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The Meaning of Fair Trade

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When American politicians discuss international trade on the campaign trail they are likely to use the following popular refrain, 'I am in favor of free trade as long as it is also fair trade'. Politicians and corporations are quick to discuss the unfair trading practices of other countries that put American workers at a disadvantage. US corporations usually join in, perhaps because they are the inspiration behind this refrain. Businesses often complain that the practices of foreign companies and foreign governments steal jobs away from American workers and put US businesses at a disadvantage. Allegations usually involve unfairly low wages, lenient environmental and safety standards, child labor, and government policies such as subsidies, all of which give foreign firms an advantage in international markets.

The political effectiveness of unfair trade allegations as a rhetorical device is bolstered by several factors. First, virtually everyone supports fairness; no one can reasonably argue that *unfair* policies are acceptable and so there is never opposition to fairness in principle. Second, fairness is a multifaceted concept that can take on different meanings. This implies that a group of people, all in support of fairness, may actually be supporting different notions of fairness simultaneously. Third, most people instinctively and strongly respond to situations they interpret as unfair. For these reasons if you can convince someone that something is unfair, then you may also convince them to support actions or policies that will protect against or eliminate the unfairness.

In the recent past, living standards and poverty levels have improved significantly around the world. However, many people in the Southern countries, in particular those producing primary commodities, receive very low wages, keeping them in a state of poverty. The multilateral trading system embodied in the World Trade Organization (WTO) promotes liberalization of international trade and investment as one solution. However, the fair trade movement considers current income inequalities to be not only unfair, but also often caused by the current structure of the international trading system.

The rhetorical argument of unfairness is also a key feature in the fair trade movement. The fair trade movement's structure has three main components: '(i) the organization of alternative trading networks; (ii) the marketing of Fair Trade labeled products through licensed conventional traders and retailers; and (iii) the campaign-based promotion of Fair Trade to change both purchasing practices and the rules of conventional trade' (Wilkinson 2007). According to Laura Raynolds, 'Fair Trade represents a critique of historically rooted international trade inequalities and efforts to create more egalitarian commodity networks linking marginalized producers in the global South with progressive consumers in the global North' (Raynolds 2009). The model gives farmers better prices, long-term trade links, and resources for improving social and environmental outcomes. The model also gives consumers more options to buy products produced at high social standards, and campaigns to produce ethically responsible consumers.

For the fair trade labeling system to work, consumers must be persuaded that the trade of coffee, tea, bananas and other commodities under *normal* market circumstances is unfair in some way. Fairtrade International (formerly Fairtrade Labelling Organizations International, or FLO), affixes a label to all commodities that satisfy a set of criteria assuring higher prices and more sustainable production processes among the primary producers. Therefore, if consumers purchase a product with an official fair trade label, they are assured that the outcome and process resulting from their purchase is more fair than conventionally traded products, at least in the eyes of the FLO.

However, fairness can mean different things in different circumstances. Suranovic (2000) suggested that there are seven distinct ways public policy advocates use fairness in discussing trade policy proposals. Each conception of fairness revolves around the concept of equality. However, equality can be applied in several ways; first with respect to actions and processes, and second with respect to final outcomes. These conceptions are considered in turn: first in general terms, second, in reference to specific trade situations and finally with respect to labeled fair trade product markets.

Fairness as equality of actions, or processes

One application of fairness involves an expectation that people will be treated equally; that individuals will not be discriminated against on the basis of inconsequential characteristics such as gender, race, or religion. For example, if a merchant selling apples charges a white person $1 per apple but charges a black person $1.50 per apple, then blacks will surely be outraged and believe they are being unfairly treated in the market. The same sense of injustice would arise if people of different religions, or ethnicities, or genders were charged a different price for the same product, or even more seriously, if a certain class of person was excluded entirely from participating in a market.

Nonetheless, differential pricing is not always considered unfair. In economics, this practice is referred to as price discrimination, and it can be worthwhile for merchants when they can use it to capture a greater share of the surplus value generated by exchange. For example, wealthier consumers typically are willing to pay more for a good than less wealthy consumers. In this case, a firm would profit more if it could charge the wealthy consumers, who are also less price-sensitive, more than the less wealthy consumers, who are more price-sensitive. This is why retired persons and children receive a discount at movie theaters and also why airline ticket prices will differ for two identical economy class seats if one has a Saturday stay over and the other does not.

