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# Is Fair Trade a Fair Deal?

BY GENE CALLAHAN

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**W**e've all seen the signs in our local cafes, boasting something like: "We proudly sell coffee brewed with Fair Trade coffee beans, acquired at a price that permits sustainable farming and pays growers a living wage." These posters are part of a popular trend in "progressive" circles to promote "fair trade." For some reason, perhaps because many of these folks get really hyped up on Joe every day, fair trade in coffee seems to be the chief focus of the movement.

According to the latest data I could turn up on the Internet (<http://tinyurl.com/2hh6zf>), fair-trade coffee buyers must pay at least \$1.50 per pound if the spot price on the commodities market is lower than that figure. If the market price is higher, they will pay a 5-cent-per-pound premium over the going rate. (The exact current numbers, if they have changed, are unimportant to our analysis.) I'm not clear how the "fair" price was determined to be \$1.50, rather than \$1.46 or \$1.59 or even \$20.00, but so be it. The fair traders evidently believe that growers who cannot make a profit at the market price ought to be helped to stay in business anyway. (To what extent the current market price is a *free-market* price will be examined shortly.) They find it unfair that, in the words of the website Global Exchange: "Many small coffee farmers receive prices for their coffee that are less than the costs of production, forcing them into a cycle of poverty and debt" (<http://tinyurl.com/2h75zq>).

There are two possible causes of the situation described by Global Exchange. In some cases it may be that a particular farmer *could* run his business profitably except that he is competing against others who receive some form of state-granted privilege, for instance, a direct subsidy from their own government or favorable terms of trade from some coffee-importing country. That is clearly unjust, but I contend that the best way to address such injustice is to eliminate the favoritism, rather than trying to compensate for it.



**An Ethiopian coffee farmer with her basket of coffee beans**  
United States Agency for International Development

On the other hand, considering that the phenomenon of unprofitable coffee farmers is widespread, it also appears likely that there are simply too many producers in the world relative to the demand for their output. (And, of course, for any particular instance of a money-losing plantation, both factors may be relevant: the farm in question might do better than it does at present if

it faced no subsidized competitors, while still falling short of profitability.) To whatever extent the second cause is to blame for the plight of growers, the only long-term, effective remedy is that a sufficient number of those farming at a loss exit the industry so as to permit the remaining producers to operate at a profit. (I am using "profit" here in the accounting sense, meaning

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an excess of income over expenses, and not in the economic sense of an above-normal return on capital.)

Advising struggling Third World coffee farmers simply to abandon their trade and find another way to make a living may seem flippant and heartless, especially coming from a well-off First World resident who is not confronted with such a daunting prospect. But I suggest that the compassionate concern apparently motivating that initial reaction is only superficial since it ignores two hard realities. First, continuing to operate a money-losing business in the absence of a scheme that plausibly could reverse its fortunes merely makes one's financial predicament more and more dire. If the situation does not appear likely to change for the foreseeable future, then even relaxing in a hammock all day is a better business plan than continuing to grow coffee at a loss. The former option at least stops the bleeding.

Second, it is ludicrous to imagine that a social arrangement is sustainable in which anyone who chooses to persist in a money-losing occupation is entitled to be supported in his obstinacy by the rest of his society. If all members of a society decided to follow their own inner calling without regard to the needs and desires of their fellows, soon enough there would be no resources available to support the pursuit of their visions. A prosperous society can afford to maintain a certain number of commercially disdainful artists, mendicant religious ascetics, selfless social reformers, unworldly scholars, and carefree "dharma bums," but only through the efforts of the bulk of its members who grow food, build houses, produce clothing, treat diseases, collect garbage, discourage criminality and violence, and perform all of the other jobs meeting the more mundane requirements of orderly social existence.

Since the very possibility of following a way of life indifferent to material concerns depends on the output of a multitude of others who are attending to those matters, people choosing the former course have no

right to demand as their due any share of the resources produced by those opting for the latter course; rather, the visionaries' just claim for support could lie only in persuading their more-worldly companions voluntarily to aid them in their mission. It is the responsibility of every minimally functional adult to discover how she can perform some activity that others value enough to provide her with her sustenance, whether those others express that valuation by commercial transactions or ideal-inspired donations.

In light of the inescapable requirement that, for a society to continue, its members on net must engage

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in genuinely productive—meaning remunerative—activities, I can conceive of no plausible case for singling out coffee farmers as members of a special class that is exempt from pulling at least its own weight.

If we reject on principle the notion that any interest group has a rightful claim to such a privileged economic status, it does not imply that we lack sympathy for the real hardships likely to face a poor, largely uneducated peasant whose whole working life has been spent farming coffee and who must abandon the one occupation he knows well for the uncertain promise that he can do better elsewhere. But I suggest that those seeking to ameliorate that peasant's plight are well advised to direct whatever funds and energy they would

devote to that aim toward helping him learn a new, more viable trade rather than using them to postpone the day when he must face up to his real situation.

