LACK OF RIGOUR IN DEFENDING FAIRTRADE

Peter Griffiths

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Abstract

Alastair Smith (2009) claims to refute a few criticisms of Fairtrade. It is shown that his empirical evidence consists of anecdotes with no statistical or other evidential value, and that his economics is wrong. Though Fairtrade is an agricultural marketing system, he appears not to be aware of the literature on agricultural marketing or cooperatives. Accordingly he makes statements not in accord with the accepted theory or evidence. He assumes, for instance backward sloping supply curves and that the prices offered by state marketing boards are not affected by markets. There are ethical trading alternatives which avoid all the criticisms of Fairtrade.

Keywords: Fairtrade, Fair Trade, co-operatives, corporate social responsibility, agricultural marketing, ethical trading.

Introduction

Alastair Smith (2009) attacks a small number of the criticisms of Fairtrade, notably those of Sidwell (2008) and Henderson. In this rejoinder I refer, like Smith, to Fairtrade, and not to ethical trading like the Rainforest Alliance.

The Fairtrade brand successfully markets feelings of virtue to wealthy westerners, but it does little for Third World farmers. It is evasive about how much money reaches the Third World, but, since it claimed £20m in 2003, £100m a year seems likely. It refuses to release information on how much reaches farmers at farm gate, after leakages due to the costs of certification and meeting Fairtrade criteria, internal marketing costs, inefficiency and corruption, but it is unlikely to exceed £20m per year. This is miniscule in relation to aid, and some short-term consultancies do more, cutting marketing costs or increasing price, and so quadrupling the cash income of millions of farmers.

Anecdotes and Case Studies

Since Fairtrade refuses to say what happens to the money, and since there is not a lot of money, advocates of Fairtrade have had to produce anecdotes to support its claims. Smith (2008, p. 11) dismisses Sidwell's (2008) criticism of anecdotes, by saying, 'This is arguably a value laden term for evidence that academic lexicon would otherwise describe as "case study" evidence.' But there is a clear distinction in statistics, in research and in daily life. Case studies are valuable for researching systems and constructing models for instance. However, a case study that shows that one firm is losing money gives us no reason to believe that other firms lost money then, are losing money now or will lose money in the future. Still less can one say, as Smith suggests, that 5000 Fairtrade suppliers of different products, in different markets and in many countries, lose money. The data that go into the case study and the conclusions are unique to that study.

Smith (2009, p. 34) admits that researchers choose the more successful Fairtrade cooperatives for their case studies, so citing them as examples overstates any benefits.

Let us assume that, miraculously, each of a dozen case studies accurately represented one twelfth of the Fairtrade cooperatives. Each cooperative studied does something different with the extra money: one gives it all to the farmers, another gives agricultural advice, another builds a school, another improves processing, etc. Smith and others cite each example in turn, implying that all cooperatives do all of these things. This gives twelve times the true level of benefits.

All this means that anecdotal evidence, even when based on a perfectly competent case study, does not produce valid empirical evidence. It is no more valid than the typical Fairtrade marketing plug, '"Fairtrade means more security, a bigger say and a better life for ourselves and our families" Ramond Kimaro, KNCU Tanzania.' All of which throws doubt on Smith's claim that there is 'a substantial amount of positive evidence.' Oddly, on the five occasions Smith attacks Fairtrade critics for generalizing from one particular instance, using anecdotes, but on 24 occasions he does just this.

This is particularly surprising because the critics are producing valid evidence that Fairtrade is not doing all it claims, and only one example is needed to prove this, while Smith needs a lot of evidence, statistical evidence, to support his case. It is perfectly in order to cite single instances to show that Fairtrade has quality problems (Lamb, 2008b, p. 41); that labourers on Fairtrade farms in Peru are paid less than the minimum wage (Weitzman, 2006a, 2006b); that tea workers in Kenya and India may get a thermos flask every few years as their payoff from Fairtrade (Bahra, 2009); or that some non-Fairtrade coffee is sold as Fairtrade (Weitzman, 2006b).

Valid generalizations may certainly be drawn from Fairtrade's response to critics. An honest response would either be, 'We have investigated and your facts are wrong: here is the evidence . . .' or, 'We have investigated and there is a problem. We have prosecuted the manager, and removed certification from one coffee importer. We are taking the following action to avoid repetition. Here is the evidence.' The responses are not honest, in general. Sidwell quotes Lamb (2008b p114), 'where she lays out some of the large-scale charges made by Fairtrade's critics, and then answers with an anecdote from one Fairtrade producer, "But Merling is unequivocal: Fairtrade has changed the lives of the farmers in her cooperative".' Other examples are Fairtrade's reply to Sidwell (Fairtrade Foundation, 2008) (see http://www.griffithsspeaker.com/Fairtrade/ for my annotated version), to my (2008) article (Lamb H. , 2008) (see http://www.griffithsspeaker.com/Fairtrade for my annotated version), (Lamb H. S., 2006), (Newman, 2006), and Fairtrade responses to Christian Jacquiau's (2006, 2007), 500 page critique (Doussin, 2007), (Hamel, 2006).

