Book Reviews

Fair Trade? Its Prospects as a Poverty Solution

Victor V. Claar. 2012. Grand Rapids, MI: Poverty Cure, Acton Institute. ISBN 1-880595-42-7. $5.95 (paper).

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Fair Trade has become one of the more visible development solutions embraced by the church and is often depicted as a way of undermining greedy corporations and standing alongside impoverished coffee growers. Victor Claar's monograph *Fair Trade? Its Prospects as a Poverty Solution* launches a thorough economic investigation into the claims of the Fair Trade (FT) coffee movement and elegantly illuminates its shortcomings. A Christian himself, Claar is clearly concerned for the plight of the poor and yet is unwilling to abandon economic common sense.

The book begins with a chapter explaining the popularity of the FT coffee movement, which has united Christians across denominations who believe that they are voting with their dollars for better treatment of farmers. After this introductory chapter, Claar presents the fundamentals of the coffee market in order to show how its specific structure motivates FT intervention and also contributes to its failings. He examines the coffee market's characteristic fluctuations in price and does an excellent job of explaining these using the fundamentals of price elasticity. Claar then describes how the overall downward trend in coffee prices can be attributed to the problem of oversupply. He eloquently outlines the known argument that coffee plants can be grown in too many places and require too little skill to cultivate. These low barriers to entry mean that at the mere hint that coffee cultivation is profitable, distressed farmers flood the market with additional product.

The previous chapter's discussion of how market forces in the coffee market generate low prices and high volatility transitions easily into Claar's historical depiction of the FT movement, which stepped in to guarantee improved price stability and higher prices. He does an admirable job of briefly summarizing the pertinent historical developments that led to a transition from government price supports to an attempt at establishing production quotas, and finally to the modern FT movement's establishment in the mid-1980s. The general scheme that predominates amongst Fairtrade International's members is that certifiers in importing nations charge a licensing fee to cooperatives of small growers. In exchange, a minimum price is guaranteed to the cooperative, a social premium (typically 10 cents per pound) is dedicated to community concerns, and a cash advance is granted at the beginning of the growing season.

In the fourth chapter, Claar makes his main point that FT cannot deliver on its promises. He takes issue with FT coffee's claim to bundle coffee with justice and presents an alternate view of FT as a clever marketing strategy based on price discrimination and the accumulation of social capital. Claar goes on to bring economic philosophy to bear and concludes that since all trade is transactions by willing participants, buying FT coffee is an act of charitable virtue, but not one of justice (as its name suggests). The most compelling of his arguments is the simple fact that there is already too much coffee being grown and FT makes matters worse by increasing farmers' incentives to plant more. In relation to the length of the preceding theoretical and philosophical arguments, the empirical evidence that Claar presents is sparse and based on anecdotes such as high overhead costs and frequent failures to compensate farmers' proportional to markups.

Finally, Claar addresses the implications of this volume for a thoughtful Christian audience. He is justified in stating that FT falls short of its promises. His argument is that markets are a divine instrument whose workings are hindered by FT's distortion of price signals and attendant disincentives to improve product quality, adopt cost-saving technologies, and diversify into more innovative industries. This reviewer is wary of Claar's implication that responsibility for the welfare of the poor can be abdicated to unimpeded markets, but agrees with his fundamental claim that FT distorts incentives and that alternative solutions such as investment in human and physical capital, microfinance, secure property rights, and child sponsorship are more proven ways to act out our call to aid the poor. His conclusion that buying FT coffee may assuage Christian guilt and substitute for more effective forms of aid while doing little to break the cycle of poverty certainly rings true.

The greatest virtue of this monograph, besides its flawlessly coherent exposition of economic concepts, is Claar's thoughtful deconstruction of a popular market-based solution to the problem of extreme poverty. He employs sound economic principles to expose the ways in which FT ignores and manipulates price signals to the detriment of coffee growers. Simultaneously, Claar is careful to remain respectful of the FT movement's intentions and his motivation is clearly to bring his identity as a Christian economist to bear as he examines our call to bring about lasting change in the lives of the poor. In this respect, ACE members should take particular interest in *Fair Trade?* because it provokes us to examine our motives when we support FT enterprises and encourages us to use our skill in economic analysis to engage in more beneficial and interpersonal interaction with those whom Jesus called us to serve.

