
3. Distribution of the surplus to the members in proportion to their transactions[79]
4. Limited interest on capital
5. Political and religious neutrality
6. Cash trading
7. Promotion of education

They also added two that the Rochdale's never wrote down, but which the ICA felt were inherent to their philosophy and practice.

8. Voluntary membership
9. Mutuality (trading only with members)

In 1966, the principles were again revised to reflect a shift in the cooperative movement to the developing world and defined the principles as "those practices which are essential, that is, absolutely indispensable, to the achievement of the Cooperative Movement's purpose" (Birchall 59). They kept the voluntary principle but abolished the political and religious neutrality (as many cooperatives were born out of religious organizations), they reintroduced education and added a brand new principle—cooperation among cooperatives.

1. Open membership and voluntary membership

[79] The dividend on purchases brought up to date.

2. Democracy
3. Limited interest on share capital
4. Equitable return of surpluses of members
5. Provision of education
6. Cooperation

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