Smith attacks critics for not producing evidence that Fairtrade holds, but refuses to release. Surely anyone in charity or government has a duty to show where the money went? In a long career I have found that a refusal to do so has always been an attempt to hide gross incompetence and nearly always an attempt to hide corruption – and, yes, that is an anecdote based on a string of case studies.

Reliability of the evidence

Many of the case studies appear in departmental reports or books which are not peer reviewed, which do not undergo the severe criticism that Third World consultancy undergoes, and which are not subject to the discipline of the critical comment.

It is very easy to dress up a failing project to impress uncritical or inexperienced observers. For example projects claim agronomic, environmental, economic and social benefits produced by the dozens of organizations with similar objectives – and the Ministry of Agriculture, FAO, UNDP, World Bank and the EC, at least, have vastly more money and infinitely more skills than Fairtrade, and are more cost effective. So economists apply the Rice-Davies test: ‘Well, he would say that, wouldn’t he?’ Smith does not.

Economists have rules to prevent double counting of benefits. They may claim the increased cash going to farmers, but not what the farmer spends the money on, improved nutrition, malaria prevention, schooling, reduced debt, etc. and certainly not the knock-on effects from these. But Smith claims ‘the demonstrated improvements in nutrition, health and education. . .’ (p34).

Again, it is possible to claim benefits that are remote from any action by the project: Smith claims ‘increasing economic stability and strengthening markets by breaking down oligopolistic structures’ p34, ‘such politically structured governance brings non-financial benefits which would not come from simple financial transfers.’ (p34)

I am puzzled by Smith’s statement, ‘As is clear from a visit to the supermarket, Fair Trade goods are in some cases cheaper than their conventional equivalents due to the nature of corporate marketing and pricing strategies’ (p32). Over the last ten years I have not been able to make this comparison – there are always differences in quality, brand, etc. One might think that sellers are afraid that buyers might find out how much extra they are paying.

It is not possible to use a case study to compare the success of Fairtrade and non-Fairtrade marketing organizations. As Smith accepts, Fairtrade selects cooperatives that are already successful, well managed, well financed, and with educated members.

Agricultural Economics and Marketing

Smith is researching Fairtrade, an agricultural marketing system, so one would have expected his research to refer to the agricultural marketing literature, which covers everything from farmer to consumer – it is 5% to 10% of the economics literature and there are excellent databases. However he does not use this, and does not achieve the level of theory and analysis and the quality of data expected there. Any statements he makes in this field are spectacularly wrong.

One example is his discussion of the economist's overproduction argument. Fairtrade pays one million coffee farmers more than the going market price. It also pays a minimum price which means both a substantially higher average price and a reduced risk cost. It claims, too, to increase farmers' output and yields, reducing costs and changing the supply function. Economists expect that this will mean more planting by Fairtrade farmers in good years, and less grubbing in bad years. The world demand for coffee is notoriously inelastic, so the increased Fairtrade production means a reduced price for the other 24 million farmers. To marginal farmers this means no cash income at all, which is serious when 30% to 50% of children die before the age of five in normal years. Smith (2009, p. 32) says he knows of no research that supports this proposition. But it is in the agricultural marketing literature: the close parallel of the collapse of the world market when Vietnam paid its farmers more than the world price is part of any study of the market over the past twenty years. And there is a wealth of analysis of coffee cycles since the 1930s and of the post-war International Coffee Agreements, all showing a strong supply response and an inelastic demand.

Smith (2009, p. 32) then states his personal belief that there will be no overproduction because a million Fairtrade farmers have a backward sloping supply curve for cash crops – something generations of economists have sought in vain - 'Thus, in my view, to assume that poor producers will increase supply based on unit price and in isolation from a consideration of the level of demand (information about which the FLO makes express efforts to communicate through business development representatives) is a somewhat patronising view of farmers in the developing world'. Again he ignores the literature. And his belief implies, first, that it would be irrational for perfectly informed individual Fairtrade farmers to increase supply, though each faces a perfectly elastic demand rather than the inelastic market demand curve; then that the 'business development managers' are right; that the farmers believe them; that they act on this belief; and that there are no other sources of information, like the extension service, other traders and the World Service. And it ignores the fact that planting coffee is a long term decision, requiring the advice of people like the World Bank and FAO commodity divisions, not trade gossip.

