FAIR TRADE: ITS REAL IMPACT ON THE WORKING POOR

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Abstract

Fair trade gains popularity, while free trade is undergoing more and more criticism. Since international free trade supposedly pollutes the environment, promotes the utilization of sweatshops, exploits child labor, and impoverishes developing countries, fair trade is a preferable alternative (World Fair Trade Organization, 2011). By reviewing empirical studies and examining regulations concerning fair trade practices, this paper provides a comparative analysis of both free and fair trade in light of its impact on the working poor. We argue that the benefits of fair trade are concentrated among interest groups—mainly retailers and regulating organizations—while its costs are widely spread across the global economy. We also show that the distributive politics of fair trade violate conventional trade, and that fair trade, unlike free trade, inhibits economic progress rather than stimulating it.

Keywords: free trade; fair trade; poverty; international politics

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INTRODUCTION*

Fair trade has been on the rise in last few decades as a solution for the inequality between the developed nations and the developing world. As described by FINE, an informal association of four international fair trade networks—Fairtrade Labeling Organizations International (FLO), World Fair Trade Organization (WFTO), Network of European Worldshops (NEWS!) and European Fair Trade Association (EFTA)—, "fair trade is a trading partnership, based on dialogue, transparency, and respect, that seeks greater equity in international trade (World Fair Trade Organization home page)."[1]

The fair trade movement is organized so as to oppose the supposed exploitative practices utilized by the industrialized world against third world producers. The latter export goods that are typically hand crafted or grown, such as coffee, cocoa, sugar, tea, bananas, honey, and cotton. Often times the fair trade movement operates through petition signing and boycotting importers without fair trade certification (Renard, 2003, p. 91). Such approval is based on the guarantee that workers are not exploited, that purchases are made from cooperatives, that environmental sustainability and safe working conditions are maintained, and that the price is fair.[1]

There are a number of problems with this initiative. Fair trade has both advantages and disadvantages, but the latter

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* We owe a great debt of gratitude to two extremely incisive referees. We do not credit them for each and every suggestion, lest this paper become far too wordy. Suffice it to say that their influence on us can be felt all throughout this essay. However, as per usual, all errors both of omission and commission of course rest with us, the authors.

[1] The concept of "fair price" is unsatisfactory from economic grounds: a free trade price, voluntarily agreed upon, is fair insofar as there is no possible way to compare the subjective utilities of the people engaged in exchange. But if they engage in it voluntarily, then the fairness is insured as far as economic science can discern. Since there are no clear-cut criteria for a fair price, the case for fair trade is vague, weak, and inoperable—and becomes operable only once included in a free trade framework. In the view of the medieval School of Salamanca, the "fair price" was the free market price (Grice-Hutchison, 1952).

undermine its mission. Like the organic food movement, fair trade is an effective marketing tool for capturing the consumer niche for "socially responsible" and "sustainable" products (Renard, 2003). This initiative reaps benefits from the appeal of fair trade, but also implicitly denigrates free trade. The fair trade movement also walks hand in hand with those who oppose unfair trade practices, but allows for a hidden export subsidy in the form of the fair trade price premium. As a result, the business ethics of the fair trade movement violate the World Trade Organization's (henceforth, WTO) own definition of free trade. Moreover, countries such as Mexico and India, which are among the top initiators of WTO antidumping cases, are also active leaders of the fair trade movement (WTO, 2012). Since antidumping cases are often arbitrary and subject to special interests, this supposed "fairness" deserves more scrutiny (Irwin, 2009).

Fair trade undermines free trade under the pretense of livable income, sustainable environment, and social dialogue. It also restricts international openness by shielding inefficient firms from international competition and rewarding producers for non-competitive behavior. The distributive politics of fair trade concentrate benefits among the interest groups of regulating agencies and retailers, while the costs are spread across the global economy. In other words, fair trade uses business ethics and public moral sentiments to insulate inefficiency and to justify anti-market conduct (Ruben, 2012; Griffiths, 2011; Valkila et al., 2010; Valkila 2009). While we agree that poverty, child labor, and pollution of the environment are real problems, fair trade is not a "magic bullet." In reality, fair trade incurs real costs, entails welfare loss, and shrinks the window of opportunities for all countries—especially developing ones. Nevertheless, we do not argue that free trade solves all these problems. But unlike fair trade, free trade at least gives a nation the opportunity of engaging in mutually beneficial exchange with other countries. Thus, while the benefits of free trade are substantial, trade is only part of the bigger picture of world economic development.