In an extreme form of discrimination, even complete exclusion from market participation sometimes occurs and is tolerated. An example of this is the US embargo on trade with Cuba, which prevents all transactions with people of a specific nationality. Clearly, one problem with fairness is that it is not always applied consistently across situations. Whether these actions are considered unfair is subject to interpretation, but certainly a judgment about the fairness of price discrimination depends on the circumstances.

In an application to international trade, equal treatment is incorporated in the form of two non-discrimination principles in the WTO: most favored nation and national treatment. With the most-favored nation principle, WTO members agree to offer the most favorable tariff and trade treatment to all other WTO members equally; thus the United States does not charge a higher tariff against China than it does against other WTO members. The national treatment principle requires WTO countries to treat imported products the same way as domestically produced products once the foreign goods have cleared customs. In this way, WTO rules are applied equally and can be interpreted as assuring a fairer outcome in international trade.

Another common use of fairness involves an expectation of reciprocity between individuals. If Tom gives something worth $10 to Sally, then Sally may feel compelled to reciprocate by giving something worth about $10 to Tom. Indeed, all voluntary trades between two individuals involve a reciprocal exchange of two items of approximately the same value (e.g., $2 for one loaf of bread). Since the effect on both sides is positive and approximately equal, we can call this notion of fairness, positive reciprocity.

In an international trade context, a similar quid pro quo occurs in the negotiation of trade liberalization agreements. During negotiations countries offer trade liberalization concessions to partners in exchange for comparable concessions from the other members. For example one country may offer to lower its tariffs by 20 per cent in a WTO negotiating round if the other countries also lower their tariffs by 20 per cent. Or one country may lower its tariff rates to some degree in exchange for allowances that international intellectual property rights will be enforced. Again in this case, fairness depends on the perception of an equal reciprocal exchange.

Perhaps, one of the most frequently applied fairness principles involves an expectation that individuals, or countries, will follow a commonly accepted set of rules. When agents in an economy are perceived to play by different rules, or if the rules seem to be suspended for some, and unequally applied, then others are quick to claim unfairness. Domestically, the rules are the national and state laws a country has incorporated. Internationally, the rules can be treaties or trade agreements. The WTO agreement consists of a set of trade liberalization 'promises' that countries have made to each other and which countries therefore expect to be maintained. When one country does not abide by those promises other countries typically charge them with unfair trade practices.

Violation of the rules can also inspire another commonly accepted fair response. If someone violates national or state laws and is caught, then the offender will generally be forced to suffer negative consequences, which may include anything from a monetary penalty, to incarceration, or even death in some cases. Justice and fairness prevails if the size of the punishment is approximately equal to the harm caused by violating the rule. Since a negative effect is reciprocated with an equal negative response we can call this negative reciprocity; it is a form of justice. Unfairness, or injustice, arises, however, if the consequence is out of proportion with the harm caused. Thus it may be judged unfair if a murderer gets away with no jail sentence, but it is also unfair if a petty drug dealer gets a lifetime jail sentence. In each case, the penalty is substantially unequal to the damages caused by violating the rules, which thereby generates the perception of unfairness. In an international trade setting, if, after a WTO Dispute Settlement investigation, a country is deemed to have violated its WTO agreement, and if that offending country refuses to correct the problem, then the negatively affected countries are allowed to impose policy changes that will harm the first country by an approximately equal amount, hence, this is an application of negative reciprocity fairness.

At this point it is now possible to illustrate how fairness principles can conflict with each other. Consider again the trade embargo the United States imposes on Cuba. To some observers, the restriction on trade with people of Cuban nationality may seem like unfair discrimination. The people of Cuba, through no fault of their own, must suffer negative consequences by not being allowed to purchase US products. Similarly, US consumers are restricted by law from purchasing Cuban products, such as their world famous Cuban cigars. In contrast, supporters of the policy consider the embargo to be a fair reciprocal response to the harm the Cuban government causes by violating the human rights of its own people. In the first case, the embargo is unfair because of unequal discriminatory treatment. In the second case, the embargo is fair due to an application of negative reciprocity.