Although Claar's arguments are not entirely original and FT is an example of a poverty relief strategy that academics have had doubts about for some time, his contribution is to present an engaging and accessible theoretical narrative to a lay audience to whom economists have been remiss in communicating our concerns. His clear explanation of the dangers inherent in continuing to encourage an oversupply of coffee is capable of doing great good in the hands of concerned Christian donors. The dissemination of the arguments of this book may eventually ensure that more money is given to the strategies that have been concretely proven to help lift people out of poverty. Additionally, this volume would make a valuable contribution to a principles-level microeconomics course at a Christian institution. It would engage undergraduate students in critical examination of a visible and controversial poverty solution while strengthening their understanding of demand and supply curves, price elasticity, and scarcity.

Despite the text's virtues, I have several concerns about its methods and implications. I take issue with the disconnect between the title's broad scope and the book's exclusive focus on coffee markets. This is misleading, and furthermore, it is disappointing that Claar never mentions how representative the coffee case is of FT as a whole, especially since much of his analysis relies on the particular characteristics of this market. Surely much of the theory would transfer to other primary commodity markets, but they are never mentioned, nor are the existence of FT cooperatives that deal in uncommon/handicraft goods. This omission is even more troubling when recent empirical evidence in favor of FT is considered. The results of recent economic studies among Chilean honey producers (Becchetti *et al.* 2013) and Thai rice farmers (Becchetti *et al.*, 2009) show that FT affiliation boosts child schooling and incomes, respectively. Since Claar neglects to discuss FT applications to products other than coffee, the reader is unable to discern how he would respond to such findings.

On a related note, there is very little empirical evidence cited while evaluating FT and much more time is devoted to philosophical discussions of justice and praise for market mechanisms (with little recognition for the existence of market failures or frictions). Since the concept of biblical justice is complex and Claar does not have space (with 65 total pages) to give it the treatment it merits, an audience less concerned with definitions and more curious about the impact of their donations may have been better served by the presentation of hard evidence from the development economics literature. Certainly, Claar is correct that there is a dearth of rigorous empirical analyses of this common development phenomenon, which should serve as an impetus for future research. However, there are exceptions, including a recent paper that confirms Claar's theoretical claim that price manipulation coupled with free entry will lead to over-certification and dissipation of rents (De Janvry *et al.*, 2010). There is still room for debate, with other authors finding that the gains from certification arise through educational gains for women (Gitter *et al.*, 2012) or differences in yield rather than price premiums (Barham *et al.*, 2011). Recent empirical evidence confirms that the gains from FT contracts are unlikely to come from price manipulation and may arise through reduced exposure to market risk or attendant investments in productivity—it is unfortunate that Claar did not use his knack for cogent explanation of economic reasoning to explain these findings to his lay audience.

My final quibble is that Claar tears down a popular institution without fully considering the implications of doing so. Although Claar's intention to encourage fellow Christians to thoughtfully donate where it will have the greatest impact is laudable, he misses one of the key strengths of the FT movement, which is placing the issue of poverty on supermarket shelves. FT inserts the plight of the poor into everyday consumption decisions and it is difficult to imagine another scheme that would be as effective at engaging the population in considering how their individual decisions affect others on a global scale. Rather than jettisoning the entire concept of FT, the movement might be better served by restructuring away from minimum price guarantees and instead using the premium that socially minded consumers are willing to pay to establish scholarship funds for the children of farmers, invest in quality-enhancing technologies, empower growers within the value chain, or other proven interventions such as investments in clean water, de-worming, or bed nets.

While Claar is correct that the current incarnation of FT is not economically sound, he fails to acknowledge that it is an effective method of generating transfers that could be used to much greater purpose with some redesign. The reality is that even if it is more efficient to buy non-Fair Trade coffee and pay the equivalent markup to a charitable cause, the majority of consumers will not take this extra step. Poverty alleviation efforts are better served by continuing to tie the transfer to an existing consumption decision. It would be unfortunate if the main effect of Claar's insightful inquiry was to cause Christians to become discouraged and disenchanted with yet another failed poverty reduction strategy instead of galvanizing the movement to wake up, smell the coffee, and make some necessary adjustments in order to truly have an impact on the lives of the poor. What the FT movement and Victor Claar have both achieved is to make us pause as we purchase our $4 lattes and critically consider what effect it may have on the farmer at the other end of the transaction.

References

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