In the remainder of this paper we proceed as follows. In section II, we review the case for fair trade as offered by its advocates and compare it with that for free trade. In section III we question in more detail whether fair trade makes people in developing countries better off. We conclude in section IV.

FAIR AND FREE TRADE

Are free trade and fair trade compatible? Free trade and fair trade have a single but very important feature in common: just like globalization, the decision to trade or not is a choice. All their other features are different. While free trade is an integral part of the "obvious and natural system of liberty" (Smith, 1976 [1776], p. 457), fair trade is unclear and unnatural. The reason for this—and the main difference between the two types of trade—is found in the pricing mechanism. International free trade presupposes the use of prices on the world market determined by demand and supply, while fair trade uses its own price, only partially and indirectly based on the market price. Several sociologist use the theory of conventions to argue that fair trade goes beyond economics because the market price cannot encapsulate all information about the fair trade product (Rallet, 1993; Boltansky and Thevenot, 1991). Nonetheless, the fair trade price, which is the total price paid to producers, is an economic concept, and it includes both the fair trade minimum price and the fair trade premium (WFTO, 2011).

Like the minimum wage law, the fair trade minimum price is a price floor. It is a formal safety net that covers producers' average costs of production, provides 'livable' wages, and allows access to product markets. The minimum price also "protects producers from being forced to sell their products at too low a price" when it is above the price on the world market (WFTO, 2011). There is only one exception to the rule: if the market price is already above the fair trade minimum price, then it is considered fair. The fair trade practice, however, is incompatible with a key economic principle: wages reflect labor productivity. High wages are due to high labor productivity and vice versa, and usually a poor country starts with low productivity and thus low wages. International openness, economic freedom, and the resultant economic growth, all move domestic wages upwards towards the world level. On the contrary, trade restrictions reduce productivity and keep wages below their free-trade potential. Therefore, efforts to constrain free trade are counterproductive, particularly from the point of view of those who support fair trade.

The fair trade minimum price is not only a price floor, but also constitutes a certification fee, the minimum price that buyers must pay producers for a product to receive the fair trade standards certification (ibid.). This certification only complicates the flow of products from developing to developed economies. As Renard (2003) expresses her concern, the major stake-holders of the food market have already captured the gains from the fair trade certification by occupying the niche market for socially-responsible products. The fair trade market niche thus increases retailers' profit margins to otherwise unfeasible levels in the absence of the fair trade price markup.

In addition to the price floor and certification fee, the fair trade price includes the fair trade premium—the amount paid to producers in addition to the payment for their products, i.e. a direct charitable donation to producers and their employees. The idea behind it is that the additional money will go to producers and their community, whose higher incomes will lift them from poverty. Producers decide democratically on the specific use of the premium (WFTO, 2011), which includes investment in their business, livelihood (community) support, or the socio-economic development of workers and their community (WFTO, 2011). In a sense, the premium is the NGOs' alternative to foreign aid or microfinance. In this context, Sidwell (2008) argues that fair trade constitutes a moral hazard problem, given that "fair trade is an inefficient way to transfer money, with 90 percent of the premium paid going to retailers." In case of coffee trade, Valkila et al (2010) find that a larger share of the fair trade retail prices—including fair trade premiums—remain in the consuming country relative to conventional coffee trade, and that roasters and retailers benefit significantly from fair trade. Though these coffee farmers, for example, charge higher prices than conventional producers, Beuchelt and Zeller (2011) note that over a period of ten years, the inefficiency of the fair trade farmers has made them poorer relative to conventional producers.

Fair trade is "fundamentally, a response to the failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world; this is evidenced by the two billion of our fellow citizens who, despite working extremely hard, survive on less than $2 per day" (WFTO, 2011). In the view of this organization, safe working conditions, absence of child labor, and sustainable environment are thus among the other benefits of fair trade as compared to conventional trade. Nearly two centuries ago the British historian Thomas Macaulay (1900) wrote that "free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular.", and the arguments of the fair trade movement are a case in point. The implication of these arguments is that without fair trade standards, free trade must leave domestic producers in poverty, deteriorating labor standards, and a polluted environment. But what are the benefits and costs of free trade?

