

**How to trade an Italian Immigrant for Coffee— a historical case study of Market Failure
in 20th century Brazil**

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Historical Context

Never had Brazil seen so many social and economic changes than in the five decades between the 19th and 20th centuries, with the end of slavery, the fall of the monarchy, the creation of the republic, the rise of a dictatorship, and the institutionalization of the Brazilian nation(Mussi, 2022). Moving in a series of cycles overwhelmingly dominated by one or two products over the centuries (brazilwood in the 1500s, sugar in the 1600s, and gold in the 1700s), the Brazilian economy at the turn of the 19th century was monopolized by landlords, and their coffee as the largest export commodity (Garvin, 2021). As retaliation for losing "free labor" with the abolition of slavery, the elite landowners found in immigrants a suitable alternative to the increasing demand for the workforce in the land- and labor-intensive coffee plantations, simultaneously satisfying plans of molding Brazil in the image of the white, industrialized, and democratic Europe (Mussi, 2022).



Figure 1. Pamphlet used to promote Italian emigration to Brazil in the late 19th century.

Translation: “In America – Land in Brazil for Italians. Ships leave every week from the port of Genoa. Come build your dreams with the family. A country of opportunity. Tropical climate and abundance. Mineral wealth. In Brazil, you will be able to have your castle. The government will give land and tools to all.”(Hunter, 2015)¹.

On the other side of the Atlantic, Italy had struggled for over two decades since unification with an overpopulation of rural and poor farmers and a lack of farmable land, distorting the labor supply and demand ratio (Hutter, 1987). Combining the surplus of the workforce and the shortage

¹ **#sourcequality:** Although I applied this HC throughout the essay, I included this poster as a primary source to indicate how the market was promoted to possible immigrants. It is possible to see the discrepancy in information asymmetry between what was promised (figure 1) and what really happened. Figure 3 includes photos from the period.

of land with Brazil's shortage of workers and surplus of land, the market for Italian immigrants began.

From the late 1800s to the early 1900s, 1.5 million Italians said "ciao" to their motherland to later say "oi" to Brazil (Aliano, 2005). By 1934, 50% of the state of São Paulo comprised Italian immigrants and their children, while seven out of ten coffee farm workers were Italian (CARONE, 1978). Coffee production exploded from 5.5 million bags in 1890 to 16.3 million in 1901 (Garvin, 2021).

Brazil purchased coffee and economic growth with Italian immigrants in a loop: steamships carried labor from Italy to Brazil and coffee from Brazil to Italy (Garvin, 2021).

Although it started as a promising solution, Italian immigration became a market itself prone to market failure due to the concentration of market power by the Brazilian government and information asymmetry as most immigrants were exploited with low wages, poor working conditions, little bargaining power, making them prone to economic and non-economic externalities. In the short-term, Italian migration satisfied the demand for workers but, in the long run, generated a new crisis with a surplus in the workforce.².

² **#thesis:** I explicitly state an arguable and precise claim, describing the main factors for market failure, information asymmetry, and market power. All aspects of the thesis are later explained in the essay.

