







Home ▶ All Journals ▶ Review of Social Economy ▶ List of Issues ▶ Volume 64, Issue 4 On the efficiency of fair trade

Review of Social Economy > Volume 64, 2006 - Issue 4

1.842 45

Views CrossRef citations to date Altmetric

Original Articles

n the efficiency of fair trade

Mark Hayes

Pages 447-468 | Published online: 14 Dec 2006

66 Cite this article ▲ https://doi.org/10.1080/00346760601024419

> Sample our Social Sciences >> Sign in here to start your access to the latest two volumes for 14 days

Full Article

Figures & data

References

66 Citations

Metrics

➡ Reprints & Permissions

Read this article

Abstract

This paper uses competitive equilibrium theory to analyze the economic efficiency of international "fair trade" between ethical consumers and low-income producers. The

main an state of leisure,

theory o which ha

rents. state

The cor

labor, ar liberaliza

Q Keywor

We Care About Your Privacy

We and our 848 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. Privacy Policy

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

sion in a d, not I Accept obinson's Essential Onlyganization", monopsony Show Purpose e, and in a Illocation. ition for tened trade

Acknowledgements

This is a revised version of the Position Paper presented to the International Workshop on the Economics of fair trade, which took place at Northumbria University, England, on 28 January 2005. Profound thanks are due to Leonardo Becchetti, Mark Leclair, Robbert Maseland, Alex Nicholls, Malcolm Sawyer, Albert de Vaal, and Phil Wells for presenting workshop papers in response, and to other participants, especially Geoff Moore, for valuable comments and discussion. The usual disclaimer applies. The financial support to enable the Workshop to take place was provided by the Newcastle Fairtrade Partnership.

Notes

1 The theory of employer monopsony has since progressed from the static partial equilibrium model presented here to stochastic general equilibrium models of dynamic monopsony and oligopsony, where oligopsony means employers are atomistic but still set wages. Manning cautions that:

If a theoretical paper claims a strong conclusion about the direction of [allocative] inefficiency in the free market equilibrium, then this is almost certainly because they have not considered a rich enough model in the sense that there are not enough "marginal" decisions to be influenced by

The app reasonal appropri trade oligo heterogo involunt clearing

ears
e an
by fair
nder
cts
our) under
t from

X

2 It shot equilibrium coordinate (ii 2, w 2) does not correspond to the Pareto optimum, which

may be represented instead by the coordinate (n_3 , w_3), with a higher marginal revenue curve based on full employment (MRPL^F). A state of full employment elsewhere in the economy would make local monopsony an exceptional case, since outside employers would have a strong incentive to compete for labour even in isolated areas. See also the section on the fair trade premium.

3 This result does not appear to require the assumption of efficient rationing in the sense of Becchetti and Adriani (2002), that the local fair trade organisation must employ the workers with the lowest reservation wages.

4 This paper does not consider the case for a premium as a "second best" measure to offset the effect of differential trade protection in processed and unprocessed commodities; nor as compensation, by attempting to set a minimum price based in effect on "long-period equilibrium cost of production", for the absence of futures markets of a sufficiently long term to match the crop cycle. This cycle occurs when high prices attract investment in new capacity with a long gestation period (e.g. coffee bushes), and low marginal costs deter the scrapping of capacity when prices are low. The absence of the necessary futures markets leads to incorrect expectations and a dynamic misallocation of investment, with consequent disequilibrium swings in commodity prices that damage producers who would be efficient in long-period equilibrium, if it could ever be attained and they could survive the cycle. The following argument takes free trade as the benchmark and is limited to the short period, i.e. the equilibrium level of employment and output with a given level of production capacity. Economic theory cannot otherwise compare the efficiency of one position of long-period

disequili concept of X long-per sted capacity equisite gument futures economic does no period cost theory of pr I fair trade 5 The co organiza oes not represer

6 Where the premium is ring-fenced by the buyer and paid into a separate development fund there can be no adverse consequences for efficiency even in this case.

Related Research Data

EVALUATING THE CRITICISMS OF FAIR TRADE1

Source: Wiley

Efficient Consumer Altruism and Fair Trade Products

Source: Wiley

The Role of Social Capital in the Success of Fair Trade.

Source: Springer Science and Business Media LLC

On the effects of fair trade on the welfare of the poor

Source: Wiley

THE ECONOMICS OF FAIR TRADE

Source: Wiley

Linking provided by Schole plorer

Related research (1)



Information for Open access Authors Overview R&D professionals Open journals Editors **Open Select** Librarians **Dove Medical Press** Societies F1000Research Opportunities Help and information Reprints and e-prints Advertising solutions Newsroom Accelerated publication Corporate access solutions Books Keep up to date Register to receive personalised research and resources by email Sign me up Taylor & Francis Group Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions Accessib X

