

The Economics of Fair Trade: A Christian Perspective

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The Economics of Fair Trade: A Christian Perspective¹

Philip Booth

In a sense, in this talk, I am interrogating Adam Smith's statement that, "I have never known much good done by those who affected to trade for the public good". I would like to look at some aspects of the economics of fair trade, but in doing so tie those in to some Catholic thinking on problems such as the "just price". To anticipate my conclusion, you will discover that I believe that the evidence suggests that fair trade may do some good to some communities – though it is likely to do rather less good than its proponents suggest. There is no evidence, in my view to justify the position that Christians have a moral obligation to buy fair trade products.

When analysing the evidence on fair trade, we should not forget that there is a big institutional and self-interested movement behind it. The Fairtrade Foundation has an interest in growing big. It is a strange mix of a charity and commercial organisation: all the while arguing that its work is not, in any sense, charitable yet claiming charitable status. It has a huge marketing budget – though it calls its marketing work "education". Any such organisation will oversell its virtues.

That may seem like, but should not be regarded as, harsh criticism of the Fairtrade Foundation. All organisations – whether they are public companies, building societies, mutual insurance companies, think tanks and so on tend, as part of their marketing processes, to oversell their virtues: not just their qualities in the business that they are in but their wider virtues relating to how they contribute to the health of society. The Fairtrade Foundation is no exception and we should bear that in mind.

The Foundation's advocates – not the Foundation itself - tend to oversell the Foundation's successes in a big way in parishes and schools and so on and they distort the realities of other forms of business practices.

For example, in my own diocese – the Catholic diocese of Arundel and Brighton - I have been told that not to buy fairtrade products is a sin worse than theft; that not buying fairtrade products is making a deliberate choice to take from the poor; and that one should never buy products that appear to have the virtues of fairtrade but that do not have the official Fairtrade mark: this is actually stated on the diocesan website. I have also heard an Anglican clergy fairtrade coordinator describe parishes as being "obstructive" if they did not seek fairtrade status. These are strong statements and they are a few amongst many. I think it is fair to say that, outside the Catholic Church (which

¹ This paper is a transcript of a talk given to a St. Paul's Institute and Cumberland Lodge conference on Fairtrade.

obviously takes life issues very seriously) fairtrade is taken more seriously within Christian churches than are objective Christian moral issues.

If fairtrade is to be given such a status then at least one of two conditions must hold. Firstly, its proponents must demonstrate that fairtrade is the only way we can be sure that a “just” price is paid for products. Alternatively, proponents must demonstrate that Fairtrade products, with the official mark, do more substantial and demonstrable good for the communities from which the products come than any alternative methods of production and distribution. If we were to accept the second contention, I might add, we would, in effect, be accepting that the Fairtrade Foundation have a perpetual monopoly in labelling: something that would be very unhealthy for the organisation itself. The Institute of Economic Affairs dislikes monopolies so much that we have actually financed the setting up of our own competitors.

Let me begin by dealing with the first issue first as I am quite sure that many of fair trade’s exponents support it so strongly because they believe that it helps to ensure that producers get what Christians call a just price. The most commonly rehearsed argument is that fair trade ensures that producers get justly rewarded for the effort they put into, and the costs they incur in, producing the product. It is therefore, in turn, argued that the fair trade premium (and other aspects of the additional price) is not charity. Indeed, Harriet Lamb has stated that nothing annoys her more than having fairtrade described as charity.

Charity is, of course, the greatest God-given human virtue so I do not understand why Harriet Lamb should object to fair-trade being described in such terms – even if mistakenly so. But let’s not dwell on that. Can the strong claims for fair trade be justified with reference to the idea of a “just” price? I do not think they can. There is no sustained, generally accepted, conception of the just price that relates it to the amount of work put into the production of a product. This is purely a modern Marxist notion and the idea is absurd. If I spend a long time producing a product that has no market value I cannot expect, out of justice, to be recompensed for my time.

The just price – at least since St. Thomas – has generally been thought of in Catholic theology as the value of something in use: in other words, its market value. Late scholastic thinkers confirmed this, and it has never been seriously disputed in any sustained and rigorous way. Now, referring back to St. Augustine, St. Thomas made the point that if a purchaser deliberately exploited a person’s ignorance and his lack of access to other potential purchasers in order to buy from the seller at below the market price, then such a price may not be “just”. And I think that this is where the fair trade argument is at its strongest. Fair trade might help some communities to obtain a just price by increasing information flows, providing greater competition and by behaving in a more scrupulous way when purchasing primary products. This is important and it is a virtue of fair-trade. But many other companies and organisations and means of organising trade will do this too. And, I might add, the development of mobile phone usage in Africa is far more important in this regard – that is in communicating information about prices on a more

widespread basis: perhaps we should look forward to the first “Vodafone school” or “Vodafone parish”.

Any premium above the normal market price, however, after adjusting for any deliberate suppression by purchasers with market power has the characteristic of a charitable donation. I am afraid that the fair trade foundation neither does the great virtue of charity, nor its own credibility, any good by trying to deny this.

Now, this limited way in which I am contending that fair trade may help specific growers get a just price might be a justification for somebody who wants to buy fair trade products. However, it is simply unreasonable to argue that anybody who chooses not to purchase fairtrade products is necessarily ensuring that an unjust price is paid. I’ll come on to this later, but there are many organisations – some incorporated profit-making bodies, others not, some multinationals, some niche local firms – to whom the fair trade model is not helpful or appropriate but that are perfectly effective in ensuring that a just price, in the theological sense of the word, gets paid. Fair trade ranks alongside vegetarianism and organic farming in being, from the moral point of view, something that should clearly be left for personal prudential judgement. Two Christians can quite easily look at the subject and come to different conclusions.

