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Original Articles

On the efficiency of fair trade

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labor, and should be encouraged as a complementary element of an enlightened trade liberalization policy.



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.



trade, although this paper cannot say whether these conclusions still hold under oligopsony. Second, in this model the slope of the labour supply curve reflects heterogeneous reservation wages (different rates of return to domestic labour) under involuntary unemployment, rather than frictions preventing a labour market from clearing (apart from those restricting households to their local market).

2 It should be noted that in a state of involuntary unemployment the competitive equilibrium coordinate (n₂, w₂) does not correspond to the Pareto optimum, which may be represented instead by the coordinate (n₃, w₃), 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

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theory) for or against fair trade based on countervailing protection or long-period cost of production.

5 The cost of social and environmental externalities internalized by the local fair trade organization may mean that the full employment competitive equilibrium does not represent the social optimum.

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.

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