THE BLOG

**10 Reasons Fair-Trade Coffee Doesn’t Work**

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I see you, smugly smiling over your morning cup of fair-trade coffee, gratified at the unimaginable impact your thoughtfully chosen beans must be bringing to poor coffee growers overseas.

Well, think again.

The academic evidence for any positive effect of fair-trade coffee on coffee growers is mixed at best. Several recent studies by researchers at [Harvard](http://scholar.harvard.edu/nunn/publications/impacts-fair-trade-certification-evidence-coffee-producers-costa-rica), [the University of Wisconsin](http://ac.els-cdn.com/S0305750X11002890/1-s2.0-S0305750X11002890-main.pdf?_tid=de146b7e-1816-11e4-933b-00000aab0f6c&acdnat=1406744902_374309551dc4c27ef32e53df83622739), and [the University of California](http://irps.ucsd.edu/assets/001/503924.pdf) indicate that fair-trade coffee has small to negligible effects on coffee growers, especially the poorest ones. The University of California researchers find that the lack of impact stems from the ill-conceived design of the fair-trade system. Indeed, a consensus among development economists indicates fair-trade coffee to be one of the least effective means for reducing poverty in developing countries.

Here’s how the fair-trade system, overseen by the [Fairtrade Labelling Organizations International](http://www.fairtrade.net/) (FLO) and its U.S. certification affiliate, [Fair Trade USA](http://fairtradeusa.org/), operates: Growers belonging to a selected group of overseas producer cooperatives are paid a minimum price of $1.40 per pound (in the case of Arabica beans) for all coffee that is able to be sold through fair-trade channels. This minimum price creates what economists call a “price floor” for fair-trade growers. If the market price rises higher than the price floor (as it has today, at nearly $2.00 per pound), then growers just receive the market price, along with a premium of $0.20 that is sent back for investment in the producer cooperative and the local community. In order to receive this price, growers must pay to become certified, join a democratically managed cooperative, agree to standards for pesticide and chemical fertilizer use, and pay “fair wages” to coffee laborers.

All of this is well-intentioned and sounds wonderful. The problem is that is doesn’t work well. [The University of California study](http://irps.ucsd.edu/assets/001/503924.pdf) shows how the fair-trade system fails to account for basic economic laws that undercut its benefits to growers, among other fundamental flaws.

Here are 10 reasons that fair-trade coffee doesn’t do the amount of good you would expect:

**1. The flawed design of the system undermines its own benefits.** [Recent research](http://irps.ucsd.edu/assets/001/503924.pdf) by development economists Alain de Janvry and Betty Sadoulet at U.C. Berkeley and Craig McIntosh at U.C. San Diego shows that when the world price of coffee falls (and the advantages of selling through fair-trade channels increase), more borrowers choose to obtain fair-trade certification. But this reduces the fraction of coffee that their cooperatives can sell at the fair-trade price. What they found after examining 13 years of data from cooperatives in Guatemala is that, on average, the economic benefits of participating in the fair-trade system are offset by the price the growers have to pay for fair-trade certification. In other words, they found that the long-term benefit over time from fair trade to be essentially zero.

**2. Fair trade attracts bad beans.** Every crop contains some beans that are of higher quality than others. If the market price for the low-quality beans is below $1.40 and the market price of high-quality beans is above $1.40, then the fair-trade system incentivizes growers to [dump their bad beans into fair-trade channels](http://www.ssireview.org/articles/entry/the_problem_with_fair_trade_coffee). As economists will lecture to you unceasingly, incentives matter. As the bad beans are drawn into the fair-trade market (what economics calls “adverse selection”), potential buyers eschew buying the coffee for fear of being stuck with the low-quality beans. This phenomenon has limited the market for fair-trade coffee.

**3. Fair trade imposes significant costs on impoverished growers.** [The University of California study](http://irps.ucsd.edu/assets/001/503924.pdf) estimates that fair-trade certification costs about $0.03 per pound. This doesn’t sound like much, but in some years it is greater than any price benefit brought by the higher fair-trade price. Moreover, while restrictions on growing practices might seem to meet worthy environmental and social objectives, University of Wisconsin economist Brad Barham and colleagues [find](http://ac.els-cdn.com/S0305750X11002890/1-s2.0-S0305750X11002890-main.pdf?_tid=de146b7e-1816-11e4-933b-00000aab0f6c&acdnat=1406744902_374309551dc4c27ef32e53df83622739) that costs to growers imposed by these restrictions on fertilizers and other inputs add to the production costs of impoverished growers, diminish yields, and mitigate the benefits of free trade. If coffee drinkers want to improve the environment, they should pay for it themselves, not impose added costs on impoverished coffee growers.

**4. Fair trade doesn’t help the poorest growers.** In [a recent study](http://scholar.harvard.edu/nunn/publications/impacts-fair-trade-certification-evidence-coffee-producers-costa-rica) in Costa Rica, economists Raluca Dragusanu and Nathan Nunn at Harvard University found the modest benefits generated from fair trade to be concentrated among the most skilled coffee growers. They find no positive impact on coffee laborers, no positive impact on children’s education, and negative impacts on the education of unskilled coffee workers’ children. In contrast, [the “impact reports” created by Fair Trade USA](http://fairtradeusa.org/resources/impact-reports), which are available on their home page, are a series of documents that merely describe the nature and scope of the fair-trade programs for various commodities. These reports fail to demonstrate any positive impact of the program by any credible scientific standard of impact evaluation.