Indeed, it is worth mentioning that there is a reason why moral laws are nearly always written in the negative. It is because of our different, partly God-given, circumstances and personalities that lead us to be called to do good in different ways. People who try to impose particular ways of doing good on their flock risk making their churches exclusive and inhospitable to some who wish to be members and who may see these issues of trade and development differently, based on the evidence as they understand it.

So, there we have it. The general justification for fair trade as providing a just price is flawed. There may be a specific justification for fair trade in terms of just price ideas. And, there is also a charitable element to fair trade. But it is not for a church to prescribe the particular ways in which its flock should exercise charity.

There is then a question, though, of whether fair trade does more economic harm than good. It probably does not, but I think that the good it does is quite limited. Remember, when thinking about the good, you must always consider the costs to the producer who has lost your custom when you switch brands. Taking coffee as the example, If I switch out of my brand of Ethiopian coffee – which is one of the types I buy – to fair trade coffee, does the Fairtrade farmer from (say) Mexico gain more than the Ethiopian farmer loses? Is the farmer from Mexico in greater need than the farmer from Ethiopia? Perhaps; perhaps not: we do not know and cannot know. Furthermore, the fair trade model is not necessarily appropriate for all farmers, throughout the world for a number of reasons.

Firstly, in the coffee market, the entry charges for a fair trade producer are enormous – at their smallest, about four times Kenyan annual average national income, for example.

Secondly, there are many other charges in the process – including charges to wholesalers. Only a small proportion of the total fair trade mark up finds its way back to the producer.

Thirdly, there are very serious restrictions on the operation of the businesses selling fair trade products. Child labour is either prohibited or made extremely difficult (something that looks nice from our cosy Western perspective, but is less attractive if your family is struggling to have enough income to be able to afford food); GM strains are generally prohibited – something that actually cuts off the best hope for the salvation of the world banana crop from a virulent fungal strain; also the cooperative form of business organisation is strongly encouraged (especially in the coffee business) – this is a form that suits many producers in under-developed countries but is well known to be inefficient, prone to capture and prone to corruption. It also discriminates against poor, small independent farms.

Now, I do not object to Fairtrade imposing these conditions. It is a legitimate part of the business strategy. However, these restrictions and expense burdens are not appropriate for all farmers in all situations by any means. And for people to cut out of their shopping basket products produced by families and firms that organise themselves in different ways, on apparent moral grounds, is quite misguided.

It is also worth noting that there are many other ways that producers can achieve the sort of objectives that Fairtrade seeks to achieve. Selling their product in forward markets can provide the price guarantee. Also, many large purchasers, including multinationals, have excellent relationships and have price stabilisation agreements with their suppliers – it is in their interests to do so. Many coffee producers – especially in the very poorest countries in Africa really are simply beyond the fair trade model as they are producing quality speciality coffees. There is a superb example of this in a former war-torn district of Rwanda where Tutsis and Hutus are working together – in a situation of cooperation but some tension, I might add. Union Coffee deals with some of Africa's poorest farmers for whom Fairtrade certification would be a crippling burden yet it is one of the most scrupulous buyers of coffee there is. I am afraid that Fairtrade's proponents, unreasonably, claim a monopoly of virtue. But, aside from the issue of virtue, there are many business models used by the world's poorest and for whom the Fairtrade model can be irrelevant.

It is also worth noting that the Fairtrade (so-called) price guarantee has not been tested in difficult times. The price guarantee is not a quantity guarantee so, if there is a market shock, though the price that traders receive is guaranteed, there is no guarantee that everything that is produced will be sold at that price. Whether the premium itself induces over supply is also an important point that I will not pursue here.

Finally, I would just say that fairtrade is not a model for long-term development. Long-term development will come when poor countries are fully open to trade – a process that will be facilitated by trade liberalisation in both the EU and in Africa and Central and South America, and that the Fairtrade Foundation actively campaigns against I might add. When trade liberalisation happens poor countries will develop more fully integrated supply chains of processed food which is a process to which fairtrade is effectively irrelevant.

All these things said, I have nothing against fairtrade. I am not “anti-fair trade”. Whatever Harriet Lamb maintains, the model has an element of charity attached to it. But, arguably, it is not a very efficient way of exercising charity. Arguably too, it is not a very efficient way of promoting development. But it is a way of promoting development. It has its place. I can understand why you might think that fairtrade products should have pride of place in your shopping baskets. But you should be careful not to put yourselves on some sort of moral pedestal. The claims that the model is an exclusively effective model for helping poor producers are overblown. The evidence is mixed. The moral opprobrium that some like to heap on those who do not fall into line is most unfortunate.

I have very serious reservations about the strategy of catching young minds. My former secretary once said to me that her Brownie group was having a competition to see how many cups of Fairtrade coffee they could serve to family and friends. My own (then six-year-old) son was told in Beavers about the benefits of Fairtrade coffee compared with coffee produced by nasty multinationals. My 12 year old was told to design an advert for Fairtrade for his geography homework. Young people are being used to promote a trademarked brand. These issues are complex. If the people the Fairtrade Foundation drag into the net in schools and Guide and Scout groups do not have the maturity to understand the issues fully then, frankly, they are being brainwashed. This is particularly so as many connected with the Foundation like to move seamlessly from promoting the trademarked Fairtrade brand to promoting trade regulation in developing countries – a policy that is destined to entrench absolute poverty in the world’s poorest places.

It is perfectly understandable that moral people should want to understand the supply chain of their products better. All credit to you who have been involved in the movement to ensure that people do so. This is a subjectively virtuous choice – but it is one amongst many other possible subjectively virtuous choices. Both the philosophy and the economics of fair trade, in my view, point emphatically to that conclusion.

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