Economists believe that, *ceteris paribus,* if you pay farmers more for their coffee, they are less likely to switch to alternative enterprises, so Fairtrade, by concentrating on relatively rich Central and South American farmers, stops them moving to more profitable enterprises, and leaving coffee to African farmers who desperately need the crop. (Weitzman (2006 a, b) gives the minimum wage for agricultural workers in Peru as $5 a day – unimaginable riches for most African farmers). Smith (2009, p. 32) disagrees, saying that the empirical evidence supports him and not the theory of the firm or the law of supply and demand. His evidence is that seven out of 5000 Fairtrade suppliers did some diversification into other enterprises, but not that they did more than they would have if they were not Fairtrade and not that they decreased supply in response to a price increase. In fact, there is no possible case study evidence that could support or refute the economic argument.

Smith (2009, p. 32) says that the overproduction model is macroeconomic and that his anecdotes are microeconomic but both statements are incorrect, as any textbook will show. He suggests that what he calls 'macroeconomic' is inferior, but agricultural marketing economics is possibly the most successful area of economics: it works.

Smith tells us (p32) that '. . . governments offer fixed prices irrespective of demand . . .' but the literature confirms that this is almost if not entirely unknown in the Third World, though something like it may have occurred in the old communist states and in wealthy economies, in parts of the CAP for instance.

Smith's examination of the economics suffers from the weaknesses he attributes to the critics of Fairtrade: it is 'poorly substantiated and inappropriately theorised' (2009, p. 29), arguments are 'a product of theoretical deduction and bereft of empirical evidence' (2009, p. 32); it 'offers a very brief opinion' (2009, p. 32) on all issues discussed; there is more rhetoric than substance (2009, p. 34); it is 'grounded not in empirical analysis but in the comparison with . [arbitrary] . . . models' (2009, p. 34); it presents 'a choice between Fair Trade governance and free-trade organisation (as achieved by liberalisation' (2009, p. 34) and it does not consider the real alternatives like non-Fairtrade ethical trading, non-Fairtrade cooperatives or the many reforms of markets and firms that agricultural economics tackles. Smith (2009, p. 29) also fails to support his claim that there is 'evidential rigour and sophisticated theory' in the literature supporting Fairtrade.

On Cooperatives and Quality

Fairtrade is based on cooperatives, but Smith (2009, p. 32) is evidently unaware of the large literature on cooperatives (see CAB International, AGRIS and Agricola databases, for instance). He questions whether there is any evidence for statements by Sidwell (2008), Henderson (2008) and others that cooperatives have problems with quality, and have problems competing. But it is a commonplace in the literature that cooperatives have these problems, and that some cooperatives deal with them magnificently. Smith dismisses the possibility with theoretical arguments based on arbitrary and unstated assumptions about how the market works – surprisingly, given that he attacks the critics of Fairtrade for 'deductive evaluation from economic theory'

(2009, p. 32). He dismisses any possible empirical evidence on the grounds that one commentator on the tragedy of the commons had a caveat in his conclusions. And he ignores the inconvenient evidence produced by Sidwell and Henderson that Fairtrade insiders agree that there is a quality problem.

It is a commonplace in the literature that many cooperatives struggle to survive, in spite of government support in the form of cash, advice and institutional support. It is also a commonplace that cooperatives owned by large capitalist farmers who employ professional managers are likely to be successful, that cooperatives owned by small Third World farmers are likely to have serious problems, and that cooperatives with political and social objectives almost inevitably have serious problems. For obvious reasons.

Criteria for joining Fairtrade

Sidwell (2008) argued that Fairtrade helps a select few at the expense of others, partly because of its admission criteria. The economics of grades confirms that the more criteria you have the more likely it is that a decision to admit or reject an item will be made on a conjunction of criteria that is irrelevant to the intended beneficiaries. (Bowbrick, 1982, 1992). And this is true of Fairtrade, even if we ignore complaints that some of the criteria are irrelevant or immoral. Smith (2009) ducks the issue with a lengthy discussion of the small print of the criteria, which is unhelpful, as is his suggestion that fundamental structural weaknesses can be remedied by fiddling with the small print. Surprisingly, he does not mention the evidence that Fairtrade fails to enforce the regulations (e.g. Weitzman, 2006a, 2006b, Bahra, 2009, Weitzman, 2006), let alone the evidence that they choose not to allocate the necessary resources to do so (e.g. Hamel, 2006, Jacquiau, 2006, 2007).