Dating back to Adam Smith and David Ricardo, economists have demonstrated the benefits of free trade and the cost of trade restrictions. Since unfettered trade is a positive-sum game, interference with it always causes welfare loss. John Stuart Mill, in his treatise *Principles of Political Economy* (1848) pointed out three principal gains from free trade: international trade has "direct economic advantages", "indirect benefits of higher order", and finally, international trade has moral and intellectual benefits that surpass economic benefits in importance.

A simple transition from a closed to an open economy opens a window of opportunity that generates a variety of economic benefits, among which the most important direct economic benefit is income growth. Free trade provides much more than a livable income. A seminal work by Bernhofen and Brown (2005) illustrates the direct economic benefits from the classic example of Japan's transition from self-imposed international reclusion (autarky) to free trade in 1859. During this period, Japan simply had forgone the inefficient domestic import substitution, and began exporting silk and tea, and importing wool and cotton. While prices of those goods in Japan converged to world prices, the country's national income grew annually by 4 percent, moving from the static reallocation of resources in response to this international openness (Bernhofen and Brown, 2005). Thus, Japan benefited from accepting the prices on the world market, because specialization and free trade improved allocative efficiency of resources as producers explored their comparative advantage. While utilizing world market prices benefits a country, avoiding them has negative consequences. For example, to protect the American fleet from the attacks of British and French forces, President Thomas Jefferson imposed a trade embargo in 1807. This measure increased the domestic price of imported goods by 33 percent and reduced the domestic price of exported goods by 27 percent (Irwin, 2005). While the U.S. ports were closed, the U.S. economy lost about 5 percent of GDP (Irwin 2005). Free trade thus provides mutual gains from the international division of labor, and boosts consumption beyond our self-sufficient production possibility frontier.

Exchange across national borders also increases consumer exposure to a greater variety of goods and services, while fair trade, in contrast, limits consumer choice, in a manner comparable, in principle, to that found in socialist economic systems. In the former Soviet Union, for instance, consumers had to spend most of their time waiting in line for food and other consumer goods. To buy fresh oranges and bananas, they had to take ten-hour train rides to Moscow from the less developed urban areas; to purchase good-quality dairy products, consumers from the Ukrainian city of Kharkiv had to travel for at least two hours to the Russian city of Belgorod, and the residents of Belgorod had to go to Kharkiv to purchase good-quality meat and cold cuts. Needless to say, only when post-Soviet countries opened their borders to international trade, consumers in Russia and Ukraine found exotic and affordable goods in the market place. Even in the United States the variety of consumer goods has increased by a factor of four over the past three decades (Irwin, 2009, p. 45), and the U.S. economy gained about 2.6 percent of GDP due merely to an increased variety of consumer goods (Broda and Weinstein, 2006).

The indirect gains of free trade also promote economic growth by improving domestic productivity. First, competition from international producers pushed inefficient domestic firms with losses out of the market, and rewards efficient ones with profits. Second, domestic firms gain from the transfer of foreign technological knowledge, which improves domestic efficiency by saving on the domestic investment in research and development. Free trade gives the local economy open access to international technology, human capital, and capital goods. For example, international openness helped China to significantly improve its agricultural productivity. China's agriculture suffered from the rice blast, which had destroyed millions of tons of rice a year and had cost farmers billions of dollars (Irwin, 2009). When an international team of scientists and farmers in China's Yunnan province started a biodiversity project—by planting a mixture of two different types of rice in the same paddy--this simple technique nearly eliminated the rice blast and doubled the rice yield.