The embargo situation is a specific example of a more general phenomenon. Because different conceptions of fairness can be applied to the same situation and because these conceptions often conflict, it is possible to argue that an action is fair with respect to one principle, while unfair with respect to another. Thus, China may argue the United States is unfair because it discriminates by taking many more trade remedy actions against it than against other countries. The United States would argue that these actions are fair because they are following procedures that are allowed under the WTO agreement and thus are adhering to the accepted rules.

Fairness as equality of outcomes

An alternative use of fairness applies a belief in the equality of outcomes. If a person believes that people are all inherently equal in some sense, then it is sometimes difficult to understand why the living standards of people can be so different in the world today. Why do some people earn millions of dollars per year and enjoy the luxuries of expensive homes, autos, and vacations, while many others in the world are stuck earning just a dollar a day, or less, and must endure the hardships of poverty and deprivation? Concern about this disparity contributes to the demands for fairness and justice in the form of a more equal distribution of income and wealth.

Many view these disparities in income and wealth around the world as a sign of unfairness and economic injustice. Consequently, there is often support for actions that would effectively reduce that inequality. However, we should ask whether it is valid to describe inequality of outcomes as automatically unfair or unjust and what method of redistribution, if any, is appropriate. For example, is it automatically unfair if CEOs earn extremely high salaries while factory workers in the same company earn only dollars a day? Is it automatically fair to redistribute income from rich to poor via progressive income taxes or by other methods? To illustrate the issue simply, consider the following series of stylized scenarios examining two individuals, Bert and Ernie, who in a series of hypothetical events will experience unequal outcomes.

1) Unequal but not unfair

In the first scenario, suppose Bert spends all day working to make a table. He collects wood from the local forest; cuts, sands, shapes, and nails the lumber together; finally he sands and stains it. He then takes the table to the local market and sells it for $150. With the money he purchases a fabulous meal including steak, lobster, expensive wine and chocolate cake for dessert. Ernie spends the same day lounging around watching television. He has no motivation to make a table and is too tired to go to the market. At the end of the day he finds his cupboards are bare and has nothing but a few leftover stale crackers to eat.

The final outcome in this scenario is clearly unequal. Bert has a fantastic meal to eat, and Ernie has only a few crackers. However, it seems unlikely, given the conditions, that most people would judge this unequal outcome unfair. After all, Bert worked hard all day to produce something valuable enough to sell for $150. His effort seems to warrant the fabulous meal he enjoys at the end of the day. Ernie, on the other hand, did nothing all day. Most would be hard pressed to explain why Ernie 'deserves' to get much more than the stale crackers. Indeed, for both Bert and Ernie, each received approximately what he gave, and so the outcome would appear fair on the basis of reciprocity. Thus, reciprocity fairness can justify the unequal outcome, which we might call 'Unequal, but not Unfair'.

2) Unequal and unfair

In the second scenario we will consider some role reversal. Suppose Ernie works hard all day to construct the table, which he then sells at the market and purchases a fabulous meal. Bert behaves as Ernie did before, lounging around all day leaving him with nothing but stale crackers to eat in the evening. However, in a twist of the story, suppose Bert lives next door to Ernie and while passing by in the evening spots the fabulous meal waiting to be eaten through Ernie's window. While Ernie is occupied on a telephone call, Bert sneaks in and steals the fabulous meal.

In terms of final consumption, the final outcome in this scenario is exactly the same as in the first scenario. Bert has a fantastic meal to eat and Ernie is stuck with a few stale crackers. However, no one is likely to judge this unequal outcome as fair. In terms of reciprocity, this outcome is grossly unfair, since Ernie worked hard all day to produce something valuable enough to sell for $150 but is rewarded in the end only with a few stale crackers. Bert, on the other hand, did nothing all day, and yet by virtue of his thievery was rewarded with a fabulous meal. Additionally, the blatant act of theft, a violation of property rights, easily characterizes this case as unfair. Thus, unfairness due to the lack of reciprocity and an unequal outcome enables us to call this 'Unequal and Unfair'.