Helping rich farmers at the expense of the poor

Critics point out that Fairtrade is concentrated in relatively rich countries like Mexico and Costa Rica which have 70 times the GNP income per head of countries like Sierra Leone, and that Fairtrade actually pays a higher price to farmers in the richer countries. Smith says that this is justified because on Mexico there are '. . . strong income differences in the region of Chiapas, where coffee farmers are some of the poorest individuals in one of the poorest regions in Central America. . .' which is far from saying that even the poorest coffee farmers are the poorest farmers in Chiapas, or in Mexico or in Central America, let alone that they are poorer than those in Africa. In fact, it is quite possible from this statement that the *average* small coffee growers in Mexico are the richest in the world. By Smith's argument Fairtrade should concentrate on subsidizing British farmers, because the poorest British farmer loses more money in a year than a Third World village sees in a lifetime.

Free Trade and Free Markets

Smith says, 'Another point is the rather unhelpful binary constructed by some critics and supporters alike in which consumers and businesses are presented with a choice between Fair Trade governance and free-trade organisation (as achieved by liberalisation).' (2009, p. 34) 'Fair Trade provides a targeted response to real-world problems that deductive evaluation from economic theory grossly ignore' (2009, p. 32) , 'adopting macroeconomic analysis based on deductive comparison with perfect market models' (2009, p. 29)

In fact, both Henderson and Sidwell compare the with and without Fairtrade situation, the without being the unfree real world. Sidwell says, in passing, that free trade is the answer to development, and gives examples, some which few economists would disagree with, others which some economists would disagree with, but still think arguable. Neither Sidwell nor Henderson present the fundamentalist free market dogma prevalent in the World Bank and IMF, which has devastated the Third World (See Griffiths (2003) for an example.) But Smith (2008, p. 12) says that we should disregard what Sidwell actually said, because of what he, Smith, believes that Sidwell and his publisher really believe.

Charity and what happens to the money

When consumers buy charity Christmas cards, The Big Issue, cakes at a church fete, free range eggs or Fairtrade coffee, they are making a charitable donation. They know that they are paying more, and they expect that the extra money will go to the intended recipients. If it does not, they will have been cheated. Smith (2009, p. 31) disagrees, 'However, we should not assume that Fair Trade purchases and charitable giving can be seen as substitutable acts and basic statistical evaluation suggests, indeed, that they are not.' He goes on to argue that it does not matter that very little money reaches the intended recipients. He does not present any statistical evaluation in the section cited, and presents a concept of quality and value unique to himself. He cites in support four papers – he is evidently not aware of the large literature on quality or marketing. Two of them, he says, provide a sophisticated analysis of quality and value, but Zeithaml (1988) discusses products which have little in common with Fairtrade and does not provide an analysis relevant to Fairtrade and Raynolds (2000) provides no analysis of quality or value. Neither Mann (2008) nor Golding and Peattie (2005) discuss credence goods – fundamental to the issue under discussion – and I do not see that they support his concept of quality. But new theory is not needed. Ethical trading is not new: 200 years ago Indian sugar was sold in Britain at an enhanced price because it was not produced by slaves. The economic theory is set out in Bowbrick (1992) but it is difficult theory, starting with all microeconomics, then adding dimension after dimension, so its application to Fairtrade will not be a trivial exercise.

In the meanwhile, he might ask the consumers themselves:

'You go to a coffee shop which charges 10p a cup extra for Fairtrade coffee. You then find out that less than one tenth of a penny of this extra payment goes to the farmer. Do you think

1. This is fraudulent
2. This is a scam

3. The profit margin is excessive
4. This is a wonderful way of helping farmers in the Third World?'

The answers can be calibrated by giving examples going from the 1% reaching the farmers which I have observed, to the 95% which many consumers will consider reasonable.

Smith would appear to agree with the economic analysis that shows that donor utility is maximized if the entire donation is spent on telling donors how wonderful they are, but this analysis assumes that donors never find out what happens to their money. Oxfam is very careful about the percentage of its income spent on fundraising and administration because of the backlash in the 1970s when donors perceived that too much was going on fundraising and administration.

Alternatives

Smith and other advocates of Fairtrade fail to consider the hundreds of possible alternatives that are feasible and more ethical. For example, a coffee packer might offer two lines identical in all respects except that one had a receipt for 50p printed on it, with a guarantee that all the money went to Third World hospitals and schools. This would be ethical in ways that Fairtrade is unethical: the consumers would know exactly how much they were giving; they would know that none of the money was being pocketed by businesses in Europe; and they would know that this was not distorting markets, making millions of desperately poor farmers poorer.

Conclusion

Smith 'would argue that primary proponents of Fair Trade do have a responsibility to increasingly evaluate the effects of Fair Trade. . .' (2009, p. 29). However, it is clear from this and other writings on Fairtrade, that any evaluation should be carried out by independent people, not proponents, and that they should be selected for having appropriate professional qualifications and a track record of investigating incompetent and corrupt firms and marketing systems in the Third World and the developed world, and a track record of getting action to reform them.

We are talking of people's lives here.

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