Free trade also creates benefits that go beyond mere economics. International trade promotes democracy[2] and reduces corruption (Mansfield et al., 2000; Ades and Di Tella, 1999), and encourages ethical behavior. In underdeveloped countries

[2] For a critique of this system of government, however, see Hoppe (2001).

including India and Mexico, most foreign firms and sweatshops pay significantly higher wages than comparable domestic firms (Powel and Skarbek, 2006; Lipsey and Sjoholm, 2004; Aitken et al., 1996).[3] Establishing a fair trade minimum price beyond the productivity level of the domestic labor force only reduces the demand for it and for products originating in these countries. The New York Times journalists who have investigated sweatshops in Asia since 1987 came to an unexpected conclusion that "nothing captures the difference in mind-set between East and West more than attitudes toward sweatshops... Like most Westerners, we arrived in the region outraged at sweatshops. In time, though, we came to accept the view supported by most Asians: that the campaign against sweatshops risks harming the very people it is intended to help. For beneath their grime, sweatshops are a clear sign of the industrial revolution that is beginning to reshape Asia" (Kristof and WuDunn, 2000).[4]

Despite "the failure of conventional trade", free trade improves labor standards (Powell, 2014; Powell and Zwolinski, 2012; Zwolinski, 2007). Because almost 80 percent of cross-country variation in child labor is explained by cross-country variation in income per capita (Irwin, 2009, p. 213), once an underdeveloped country reaches approximately $5,000 income per capita, child labor virtually disappears and working conditions improve even more strongly. Nonetheless, free trade is not a "magic bullet" when the developing nation lacks economic freedom, a less obtrusive political process, and other important socio-economic factors. As Edmonds and Pavcnik (2006) show, Vietnamese farmers reduced their demand for child labor when the domestic

[3] This assessment is from the point of view of those who favor "fair" trade. In their perspective, high wages are ethical, low ones are not. In the view of the present authors, in contrast, any wage no matter how high or how low is ethical, provided only that there is no force or fraud involved in its determination.

[4] For similar views on sweatshops, see Block, 2000, 2008, 2011; Greene, Henry, Nathanson and Block, 2007; Krugman, 1997, 2001; Myerson, 1997; Powell, 2006, 2014; Powell and Skarbek, 2006; Powell and Zwolinski, 2012; Zwolinski, 2007.

price of rice rose after the government permitted more rice exports. In these poor countries approximately 80 percent of working children are employed in the primary agricultural sector, and only about 5 percent of them work in the export field (Edmonds and Pavcnik, 2006).

Free trade and and a cleaner environment are also compatible, the misgivings of fair traders to the contrary notwithstanding. Numerous studies find an inverse U-shaped relationship, also known as the environmental Kuznets curve, between pollution emissions and a country's per capita income (Dasgupta et al., 2002). Once a nation reaches about the same threshold of $5,000 income per capita, further economic growth *reduces* pollution. While higher economic activity often produces more CO_2 emissions, the resulting increased wealth makes cleaner technology affordable and thus reduces pollution (Frankel and Rose, 2005; Antweiler et al., 2001). Structural changes in a developing economy also lead to cleaner environments because the knowledge-based economy tends to replace the industrialization stage of economic development. This is typically accompanied by shifts from polluting to greener economic growth.

Let us now come back to the issue of fair trade and some of its policy aspects. So far we have focused on the popular definition of fair trade used by NGOs. But national governments and the World Trade Organization (henceforth, WTO) also define fair trade. Both concepts imply cross-country price discrimination and unethical market conduct (Zwolinski, 2009, 2008). It is interesting that NGOs and governments use a similar approach to defining and enforcing fair trade. Moreover, the leaders of the fair trade movement are also among the top twenty initiators of antidumping cases, including Mexico, India, and South Africa. Mexico is not only the largest exporter of fair trade products. but also among the top 12 initiators of antidumping cases (WTO, 2012). Thus, the NGO movement walks hand in hand with the antidumping policy.

