



## The assessment of fairness in agricultural markets

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### ABSTRACT

We propose a framework for assessing claims of unfairness by agricultural producers. By employing concepts from network exchange theory and considerations of power and dependency, we show that judgments about fairness can be made after considering the structure and context of the network and the way context influences expectations of network actors. Understanding expectations is important because claims of unfairness usually arise when expectations are violated. We test our framework by examining statements made by current and former poultry producers who participated in the May 2010 workshop on issues of concern in the poultry industry, conducted by the U.S. Departments of Agriculture and Justice. We claim our framework not only helps us know what to look for in assessing claims of unfairness but also helps us understand why unfairness claims might arise or why they did not arise when we might have expected them.

### 1. Introduction

Assessing the fairness of agricultural markets is a challenge, especially given persistent claims of unfairness by agricultural producers (USDoJ, 2012). Fairness can be difficult to define and to assess, since what is fair to one person can be considered unfair to another. For example, a high price demanded by a seller might be considered unfair by the buyer, while a low price proposed by a buyer might be considered unfair by the seller. Similarly, contracting terms that favor one party might be viewed as onerous and violate principles of procedural fairness by another, especially when such contracts are one-sided and cannot be amended by counter-offers, as in the case of end-user-agreements in online e-commerce sites (Oakley, 2006). More generally, different “parties’ views about what is ‘fair’ in a situation are often driven by their assessments of which fairness standards will benefit them most” (Shmueli, 2008: 2049).

The problem we consider is whether individuals can make objective assessments about claims of unfairness in exchange relationships within agricultural markets. Scholars have shown that *changes* in or evolution of agricultural markets can be linked to concerns about fairness and values other than efficiency (e.g., Sexton, 2013). For instance, as agricultural markets in the U.S. become more concentrated so that there are fewer buyers of agricultural commodities, some agricultural producers have expressed concerns that markets have become less fair to them over time (Maxwell, 2017). Similarly, Hendrickson and James (2016) consider how changes in network structures within the agrifood

industry affect the relative dependency of agricultural producers, which they link to judgments about unfairness. They also introduce the concept of *structural justice*, which is fairness resulting from and affected by the relative distribution of power in network structures. However, it is also a challenge to determine if fairness concerns can be applied when examining an *existing* market structure at a given place and time. In other words, can an evaluation of a particular network structure help us evaluate claims by actors that the system is unfair or that treatment by other actors within the network is unfair? If so, then what specifically do we need to look at or consider in order to evaluate such claims of unfairness?

We use concepts from network exchange theory and considerations of power and dependency as a way of identifying *prima facie* concerns about fairness from the perspective of network actors in agricultural markets. However, we also show that definitive judgments about fairness can only be made after considering the specific context of the network structure, such as geographic constraints, position relative to other network actors or the contracting language linking actors within the network. Our argument hinges on the way that context influences expectations of network actors. Expectations are important because they form the basis for claims of fairness or unfairness (Thompson, 2013). Individuals usually assert claims of unfairness when expectations are not met. Thus, we show how context as well as network structure and the positions and linkages of actors within such networks affect the expectations of network actors. We test our framework by examining statements made by current and former poultry producers

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who participated in the May 2010 workshop on issues of concern in the poultry industry, conducted by the U.S. Departments of Agriculture and Justice.

Our paper provides several insights. First, because structures of power and norms of justice are mutually supportive, in that powerful actors control social norms (Molm et al., 1994), the resulting power imbalance can diminish not only the level of trust within a dyad (Anderson and Weitz, 1989) but also, as we show, expectations and claims of unfairness. Therefore, claims of unfairness are more likely to be understated than overstated. Second, our study offers potential pathways for evaluating the economic, social and geographic impacts of the structure of agriculture and food markets—particularly their competitiveness—that may provide alternatives to conventional interpretations focusing exclusively on consolidation and concentration (e.g., Saitone and Sexton, 2017; MacDonald, 2017). Third, we provide a perspective for assessing the appropriateness of antitrust, other regulatory policies, and new forms of governance emerging in alternative agrifood networks for protecting producers from the impacts of structural unfairness in agricultural markets.

## 2. Background

There is a robust literature about fairness in economics, much of it growing out of the social choice literature analysis of whether resource allocations are fair. For instance, some scholars seek to identify allocation rules that meet certain equity criterion, such as “equal division,” but are also preferred by other considerations, such as efficiency (e.g., Thomson, 2011). One such rule is the “no-envy” or “envy-free” rule. Feldman and Kirman (1974: 997) state that “a fair allocation is an allocation with the property that no trader would prefer another’s bundle of goods to his own, and a fair trade is a trade with the property that no trader would prefer another’s exchange to his own, providing that he could have made it.” However, envy-free allocations often violate efficiency criteria (e.g., a 50–50 split is not necessarily efficient), especially when the number of goods to consider is large and we consider production in addition to exchange. As Thomson (2011: 489–490) states, “When normative issues are being addressed, the likelihood of a resolution that satisfies everyone is even more remote than when only issues of efficiency are at stake.” In these cases, there may be no possibility of exchanges that are both envy-free and efficient.