Somewhat ironically, if fair traders choose to follow the second alternative, it is likely they will wind up even further depressing the coffee price confronting any farmers who are not producing fair-trade beans, since each consumer who switches to the fair-trade product is one less buyer for the "un-fair" coffee traded on the commodity market. "But," fair traders may protest, "our ultimate goal is that *all* coffee purchased be fair-trade coffee, so that *all* growers will receive the

higher, fair-trade price!” However, even if that seemingly implausible scenario comes to be realized, the fair-trade movement still could not succeed in securing for every current coffee farmer a higher income than he receives today. A fundamental principle of economics is that the quantity of a good demanded drops when its price increases, meaning that at the universally higher price for coffee the fair-trade campaign would achieve by reaching its final aim, consumers would drink less of the beverage and the current glut of coffee farmers only would be exacerbated.

I suggest that this belief in the power of some concerned body—be it composed of government officials, economic “experts,” religious authorities, or social activists—to discern some “just price” for a good, other than the one emerging from the market process, is the most fundamental misunderstanding bedeviling the fair-trade movement.

### Arbitrary-Selection

However, that is not the only problem with its present modus operandi. At least in its current corporate embodiment in the company bearing the name TransFair USA, which is the entity that officially labels certain coffees “Fair Trade,” the movement appears somewhat arbitrary about which producers are to be blessed with the label. Kerry Howley, writing in the March 2006 *Reason* magazine (<http://tinyurl.com/2dnuv8>), describes the predicament of farmers like Gregorio Martinez, who owns a small, family-operated plantation in Honduras. In the course of operating his business he overcame severe hardships, including the destruction of an entire year’s crop by Hurricane Mitch and the threat of imminent foreclosure, to eventually win an important international prize for his product. It might seem that Martinez is just the kind of farmer the fair-trade movement ought to be promoting, but TransFair USA will only certify growers who are part of a cooperative, and so he cannot sell his beans with the “Fair Trade” label. Similarly, in Africa, many coffee farms are deemed ineligible for the label because they are run in a more traditional tribal style

rather than in the democratic fashion demanded by the Eurocentric arbiters of who deserves the “Fair Trade” imprimatur.

Marching under the fair-trade banner along with such dubious company are some genuinely promising initiatives. For instance, the effort to convince consumers to purchase “shade-grown” coffee instead of coffee produced in the monocultural method more common today, in which the crop is grown in a cleared field, is a plausible way to help maintain biodiversity. The natural setting of the coffee plant is as an understory shrub in dense forests, meaning that farmers can grow it under a canopy of trees, which may yield profitable crops themselves. Growing coffee under shade certainly results in a more natural environment than

having large swathes of land occupied by only one plant species; it’s an environment much friendlier to animal life and perhaps even helpful in slowing global warming. And consumers who buy shade-grown coffee at a higher price than that of coffee grown on a monocultural plantation are not attempting to supplant the market process with their own, arbitrary judgments about what various goods “ought” to cost, but are acting through that process to express their preference for a healthier, more vital environment. Indeed, to an extent that could

only be determined by a detailed historical study quite beyond the scope and aim of this article, it was not the market that chose the current predominance of high-tech, monocultural coffee production, but governmental policies. As Deborah James of the Center for Economic and Policy Research notes, “In the 1970s the United States Agency for International Development (USAID) gave over \$80 million to coffee plantations in Latin America to ‘modernize’—to strip coffee of shade trees and purchase chemical pesticides and fertilizers” (<http://tinyurl.com/2ba9pz>).

“Bird-friendly” coffee, as far as I can determine by my (admittedly limited) reading on the subject, is just an alternate name for “shade-grown” coffee—the trees above the coffee plants provide homes and resting places for birds—so buying it is similarly defensible.



TransFair USA

And if organic farming is really preferable to “chemical farming”—which is a disputed contention, since it is unclear where all the inputs needed for productive organic farming, such as manure, would come from if everyone forswore industrially manufactured fertilizers and pesticides—then buying organic coffee may also make sense.

Another plank of the fair-trade platform, advocating that consumers purchase coffee only from producers who embrace a minimum standard of decent working conditions for the agricultural laborers growing and harvesting their beans, cannot be ruled out on its face as a possible means of improving the lot of those impoverished workers. If some relatively wealthy residents of developed countries are willing to pay a higher coffee price to benefit poor farm hands, their intention is entirely laudable. However, I think the right approach here is to shop for a guarantee of labor standards while letting the market determine what the price for those standards will be, not to attempt to guess at a “just” price and pray that it makes everything all right.