Both the U.S. Trade Act of 1974 and the General Agreement on Trade and Tariffs (Art.12) define fair trade as a free trade practice without an export subsidy and price dumping. However, the fair trade premium is a hidden export subsidy in a nutshell. The difference between an export subsidy and the fair trade price premium is that, instead of the domestic government, the foreign consumer pays for it. In the United States an import tariff is the legal recourse against unfair (i.e., subsidized, "dumped") imports. The hidden export subsidy in the form of a price premium, however, is part and parcel of fair trade.[5]

The fair trade minimum price is also similar to the WTO's definition of "dumping". Export dumping is the practice of charging a lower price in the domestic market than it is normally charged in the foreign exporter's home market (WTO, 2013). Like fair trade, antidumping law considers the common business practice of price discrimination illegal. Surprisingly, antidumping rhetoric ignores the reality of the global economy with a cross-country difference in market competition, consumer income, rule of law, and other important factors (McGee and Block, 1997; Yoon et al, 1999). The antidumping rhetoric also constitutes a double-standard. If the importer charges a price at the domestic level and above the foreign market level, it is fair. When he charges at the domestic level but below the foreign level, it is unfair. In fact, *each* case is a common business practice. Numerous businesses set different prices in different markets. To punish unfair imports, the U.S. government uses the antidumping law and imposes the antidumping duty. Similarly, fair trade punishes market competition if it hurts the certified domestic producers. The U.S. International Trade

[5] In general, it could be argued that there is no resemblance between an export subsidy and a voluntarily paid premium. The crucial question is whether the foreign consumer has the *opportunity to choose* between fair trade products and normal products. If this opportunity exists, the price premium is not similar to a subsidy. If he is forced to pay it, then it is a hidden subsidy, part of the institutionalized free trade. In our view, therefore, free trade presupposes the absence of government intervention, while fair trade is de facto in today's world an institutionalized movement that presupposes government regulations. One leaves choices to consumers, the other (once incorporated into trade regulations) imposes choices on consumers.

Commission (USITC) and the U.S. Department of Commerce (USDC) handle claims against unfair imports, but the antidumping process, however, involves many arbitrary judgments and is subject to abuse (Irwin, 2009). The state determines unfair trade practice at astoundingly high rate. For the USDC it is 94 percent, while the USITC rate is 67 percent (Lindsey and Ikenson, 2003). Ten out of 18 antidumping cases that the USDC found guilty had no real dumping, and the USDC exaggerated the real dumping margin by more than half in four out of the other eight cases (Lindsey and Ikenson, 2003). Overall, antidumping measures produce a welfare loss of nearly $4 billion for the U.S. economy annually (Irwin, 2009). Since the government definition and enforcement of the fair trade are also arbitrary and subject to special interests, it is not clear that the NGOs calculate the fair trade price in a fair manner. If market forces of supply and demand are excluded, who is so omniscient, benevolent, and selfless that they can determine the fair trade price? Fair play within the fair trade movement itself deserves some scrutiny.

Finally, are free trade and fair trade compatible? The former improves the economic performance of a country by opening domestic markets to international competition. Increasing competition offers the consumer a wider choice, tends to improve the ethical conduct of domestic companies, renders the domestic market more transparent, and improves overall efficiency. Numerous studies confirm that free trade disciplines domestic firms in various ways (Tybout, 2003, 2000). While the benefits of free trade are substantial, trade is only a part of the larger "natural system of liberty." When other political economy issues are pressing, free trade is not sufficient, merely necessary. Stable macroeconomic institutions, economic freedom, democratic political process, the rule of law, the protection of property rights, and many other factors determine wealth and prosperity.

Fair trade, on the other hand, restricts international competition, and provides a safety net for inefficient firms and rewards producers for non-competitive behavior. In other words, it protects the domestic industry from foreign competition and economic progress at the expense of foreign consumers and unseen opportunities for the members of the developing country. Domestic producers use fair trade to insulate their inefficiencies from international competition. Retailers use fair trade to justify their price markup against the price on the world market. As a consequence, like any trade restriction, fair trade has a superficially plausible justification. It is a popular political and social idea, but one that lacks sound economic grounding.[6] But where is the real evidence that fair trade is better than free trade, in terms of improving the lives of the poor? The fair trade effect is unclear, at best. This leaves an impression that it exists only to protect domestic firms in developing countries and increase profit margins of certified retailers at the cost of consumers from the developed economies.

As a price floor and a hidden form of export subsidy, fair trade entails real costs and welfare loss. Thus, free trade and fair trade are incompatible.