3) Unequal and unfortunate, but not unfair: Version 1

In the third scenario, we complicate the situation slightly. First, Bert behaves as in the first scenario, working hard to construct a table, which he then sells at the market and purchases a fabulous meal. Ernie acts as in scenario 1 as well, lounging around, except in this version, Ernie suffers from a debilitating illness that makes it impossible to wield the tools needed to produce a marketable table. Although Ernie has the motivation and desire to work as hard as Bert does, he is physically unable to do so. If the story plays out as before, because Ernie produces nothing to sell at the market, he must suffer the fate of scenario 1 and consume nothing but stale crackers at the end of the day.

As in the previous scenarios, the outcome is identically unequal. But is this outcome unfair as well as unequal? Different observers might reach opposite conclusions. As in the first scenario, both Bert and Ernie receive benefits in proportion to their contribution, so in terms of reciprocity the outcome seems fair. However, the fact that Ernie did not produce anything is not his fault, and that seems unfair. On the other hand, the fact that Ernie has nothing is not Bert's fault either, as it clearly was in Scenario 2. One solution may be to deem this outcome 'Unequal and Unfortunate, but not Unfair'.

Is there a solution to fix unfortunate outcomes? There would seem to be two possibilities in this simple scenario. First, Bert may learn of Ernie's unfortunate circumstance and decide to offer Ernie a part of his meal; perhaps the lobster and a half bottle of wine. In this case, an altruistic and compassionate gesture alleviates the unfortunate suffering. Alternatively, an external entity, like the government, could alleviate the inequality and despair by taxing some of Bert's income and transferring it to Ernie, thereby assuring that both have enough to eat. Both solutions yield the same outcome; however, there is one important distinction. When the government taxes Bert, Bert cannot object. Refusal to pay the taxes may be met with fines, or even arrest (violation of the rules under negative reciprocity fairness). If Bert objects to the transfer and is taxed anyway, he may feel similar to the way Ernie felt in scenario 2 when his hard earned meal was stolen away. In both cases, and under this interpretation, individuals have some of their own production involuntarily transferred away; in the first case via theft, and in the second case via government taxes.

Now of course, one need not assume, as suggested above, that Bert is necessarily opposed to the government tax and transfer program. Indeed, Bert may feel that the government program is the ideal way to ensure that individuals like Ernie are treated with compassion. Bert may even vote legislators into office that will impose compassionate tax and transfer laws. The key difference now is that the government is merely substituting for what Bert would have done voluntarily. The government becomes a mechanism for compassionate redistribution that is voluntarily accepted by its citizens.

Thus, while transfers are clearly one way to alleviate the unfortunate suffering of someone like Ernie, who cannot produce for himself, whether those transfers are made willingly or unwillingly would seem to be critical in making a judgment about the fairness of the process. Whether via independent giving or via government transfers, if Bert gives what he has produced to Ernie voluntarily, both Bert and Ernie are likely to be satisfied with the process. However, if Bert is taxed involuntarily, Ernie may be grateful, but Bert is likely to feel as if he were robbed.

4) Unequal and unfortunate, but not unfair: Version 2

In this scenario let us assume that Bert behaves again as in scenarios 1 and 3, working hard all day to construct a table which he then sells at the market earning $150, with which he purchases a fabulous meal. Ernie also works hard all day producing a different product that he also takes to the market to sell at the end of the day. Suppose Ernie works every bit as hard as Bert does to produce his good, however, the best price he can get for his product at the market is just $20. With $20 he can afford a basic meal, better than stale crackers, but he can't afford to eat steak, lobster and wine.

Again the outcome is unequal but not quite as unequal as in the previous scenarios. Each person did receive something in proportion to the value he created for the market, so the outcome would seem to be fair based on reciprocity. However, if one believes reward, or desert, should be based on effort - a kind of labor theory of value - then the outcome may not be viewed as reciprocally fair since each did not receive something proportional to his effort. Thus, interpretations of unfairness may vary because the measures that are being equalized may differ between two observers.