Furthermore, anyone deciding to pursue this course should remain keenly aware there is no “silver bullet” with which to slay the beast named Third World Poverty. Even given that consumers are willing to pay a higher price for coffee produced under stricter labor standards, that labor will still be more costly to the farm owner, meaning that, at the margin, he will find it profitable to use more capital, such as machines or fertilizer, and less labor than he would under less-stringent labor requirements. It is inevitable that fewer workers will be employed under the improved conditions than would have been in their absence. The net result still may be preferable to the situation that existed before the consumers’ campaign for higher labor standards. But if activists are really concerned about the well-being of the people they purport to be helping, and not just their own satisfaction in

having adopted a noble cause, then their judgment of whether a real improvement is likely to occur ought to be based on both the positive and negative effects of their actions and not on a naïve faith that good intentions necessarily yield good outcomes.

The fair traders’ broad criticisms of the current institutional foundation on which the global coffee industry is built also are justified, at least for those who advocate a free society, since the current world coffee market could hardly be termed “free.” The coffee market itself is directly subject to many politically motivated distortions. For example, Kendra Okonski of the London-based International Policy Network points to recent policies adopted by the government of Vietnam as contributing significantly to the “coffee crisis” (<http://tinyurl.com/2nzmmk>). State officials, encouraged by international agencies to undertake “market reforms,” decided to turn the country into a major coffee exporter, with the result that the nation, as of 2006, was the world’s second-largest producer (<http://tinyurl.com/39fc7t>). The government subsidized producers, assisted in its project by low-cost loans to Vietnamese coffee farmers made by French, German, and Swiss government aid agencies, at a time when coffee prices were high.

But only looking at direct state interventions in the coffee market would seriously underestimate the full impact of state policies on the industry. As Okonski notes, an even “bigger problem is highly subsidized farmers in wealthy countries. Huge subsidies to farmers in parts of the West mean that farmers in poor countries cannot diversify their production, because they cannot access these markets. Poor farmers choose to produce coffee, cocoa and other commodities because they have few other options with which to generate income.” Furthermore, developed countries put high tariffs and import quotas on processed agricultural goods, discouraging the

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development of valued-added processing industries in the Third World.

### Land Theft

The final major deviation of the contemporary coffee market from a genuinely free market that I will note is that the existing pattern of land holdings, in all countries but especially in many of the Third World nations that produce the crop, is hardly the outcome of purely voluntary exchanges. Rather, it owes much of its current shape to past acts of theft, fraud, and highly coercive or manipulated transactions masquerading as trades on a free market. Indigenous people robbed of the land that supported them, land with which their intimate familiarity may have been their most valuable social capital, often were left with no better option than to toil at the behest of their expropriators on whatever miserable terms they were offered, and the lamentable effects of such injustices are still with us today.

As a result of such recent government interventions and past exploitations, farmers who are not the beneficiaries of policy favoritism may find themselves operating at a great disadvantage compared to those who are luckier in that respect. That situation is certainly deplorable. But I can't see that consumer action would be a promising way to rectify those inequities. How can a coffee shopper be expected to keep track of just which producers are getting just what advantages due to government policies and correctly calculate just what price he should pay to offset the effects of those state-granted privileges? No, it seems to me that the only sensible approach is to fight against the unfair policies directly, at the ballot box, through op-eds, by lobbying, and so on. Perhaps individual buying decisions can have some impact in the meantime, but their effect is likely to be minuscule compared to the scope of the problems.

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In short, I see the Fair Trade movement as embodying a mixture of sound ideas for improving the state of the coffee industry and well-meaning but misguided attempts to fight the realities of supply and demand. The latter stem, I believe, from the misconception, common in Progressive circles, that the free market is a merely contingent feature of human social life, rigged up by the powerful to enable their exploitation of the weak. To the contrary, as brilliantly demonstrated by Ludwig von Mises and F.A. Hayek, the market process is the only method for rationally allocating scarce resources in any advanced economy. The mistaken view

of many Progressives stems, to some extent, from a simple lack of economic understanding. But their mistrust of free markets also is bolstered by the fact that apologists for the many current situations in which the powerful *have* manipulated government rules and policies to entrench and increase their privileged positions in society often attempt to disguise the true character of what is going on by claiming that those outcomes are the result of free-market decisions, and, as such, perfectly just. Therefore, it is vital that advocates of truly free markets work to expose such deceit for what it is.

A genuinely free market favors no one except those who best can produce the goods desired by consumers, and no participant in the market process can gain an elevated status in society that is exempt from the necessity to continue to serve the interests of consumers in the future. If Progressives, who typically are driven by a truly commendable desire for a fair society, come to recognize that moving toward genuinely free markets will advance, and not hinder, the achievement of their goals, then their efforts will achieve much better results, to the benefit of everyone except the entrenched interests that profit from the current, government-distorted markets.