WHY IS FAIR TRADE NEEDED AND ITS REAL IMPACT

Fair trade is proclaimed as the solution to what is seen as a system of exploitation of the third world poor by industrialized

[6] The WFTO's definition of fair trade is reminiscent of the escape clause that allows temporary relief from surging imports back to negotiated tariffs without any evidence of unfair trade. Section 201 of the U.S. Trade Act of 1974 and Article 19 of the GATT provides the current statutory basis for the escape clause. To avoid economic analysis, the advocates of fair trade claim that its value is beyond the reach of economics (WFTO, 2011; Renard, 2003). Unfair trade sounds awful, as though greedy middlemen are preying on poverty-stricken producers by forcing them to sell below their cost and push them into bankruptcy. Unfair trade also sounds horrid when foreign corporations exploit the domestic environment as portrayed in documentaries such as Black Gold (2006) about Ethiopian coffee farmers, and Sweet Crude (2007) about the Nigerian oil industry. Unfair trade sounds despicable; it connotes a person jogging every morning in sneakers made by a child and apparel produced, for example, by a destitute sweatshop worker in El Salvador (Skarbek et al., 2011). Unfair trade is the real problem.

nations. Let us see, in more detail, what is considered to be exploitative under the current system. First is the claim that workers and producers in the developing world are losing out to complex supply chains and price volatility. According to the Fair Trade Foundation (2011):

"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. With little or no income between harvest months, farmers are usually forced to sell their next crop in advance to middlemen, who pay far below the harvest's value. The farmer's situation is exacerbated by the fact that the world market price is extremely volatile, frequently experiencing steep price drops when overproduction causes world coffee surpluses. With few other options for income, such drastic price drops cause many coffee farmers to lose their farms and become hopelessly in debt… In Mexico for example, coffee farmers live in remote mountainous areas where livelihoods are fragile and there is a lack of government investment in infrastructure. This is despite the expansion of coffee houses we've seen in almost every high street in the UK, because in real terms, the price of coffee, and therefore the income coffee farmers have to provide for their families, has fallen by more than two thirds in the last 40 years."

Then there is the charge of unfair working conditions and child labor. In sharp contrast, at least in the view of Grounds for Change (2012): "Workers on fair trade farms enjoy freedom of association, safe working conditions and fair wages. Forced child labor is strictly prohibited." The problem is that workers have no ability to unionize, organize, and negotiate with employers. This is because their options are very limited and they have little choice. Here is an example in the banana industry. There, workers for a good part of the 20th century were forced to work long hours with poor wages and unsafe working conditions. Equal Exchange (2010) describes the situation as "people who had always lived on the land had no place to go and no land on which to grow food and raise families. They were forced to work for very poor wages on the plantations. This meant the company always had a plentiful supply of cheap labour. And to keep costs down and maximize profits, the workers were exploited and harshly treated by both the government and the large banana corporations for decades."

Under current arrangements, it is argued by these fair trade organizations, the environment is not being protected properly. According to Grounds for Change (2012) fair trade seeks to insure that "harmful agrochemicals and GMOs are strictly prohibited in favor of environmentally sustainable farming methods that protect farmers' health and preserve valuable ecosystems for future generations. Fair trade farmers protect the land and wildlife habitat by intercropping plant species to improve soil fertility and protect against erosion. Stringent environmental management programs, including water conservation, proper waste disposal and prohibitions on planting in protected areas further encourage environmental stewardship." Let us summarize. Fair trade certification insures that producers are paid a proper livable wage,[7] that working conditions are safe, that children cannot work and that the environment is protected.

Does fair trade increase wages? At first glance this would appear to be true. By increasing the price with a premium on goods that are certified it is claimed this process helps support these farmers. One problem is that fair trade only certifies those farmers who can bring buyers to the table[8]. Sidwell (2008, p.10) points out that

"fair trade must pick among farmers on the basis of whether they are able to bring a buyer to the table and whether they meet Fairtrade standards, not on the basis of need. They must exclude

[7] Free trade may possibly decrease nominal wages but very likely increase real wages; its benefits lie in the latter.