One might delve deeper and ask whether it is Ernie's fault that he produced a less desirable product. If not his fault, then one may be more inclined to view the outcome as unfair. However, if Ernie simply guessed poorly about what would be desirable in the market, then the outcome seems to be more 'Unfortunate, but not Unfair'.

5) Unfair with market access restrictions

In the final scenario assume there is a large market for tables and that Bert is just one of many individual producers and sellers of tables. As a result of the competition in the market, imagine that the price of tables is $100 and thus the meal to be purchased by the table producers is good, but not fabulous. Suppose that Ernie learns how to make tables of equal quality as well and decides to enter the market as an additional supplier. With his additional supply the price might fall further to $90. However, suppose Ernie learns that to sell tables in the market he needs to obtain a special license, and those licenses are in limited supply and difficult to obtain. Suppose the government license system was supported by Bert and the other table sellers as a way of maintaining jobs and keeping incomes high in the table industry.

Here the inequality involves the access to the market by different producers. The favored producers assure that licenses are allocated to themselves. By restricting equal access to the market, the favored producers secure a price premium. This situation would clearly be viewed as unfair to the potential market entrants, as well as to the buyers of tables who would be able to purchase tables at even lower prices if there were free competition. On the other hand, the original licensed table producers may argue that the system is necessary for quality control, that is, to assure that only high quality tables are available for consumers to purchase. Thus, they may claim that the anti-competitive restrictions are necessary and perfectly fair.

These scenarios help us develop a framework for analyzing fairness and equality in several different situations. The next section extends these perspectives to the principles of the fair trade movement in order to better understand what fair trade means, as well as to consider its motives.

Fairness of fair trade product markets

The fair trade movement includes alternative trade networks, marketing of fair trade labeled products, and campaign-based promotions to change current trading behaviors by consumers and conventional trade rules. Fair trade certification began around 1990 with the creation of several alternative trade organizations that directly purchased products from farmers in the global South and marketed them with labels including Max Havelaar, TransFair, and the Fairtrade mark. Fairtrade International now encompasses all of these labels under the Fairtrade mark, and oversees the Fairtrade system. Principles of this certification include fair prices and direct trade for producers, among others (see Raynolds and Greenfield, this volume). However, another important aspect of the Fairtrade label is ensuring consumers that producers were treated more fairly and that they are making a responsible purchase that will help alleviate poverty. Nonetheless, the fairness principles applied in this situation are not obvious.

Perhaps the most likely motivations for fair trade products are the income inequalities that arise from the very low prices and wages paid to workers who produce the basic commodities. To determine fair prices, the Fairtrade International develops agreements with producer organizations, not individuals, and calculates the price minimum 'on the basis of production and broader reproduction costs', among other things (Wilkinson 2007, 222). By raising the price received by low wage farmers inequality is diminished somewhat and farmers will earn more and live better. Thus, fair trade products are fairer because they can assure a higher price is paid to the commodity producers, which will in turn reduce the inequality. However, to determine if low wages and inequality are unfair, as discussed in the scenarios above, it makes sense to evaluate how the inequality arises.

Perhaps the best candidate for unfairness in international commodity markets is the concentration of market power among intermediaries (Nicholls and

Opal 2005). The supply chain for fair trade products is often described like an hourglass, in which many producers on one end supply many consumers on the other end: but the product must pass through the hands of a small number of wholesale intermediaries. In the coffee industry for example, from the early 1990s, four transnational companies—Nestle, Philip Morris, Sara Lee and Procter & Gamble—accounted for more than 60 per cent of coffee sales in the major consuming markets. Among the coffee importing companies, five major ones, Neumann Gruppe, Volcafe, ED&F Man, ECOM Agroindustrial, and Goldman-Sachs controlled 40 per cent of the coffee market (Talbot 2004).