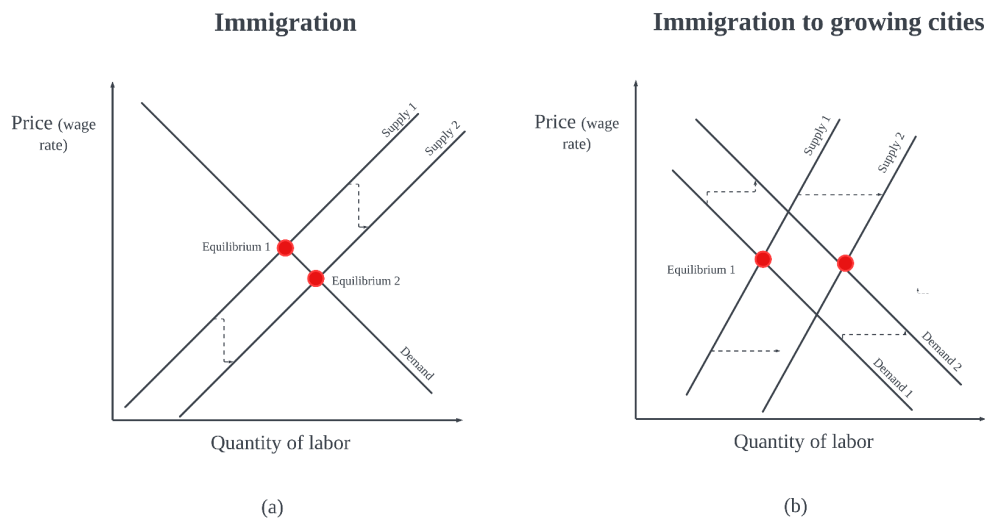


Figure 2. (a) indicates that immigration may be thought to cause the supply curve to shift to the right, lowering equilibrium wages. This will only happen in the short run if the immigrants' skills complement or substitutes the skills of existing workers; in this case, it was substitution (The Migration Observatory, 2020).

The Market

Neoclassical economic thought and migration

Neoclassical economic theories operate under the principles of utility maximization, two main players — consumers and producers —, equilibrium analysis, constant returns to scale in production, and perfect information asymmetry between the agents, analyzing neoclassical labor migration through these lenses (Olligschlaeger, 1984). In other words, neoclassicism perceives migration as a result of geographical differences between labor supply and labor demand as well as the differences in wage levels between countries and labor markets (European University Institute, n.d.). Nevertheless, immigrants, like most people, are not “homo-economicus” that know

what they want and how to get it with perfectly rational calculations (Hidalgo, 2017).

However, the motivations behind immigration were to increase economic productivity and whiten the country, resulting in difficulty in establishing an equilibrium between supply (immigrants) and demand (work). It is a case of substitution (figure 2), and, in the short run, wages did decrease due to extraneous factors presented in the following paragraphs. It is worth noting that when people migrate into an economy, they both demand and supply goods as they need goods for themselves but also supply goods by working (Powell, 2010).

Coffee market with immigrants



Figure 3. Since the migrants were heavily concentrated in the coffee market, the demand curves for most goods expanded, but the supply curve expands considerably only for the goods produced within that sector of the labor market. We can expect the wages to go down where the migrants are concentrated since supply increases more than demand, but wages would go up in other sectors of the labor market since demand increases while supply stays constant. Likewise, the per capita decline in the wages in the coffee industry will be greater than the per capita increase in the wages for other sectors. (Powell, 2010).

Market failure

Perhaps the greatest challenge of this market is the information asymmetry between immigrants and landlords: in the 1840s, senator N. Vergueiro experimented with establishing immigrant families in one of his coffee *fazendas*³, later creating the firm Vergueiro and Company, a form of sharecropping through a *parceria*⁴ — paid transportation to Brazil in exchange for work in coffee plantations (Hall, 1969). The *parceria* contracts forced workers to repay, with interest, the expenses incurred by Vergueiro and Company, dividing the profits equally among the workers and the company and confining these workers to the *fazendas* until their deaths to pay for their debts (Hall, 1969). Despite the *parceria*'s initial success, workers later charged Vergueiro and Company with the exploitation of coffee profits' calculations and lying about the work conditions (Hall, 1969).



³ Can be translated to farm or plantation.

⁴ In a literal translation: partnership.



Figure 4. *On top, a family of Italian immigrants at Núcleo Colonial Jorge Tibiriçá in 1911; and Italian colonists in the Colonial Nucleus Gavião Peixoto in 1911 (Museu da Imigração, n.d.).*

As much as coffee production increased, Trento (1989) claims that the workers' economic conditions were worse than 20 years prior, starting from the journey to Brazil that took between two months to one month in crowded ships, susceptible to many diseases, mainly smallpox, to high illiteracy rates. Once on Brazilian soil, immigrants had to quarantine for eight days in government inns, waiting for landlords with translators, who, most of the time, mistranslated the work conditions and wages, sealing the deal with a verbal agreement without legal protection (Trento, 1989). Those who accepted these deals were lucky to sleep on corn husks to later engage in subsistence farming. Their sole buyers were the landlords, who often bought corn, coffee, and other agricultural products below market prices (Trento, 1989). Although figure 1 promised a castle and riches for brave immigrants, lower wages, either due to the increasing amount of immigrants or surplus of unsold coffee, decreased immigrant's ability to buy their land, taking them 7 to 9 years to save enough money if they were lucky (Trento, 1989). See appendix A.