[8] This attempt to do good is akin in its effects to affirmative action for black people: it helps those members of this community who in the least need of aid. With this policy, employers realize it will be difficult to fire those hired under this policy. Therefore, they raise their bid for black employees who are least likely to fail, and lower it for those most likely to do so (Sowell, 1982; Williams, 1982, 1985).

some equally deserving cases….. Fair trade is unfair. It offers only a very small number of farmers a higher, fixed price for their goods. These higher prices come at the expense of the great majority of farmers, who – unable to qualify for Fairtrade certification – are left even worse off…. what happens if there is adjustment to world supply or demand and prices in one part of the market are fixed? Prices in other parts of the market must fall by more – others suffer. What happens to employees of large producers when fair trade consumption shifts away from them towards small producers? They may have no alternative employment."

To the extent that fair trade is successful in raising the working standards and wages of some producers, it would have a counter balancing effect on other producers. Fair trade puts the emphasis on small cooperatives to produce, but in raising their wages without actual productivity gains the cost of labor is artificially boosted. This means that more people will go without a job as their loss in wages and jobs is transferred to these others: the favored cooperative farmers. Booth and Whetstone (2007, p. 29) state this point very well that "whilst it is clear that fair trade might bring some benefits to particular groups, whether it brings significant net benefits to the poor in general is questionable. Moreover, the claim that fair trade transactions are more 'just' cannot be substantiated. Customers also might be surprised to learn that the majority of the Fairtrade Foundation's net income is spent on promoting its own brand."[9] Griffiths (2011, p.3) writes that 70 percent of the fair trade license income that the Fairtrade Foundation generates in the UK is spent on promoting the Fairtrade brand.

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[9] The analogy with minimum wage laws is difficult to avoid at this point. This legislation, too, at least at the outset helps the favored employees who can keep their jobs, while hurting those who can no longer be employed at the higher wage, since their productivity has not increased. But in the long run, as with *any* case where wages exceed marginal revenue product (certainly up to and including the so called beneficiaries of "fair" trade, the result is unemployment).

How much does fair trade certification help the poor rural farmer? Mexico is the largest producer of fair trade products with 51 certified producers (Sidwell, 2008, p.10). This is followed by India with 49, South Africa with 38, and Colombia at 34. Countries often associated with fair trade products such as Ethiopia or Rwanda have only 14 producers, combined (Sidwell, 2008, p.11). In 2011 GDP per capita (PPP) was $12,814 in Mexico, while it was only $979 in Ethiopia (WDI, 2012). Moreover, agriculture's value-added share of GDP was 46% and 4% in Ethiopia and Mexico, respectively (WDI, 2012). Moreover, retailers represent another interest group that received concentrated benefits from the fair trade. Sidwell (2008) writes: "Fairtrade is an inefficient way to transfer money, with 90% of the premium paid going to retailers. Given that the consumer very likely pays the large Fairtrade premium on the understanding that it is a direct charitable contribution, they would be willing to send far more to poor farmers than farmers receive through the Fairtrade certification process."

In addition to this loss, Sidwell (2008) also shows that "The Fairtrade tendency to discourage individuals from donating directly to charities arguably draws them away from the most efficient way to give, in favor of Fairtrade, losing the producers money." Thus people who are paying the higher premium are doing so as a substitute for giving to charity. Yet of this premium only a small share is estimated to reach the needy producer. Griffiths (2011, p.5) finds that less than one percent of the extra price for fair trade coffee sold in one of the largest British café chains reached the Third World exporter. In Finland a larger share of the fair trade coffee retail prices remained in the consuming country as compared to conventional trade , the producing country's share of the retail price increased by .15 euros per package of coffee relative to conventional coffee trade, and the share of the consuming country doubled from 1.21 to 2.24 euros per package of coffee (Valkila et al., 2010, p. 266).

Additionally, there is the issue of fraud. Many certified fair trade farms have been found to be engaging in the same practices as non-fair trade farms. Weitzman (2006) visited five Fair Trade farms in northern Peru and found that four of them paid workers below the Peruvian minimum wage. The problem there was that only full time employees were required to be paid the livable wage that fair trade is supposed to guarantee, such that seasonal workers did not qualify. Producers may be getting increased prices for the premium they get with the certification of fair trade organizations, yet the poorest workers, the pickers, are not sharing in this benefit.