If intermediary import firms can limit free entry by competitors, then they can act with monopsony power, force a lower commodity price, and take advantage of poorer farmers. In 2000-2001, coffee growers received only 10.4 per cent of the total income generated by coffee, whereas the value added in the consumer countries was 79.4 per cent (Talbot 2004). With respect to the final consumers, the intermediary processors may use its monopoly power by restricting supply and forcing up the final price. In this way, the intermediaries become richer at the expense of both the farmers and the consumers. Greater competition in the intermediary market would force the final consumer price down and the farmer price up, thereby equalizing to a degree the gain or profit along the supply chain. In this way, competition among intermediaries would raise farm prices and benefit the farmers.

However, if high concentration of firms in the supply chain restricted competition, imposing a minimum price floor for fair trade products would raise the producer price closer to the price they would obtain in a competitive market, that is, a market in which intermediaries could not exercise their monopsony power. The fair trade labeling process could therefore create a non-governmental method of maintaining a minimum wage and would correct for an unfair market outcome (Hayes 2006).

Another bottleneck that prevailed along the supply chain in markets like coffee were government interventions and control by state agencies. These agencies regulated the domestic coffee market by requiring export licenses and setting price supports. Some countries had state marketing boards that had monopoly power on exports of coffee. Although these agencies often provided benefits to farmers in the form of agricultural research and helped to reduce price fluctuations, by virtue of their control of the market, they were also well placed to capture some of the rents arising from regulated markets (Talbot 2004). These rents are monies that can wind up in the hands of the government agencies rather then trickling down to the farmer. Thus, any bottleneck in the supply chain, and the consequent lack of competition, provides a source of rents to those in control of the flow through the bottleneck. Those rents arise by squeezing, some might say exploiting, both the small farmer on one end and the consumer on the other end of the chain. In other words, unfairness arises by restricting free access to the market, much like in the fifth scenario above. However, it is important to recognize that these bottlenecks can be caused both by the concentration of a small number of intermediary firms, or by the presence of government agencies that regulate the flow of the product from producer to consumer.

Another source of low prices in commodity markets like coffee could be poor information communicated to the small-scale farmers. Economists often assume that market participants have perfect information including, in this case, knowledge of world market prices. If the small farmer knows the prices received by all other commodity producers, then they are in a better position to bargain, or hold out, for a higher price.

For example, suppose a small-scale coffee producer is willing to accept $1 per pound for coffee while the wholesale firm can make a profit if it can purchase coffee for less than $1.50 per pound. In this case, any deal struck between $1 and $1.50 will generate a surplus that will be split between the two parties. What proportion of the surplus goes to which side will depend on their bargaining capacities, which in turn will depend on the availability of market information. Better information enables farmers to bargain for a greater share of the 50 cent surplus. Thus, the competitive market with perfect information can work more effectively and fairly because the intermediaries cannot fool the small farmers into accepting a low price and thereby claim for themselves a greater share of the surplus value.

If information is not readily available in the rural countryside, then intermediaries can deceive the farmers into accepting a very low price. In this case the unfairness arises out of a kind of theft by deceptive practices, much like in scenario 2 above. Fair trade systems that ensure higher prices may thereby generate outcomes that are closer to what would obtain in a system with full information and more balanced bargaining abilities. In addition, the support in fair trade systems for union formation and the establishment of cooperatives offers a mechanism that can assure a better flow of information to rural farmers.

Coordination problems can also account for low prices obtained by the small-scale farmers. Since products like coffee require planting many years prior to first harvest, the fixed costs in production are high. If many farmers plant coffee because they expect high prices in the future, then higher market supply could push prices much lower than is profitable for the farmers. This kind of situation is typical in most commodity markets and did arise in the coffee market several decades ago. In the late 1980s coffee prices were relatively high in part due to an international coffee agreement that artificially restricted trade flows between exporter and importer countries. This allowed surplus rents to be obtained mostly by the intermediary firms and the coffee regulators. After the coffee quotas were suspended in 1989, coffee prices immediately fell and experienced wide swings during the subsequent two decades. New producers, such as Vietnam, began to export a substantial amount of coffee and this contributed to much lower prices in many subsequent years. These conditions make it difficult to predict future prices and also make it extremely difficult for the small-scale farmers who are totally reliant on the coffee market for their livelihood.