Another source of market failure is the concentration of market power by the Brazilian government by subsidizing the immigrants' journey, from paid ships to train tickets, and from the Brazilian landlords, which dictated when workers would wake up and receive family members (Trento, 1989). This resulted from the need to provide incentives other than wages; more than two million immigrants entered São Paulo, half of whom with passages paid for by the state government, making immigration a government enterprise (Lesser, 2013).

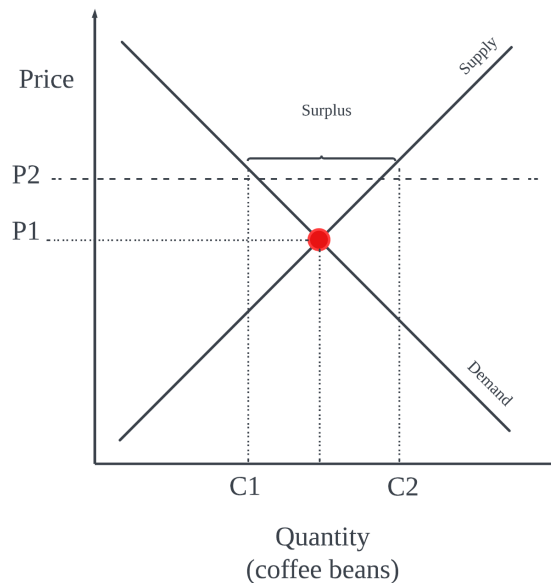
Possible solutions

By the end of the 19th century, a crisis resulted from overproduction and low price levels, demanding a better understanding of the migrations and coffee production that had boomed a few decades earlier (Caldarelli et al., 2019). Italy's *Commissariato dell'Emigrazione* sent Rossi and Zetterly to inspect the living conditions in plantations, resulting in the 1902 Pinetti Decree that discouraged and prohibited Italian migration to Brazil, paid for by the Brazilian government due to poor working conditions (Hutter, 1987). Contrary to general understanding at the time, the decree only prohibited migration paid by the Brazilian government; those that could afford the journey could immigrate as they wished (Hutter, 1987). Immigration was significantly reduced (Hutter, 1987).

Because this market is historical, it is possible to know which decisions were made — from the Pinetti Decree to Italian consulates; however, it is possible to speculate a better way to solve the information asymmetry. On an individual level, immigrants could have greater access to information from those that already made the journey (i.e., sending letters to family members, see Appendix A). Arguments against this solution would center around the efficacy of individual actions instead of systemic ones.

Immigration was a government enterprise and, thus, should be regulated by the government by imposing better wages and working conditions or encouraging landlords to follow the law with fiscal incentives and discounts. Regulating the price of coffee and instituting a universal measurement of the value of coffee beans would make it harder for landlords to exploit the workers. The efficacy of these solutions depends on the government's ability to enforce regulations. Setting a price floor might create a surplus, disrupting the market equilibrium.

Price floors in Coffee Markets



5

Figure 5. Demand and supply curves in a coffee market with a price floor. The surplus is a result of $C2 - C1$.

Another solution would have been to include Italians and their descendants in the political

⁵ **#dataviz:** I effectively generated multiple data visualizations and explained their relevance in the figure and in the text. They complement the historical analysis and images to provide a more economic analysis.

sphere, as their input would shed light on the immigrants' living conditions. However, that would have been less likely due to high illiteracy rates and these immigrants' isolation.