Now consider child labor, which could also have unintended consequences. The United States imposed a ban on child labor in Bangladesh; however DeGregori (2002) reports that "the authors of the UNICEF-sponsored volume 'What Works for Working Children,' found that for children in the Bangladesh garment industry, work was less hazardous, more financially lucrative, and with more prospects for advancement than almost all other forms of employment open to children. Prohibiting child labor under such circumstances only *reduces* their well being, and consigns them to a life of prostitution, or worse, death (DeGregori 2002). Common sense, alone, ought to lead us to this conclusion. How will it help someone, a child or anyone else, to *decrease* his options? It will not.

Does the fair trade certification process help the environment? Leibenluft (2008) writes:

"Telling producers to leave buffer zones around conservation areas, minimize water use for irrigation, and ensure that organic waste is 'disposed of in a sustainable manner.' Fair-trade advocates argue that the eco-benefits extend beyond these simple rules: By helping to promote smaller producers, the label helps those who are most likely to use sustainable, traditional growing methods that are better for the environment."

These practices would be considered more environmentally friendly by most, but could also have a negative impact. For one, by encouraging these more costly practices, fair traders are taking the already small gains in wages from the premium price and using it towards these new practices. How can they reduce the cost of producing while at the same time raise wages? Secondly, how can we be sure that the farmers were not already optimally engaging in such practices? If they were, then by *increasing* their effects, the fair traders would be leading the locals into over-optimal buffer zones, organic waste disposal costs, etc. In our view, only free market environmentalism, based on private property rights (Anderson and Leal, 1991; Hoppe, 1993; Horwitz, 1977; Lomborg, 2004; Rothbard, 1982), can protect the environment. According to this philosophy, the explicit central-planning type command and control systems favored by fair traders leads in the opposite direction. A healthy dose of skepticism about their beneficial effects is therefore justified.

CONCLUSION

Fair trade has had a negative effect on developing countries. Its adherents are trying to impose a premium on prices so workers get paid more, but this does not make people more productive. Instead, it prices poor producers out of the market. The goals may be noble, but the solutions they provide do not work and are incompatible with free trade and the free market. The claims made by the fair trade labeling organizations that they are alleviating poverty are not compatible with the evidence. First, the increase in wages that stem from the premium price is minimal, but those that do occur only reduce the wages and/or labor of those workers not covered by this scheme. Second, corruption has become a problem, because fair trade farms are also engaging in the same bad old practices as before. Cases such as the one in Peru have led to a credibility issue concerning the labeling organizations in the United States (Weitzman, 2006). Third, the drive for increasing worker standing has led to price increases raising the cost of labor. Fourth, their policies on child labor have forced children into less profitable trades or jobs. Fifth, the drive for more environmentally sustainable practices has led to increase again in the cost of production. Finally, the distributive politics of fair trade concentrates benefits only among the interest groups of licensing agencies, certified farmers, and retailers, while it spreads the costs across the global economy.

In the view of Rothbard (1995), "Whenever anyone talks about 'fairness,' the average American had better look to his wallet. When social pressure groups invoke 'fairness,' it means that American business must be saddled with quotas for mandatory hiring or promoting of myriad special interest groups, depending on who can get themselves organized and win the ear of the politicians. When businessmen talk of 'fair trade' or 'fair competition,' it means that they are pressuring the government to use coercion to cartelize their industry, to restrict production, raise prices, and allow the flourishing of inefficient and uncompetitive practices. In business, the other guy, your competitor, if he is efficient and is successfully cutting into your business, is by definition engaging in 'unfair competition' and 'unfair trading practices.' Such strictures, of course and again by definition, never seem to apply to the subsidies *you* may be receiving from government or to these very cartel policies that you are calling for."

What is the future of the fair trade movement, as well as that of free trade? It is our view that economists predict the future to demonstrate they have a sense of humor. If they really knew what was going to happen, they would keep it to themselves, and engage in market behavior to enrich themselves. Nevertheless we shall engage in this past time, to show we are not without humor. What will happen to the fair trade movement? According to that old aphorism, "If a man is not a socialist at age 20, he has no heart; if he is still a socialist at age 50, he has no brain." Fair trade is an element of socialism; its success will depend, to a large degree, on demographics. The more young people there are relative to old, the more likely it is that fair trade will prosper. And, the very opposite pertains to the chances for laissez faire capitalism in general, and for free trade, the market's counterpart between nations.

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