The problem with this literature is that it implies equity is the same as fairness and that it only seeks for situations where fairness coexists with efficiency. This limits the options for how we can consider notions of fairness. While the domains of fairness and efficiency can overlap (see Rohwer and Westgren, 2013), fairness and efficiency may also compete with each other (Wu and MacDonald, 2015). Furthermore, this literature lacks geographic or social specificity. For example, even if we could identify an overlap in the domains of efficiency and equity, how do we operationalize it within the agrifood industry that functions in specific locales but across different geographic scales?

A related literature considers whether market prices are fair. The fair price literature also takes into consideration consumer perspectives. However, instead of making comparisons based on individual preferences for goods and services, the comparison is based on consumer expectations and perceptions of exogenous market effects causing a price change relative to a reference price or context. For example, Kahneman et al. (1986) find that consumers consider it unfair to change prices when there is a change in demand, but price changes are considered fair when consumers believe they are caused by a supply shift. Reference prices can be historical or based on comparisons with what they perceive or think others pay. Interestingly, some studies find an asymmetry in the fairness claims of price differences. While people often judge “bad deals”, or prices that are higher than they expect, as unfair, “good deals”, or prices lower than expected, are not always considered fair (Xia and Monroe, 2010).

While this literature highlights the importance of expectations in the

role of fairness claims and links expectations to reference considerations, it is not directly useful for considerations of market structures, such as relationships between buyers and sellers, because it ignores the importance of social and geographic context. While market prices are tied to market structures that arise in particular places, the concerns about fairness we frequently see within industrialized agrifood systems go beyond questions about market prices to include issues such as transparency, and treatment of labor, nature and communities (Saulters et al., 2018; Cleveland et al., 2015).

Another approach for evaluating fairness derives from network analysis and related exchange theories. Network structure determines the bargaining power of actors within the network: if an actor has several links, then there are several possible trading patterns (Corominas-Bosch, 2004). Position in the network determines availability of valued resources: while two occupants of the same position are said to have equal exchange opportunities (Cook and Emerson, 1978), resources accumulate in nodes with exclusive exchange relations to otherwise disconnected partners (Burt, 2000). The result is a social structural determinant of power and dependence. In this approach the use and abuse of power and the exploitation of dependency are central to discussions of fairness in exchange relationships. For example, Cook and Emerson (1978) define equity in terms of the split of gains from trade and state that a 50–50 split is considered fair, since splits that differ from 50 to 50 often need justification. In support of this claim, experiments involving the ultimatum game reveal that players usually offer splits that are close to 50% of the total available (see Güth and Kocher, 2014), suggesting a consideration for fairness and a preference for the 50–50 split rule (see also Fehr and Schmidt, 1999). Corominas-Bosch (2004) builds on this idea by describing strong and weak positions in networks and how these relate to the ability of actors to extract gains from trade. Related is the idea of equal treatment, where “two players who are identical according to all criteria should end up with the same transfers or allocations” (Jackson, 2008: 175–176).

The problem with a focus on gains from trade is that it requires an assessment of subjective valuations in order to determine what gains from trade are and whether treatments are equal. In other words, the analysis assumes that “both A and B know, or believe they know, how much the other party benefits from a given transaction” (Cook and Emerson, 1978: 723), which in reality is difficult to support. Additionally, dependency in and of itself does not imply or justify a claim of unfairness. Hendrickson and James (2016) argue that two other considerations are important in making claims about unfairness from a perspective of dependency. First, mitigating safeguards can reduce the likelihood or extent of actual exploitation of a dependency relationship, thus deflating the justifiability of unfairness claims. For example, because power is dynamic and relational, informed by historical geographic, social and cultural contexts (Roscingo, 2011), the existence of social norms and formal laws that define the ways in which employers treat their employees can be safeguards to the power managers have over subordinates, which limits the claim that simply being lower in rank or position is unfair. Second, claims of fairness or unfairness are ultimately tied to expectations that agents within the network have about specific liberties or freedoms. In other words, context matters, as argued by Hochschild (1981). Stated differently, there must be an explicit link made between dependency and the limitation of specific freedoms before unfairness claims can be substantiated, and such a link is made by a consideration of expectations. According to Hendrickson and James (2016: 952),

we can make claims about the fairness of network relationships by assessing the relative dependency and, by implication, the liberty of participants. In short, when network conditions are such that one party in the network obtains power over another party in the network, then, other things being equal, we can say that the relatively more dependent party has a claim that the network structure has become less fair, if their expectations for liberty have been

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