More than one hundred years have passed since the first wave of migration started, leaving few options for dealing with the consequences of this market failure. Only a little can be done except to preserve the story of millions of immigrants through museums and stories. The Immigration Museum in São Paulo highlights the story of thousands of brave women and men who journeyed across the Atlantic and could hold more cultural events. Another possibility would be to encourage dual citizenship for the descendants of immigrants as retribution; the Italian government allows descendants to request citizenship by *jure sanguinis* as per the Italian 1992 law of citizenship, but it is a bureaucratic process (Legislatura 17^a - Acquisto della cittadinanza, 1992). Not much can be done, but allowing descendants to pursue their pasts in Europe would satisfy the country's increasing demand for high-qualified young workers (Healthcare in Europe, 2016).

Word count: 1443

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Appendix A

A letter from an Italian immigrant, in 1889 (Lesser, 2013).

Dear Professor,

On January 27th we left the Hospedaria dos Imigrantes, where my grandfather Sisto, a son of Antonio Barel and a daughter of Antonio Celotto died. The day before a revolution took place there: the immigrants were so fed up that they threw everything in the kitchen into the yard: soup, meat, bread, everything through the window. All the workers, cooks, and employees ran away.

The guards and the cavalry arrived to calm down the immigrants, telling them to be patient and that the next day the cook would be changed and the food would be better. No one was hurt and the food improved.

The Brazilian civilians in favor of the new Republic hoped for support from the immigrants at the Hospedaria dos Imigrantes. However no one spoke up so that the women and children would not be scared. The Italians from Napoli who reside in São Paulo, with businesses, restaurants, also wanted the Republic. They want to boss around everyone. They are brutes, liars, and without religion.

The Brazilians are good: most are black and everyone lives very well: they are happy people, without worries. At night they have parties . . . and they like dancing, singing, and being happy.

There are six families here on the fazenda, distributed in two houses. We are almost finished building four more houses. The boss, Giovanni de Toffole (he is not the owner, and must be an administrator) gives us everything we need. Together we make one big family. He pays us two “francs” each day.

Here everything is expensive, it costs a lot to live. This year the harvest is abundant. It is not like in Italy: we do not suffer drought and it rains all week. The land is fertile and does not need to be cultivated. The forests are dense, of an extraordinary size.

If you could see how marvelous the coffee plantings are! The beans that fall from the tree seem like hazelnuts.

All the plantations are lined up, with roads between them that allow cars to pass. There are oranges, lemons, and other fruits. There is tobacco to smoke.

We have all sorts of comforts: infinite wood, an abundance of water, a small windmill that goes through the land: good water, nice bosses. In America the roads are terrible. You can't imagine! Fourteen enormous bulls are needed to pull a two-wheel cart, weighing one thousand pounds. If there were any will it would cost little to fix the road. The train tracks are narrow and go through the forests. The trains move like the wind: they run faster than those from Italy. I left São Paulo at six in the morning and arrived in São José do Rio Pardo at four in the afternoon, a distance that I compare to Conegliano to Genoa.

Many immigrants regret that they are so far away from their native land. Many with three children ended up with none. The desperate mothers damned "Merica" and tried to return to Italy. Some others did not have luck with their families, and became desolate. Many died of broken hearts. It is necessary to think seriously before undertaking this long journey, because one can easily be ruined. I do not recommend emigration to those not called by relatives.

Here there is little religiosity. We are far away from the city's church, like from Feletto to Conegliano. Two or three of us go to parties when the weather allows. If it rains, no one goes.

Your friend,

Giuseppe Manzoni

Giuseppe Manzonì was a colono on a fazenda near the town of S3o Jos3 do Rio Pardo (state of S3o Paulo). About half the population of 24,000 in the area came from Italy. He sent this letter to his former teacher in the city of Feletto, in the Treviso province of Italy, on March 11, 1889, as Brazil was in the midst of the political agitation that would lead to a republic in November 1889. The original text can be found in Emilio Franzina, *Merica! Merica!: Emigrazione e Colonizzazione nelle Lettere dei Contadini Veneti in America Latina 1876–1902* (Milan: Feltrinelli economica, 1979), 174–175.