In this case, producers misjudge how much others will produce of the commodity and thus make an improper decision about how profitable it will be. Again the problem is imperfect information. However, in this case it is more difficult to claim the outcome is unfair. The problem arises more out of the inability of numerous commodity producers to coordinate their activities, but not because one group is taking advantage of another. In this way the situation is more like the 'Unequal and Unfortunate, but not Unfair' version 2 (scenario 4) above in which Ernie guesses wrongly about the market and it results in a bad outcome. In a similar way, volatility in commodity prices has unfortunate consequences that might not be deemed unfair. Reductions of volatility can be achieved either by government intervention that ensures consistently high prices for producers, or with a more competitive private insurance market.

Conclusion

The analysis in this paper provides criteria that can be applied to assess whether trading situations are fair or unfair. After evaluating these fairness criteria as they apply in many international trading contexts, the paper focuses on the fairness of the fair trade product markets with labeling systems. However, it does not reach a definitive conclusion with respect to the fairness of the fair trade product markets. Instead, the low prices paid to farmers of primary commodities may be judged either unfair or unfortunate depending on the circumstances that prevail in the commodity market.

Most economists would contend that market outcomes are mostly fair if there is a high degree of competition across the supply chain and if the information needed to make decisions is available to all market participants (Fridell 2007). However, some market participants can take advantage of others if they can limit competition or if they have better information about the market. In this case economists say that the market is imperfect, or, the market fails.

However, simply because prices paid to poor farmers are lower than some observers would like, or even so low as to force incomes below a living wage, that is still not adequate information to ensure that there is monopsony power in the commodity markets, nor is it sufficient to claim that the poorer farmers are being taken advantage because of inadequate information.

Nonetheless, even if monopsony power is not strong and if information about world market prices is good in the rural farming communities, suppose that some people are simply concerned about the unfortunate circumstances that relegate such a small share of the coffee revenue in the North to the poor small-scale farmers in the South. In this case, the fair trade labeling system enables compassionate consumers in the North to contribute extra money to help out the poorer farmers in the South. The outcome is much like the situations in scenarios 3 and 4 above, in which unfortunate circumstances generates inequality and inspires a compassionate transfer between people (Reinstein and Song 2012). This means that the fair trade system might truly be protecting poor farmers from unfair exploitation by monopsony commodity buyers, or it may be enabling a compassionate transfer from wealthier commodity users in the North to poorer commodity producers in the South.

In either case, there is one aspect to the fair trade system that should make it less objectionable: the fact that it is a voluntary system. Both primary producers and commodity consumers choose for themselves whether to participate in the fair trade product markets. Even if unfair trade is not actually occurring, the system still acts as a mechanism of income transfer from wealthier to poorer individuals. Economists may contend that this is not the most efficient way to exact transfers from rich to poor, however, this transfer is not made possible because of a coercive tax; instead the extra premium is paid with the full understanding of its intended purpose, to help support higher wages for poorer farmers in the South. Whether a consumer shares the definitions of fairness provided here or not, that consumer has the intention of contributing to higher incomes for poorer farmers.

There is one circumstance, however, when this voluntary system would fail; that is if the higher premiums do not reach the final destination and noticeably improve the outcomes for the southern poor. In this case, the outcome would be a tragic irony because the unfairness would arise from a deceptive fair trade labeling system that promotes itself as providing fair outcomes. Indeed, this is the argument of critics like Sidwell (2008).

For this reason, it is critical to demonstrate that the fair trade labeling system is having a notably positive impact on the livelihoods of poor rural farmers. The research on the issue is mixed, as is to be expected.[2] Bechetti, Castriota and Conzo and Nelson and Martin (this volume) offer the most recent reviews of the effects of the fair trade labeling system. The challenge for fair trade labeling, especially if its goal is to supplant the free trade system with a fairer alternative, will be to show that fair trade can deliver consistently lower poverty and reduced inequality more effectively than can the conventional free trade system.

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2 Gary (2004) and Bacon (2005) demonstrate mostly positive impacts of fair trade, Beuchelt and Zeller (2011) show mostly negative effects, while the results in Lyon (2011), Sick (2008) and Valkila and Nygren (2010) are more mixed.