**5. Relatively little fair-trade coffee originates from the poorest countries.** The poorest coffee-growing countries are in Africa: Ethiopia, Kenya, and Tanzania. Fair-trade exports from these countries represent [less than 10 percent](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/2012_Fairtrade_and_coffee_Briefing.pdf) of coffee marketed through fair trade, while the share of fair-trade coffee from middle-income countries such as Mexico, Brazil, and Colombia is many times higher. Effective poverty interventions should be targeted at most poor, not the medium-poor.

**6. Purported benefits of the fair-trade system lack transparency.** Although fair trade pays a $0.20 premium over the world coffee price to growers for “social and economic investments at the community and organizational level,” how this money is actually spent in the home country is vague at best. In [an article in the *Stanford Social Innovation Review*](http://www.ssireview.org/articles/entry/the_problem_with_fair_trade_coffee), California State University economist Colleen Haight finds that many of these funds are invested in coffee cooperatives’ buildings and salaries, not in schools, which may explain why researchers fail to uncover positive impacts from fair trade on local education.

**7. The fair-trade system is inefficient at transferring coffee consumers’ goodwill to producers.** In an experiment run by my graduate students in San Francisco (described in [*The Taste of Many Mountains*](http://www.acrosstwoworlds.net/)), we found that the median coffee drinker is — amazingly — willing to pay a premium of 50 cents for a cup of fair-trade coffee. However, we find that even in the best-case scenario for fair trade, when world prices are at their lowest, the maximum amount a fair-trade grower from that same cup of coffee would receive is only *one third of a cent*.

**8. Direct trade is probably more efficient and sustainable than fair trade.** Under [direct trade](http://www.ethicalcoffee.net/direct.html), a coffee buyer contracts directly with specific growers overseas to offer a higher coffee price, often in exchange for a higher-quality product and a long-term relationship. Although direct trade is certainly not a panacea, more real value is created in the system, making it an arguably more efficient means of transmitting resources from coffee drinkers to coffee growers.

**9. We should encourage less coffee production, not more.** Efforts to help coffee growers by paying them more for their coffee all stimulate more coffee production, which is precisely the wrong way to help coffee growers. It is *lower* worldwide coffee production that brings the most benefit to each grower, by raising coffee prices. Thus the best approaches to helping coffee growers involve helping people move *away* from coffee production. Interventions in coffee communities like microfinance, cash grants to start new enterprises, and internationally sponsoring the children of coffee growers to help these children obtain more and better education help coffee growers worldwide because they reduce the world supply of coffee. This benefits everyone, because as coffee growers and their children move to other occupations, all producers in the world benefit from higher coffee prices. Artificially stimulating more coffee production keeps coffee growers poor.

**10. Fair-trade coffee fails to address the root of poverty issues.** Core poverty issues in developing countries suggest thoughtful, strategic interventions in areas such as health, education, infrastructure, entrepreneurial activity, and governance. If these core issues can be [effectively addressed](http://www.un.org/millenniumgoals/), a new array of occupational choices will open to the poor, allowing them to lift themselves out of rural poverty. Instead of providing credible evidence of impact in any of these key areas, fair-trade coffee incentivizes production of more coffee (see #9).

The most damaging aspect of the fair-trade coffee system may be that it misleads well-meaning coffee consumers into believing that by buying fair-trade coffee they are doing something meaningful and helpful for the poor, while the best evidence suggests that other types of programs are far more effective. And this tragically misdirects energy and attention away from approaches to fighting poverty that actually work quite well. Perhaps a main reason that fair-trade coffee continues to have credibility with many in the general population is the immense marketing campaign undertaken by Fair Trade USA, which continues to promote itself despite the self-neutralizing flaws in its poorly designed system.

In a recent magazine article, I [surveyed 16 leading development economists](http://www.christianitytoday.com/ct/2012/february/popular-strategies-helping-the-poor.html?paging=off) to rate 10 common types of anti-poverty programs in terms of their effectiveness. Fair-trade coffee ranked second to last, ahead of only providing laptop computers to school children in poor countries (another intervention that has been rigorously studied and found to lack positive impacts on intended beneficiaries). Providing fresh water to rural villages finished first. Efforts to improve children’s health through deworming campaigns and providing mosquito nets to mitigate malaria infection finished second and third. Sponsoring a child overseas was fourth. Providing clean-burning stoves to mitigate indoor air pollution and deforestation was fifth.

Let’s focus on ways to help the poor that work — and leave behind the things that don’t.

*Bruce Wydick is a professor of economics and international studies at the University of San Francisco. His new book,* The Taste of Many Mountains*, is about the lives of coffee growers in Guatemala and the impact of fair-trade coffee and is published by Thomas Nelson (HarperCollins).*

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