

# Fair Trade/Organic Coffee, Rural Livelihoods, and the “Agrarian Question”: Southern Mexican Coffee Families in Transition

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**Summary.** — We use a random sample of coffee producing households in southern Mexico to compare opportunities associated with government subsidies and migration to the role of Fair Trade/organic coffee in household livelihoods. Although land and labor returns among Fair Trade/organic coffee growers are higher than for conventional growers, differences in yields are more important than price premiums. Moreover, investment in education and labor opportunities outside coffee dominate those in Fair Trade/organic coffee. The results highlight the value of an integrated approach to the agrarian question that improves productivity and prices and supports other pathways for improving incomes.

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## 1. INTRODUCTION

The agrarian question in Latin America (de Janvry, 1982) has long featured high levels of inequality, persistent poverty, and the challenging quest for a “middle road” between state-led collectivization and capitalist industrial agriculture that offers the rural poor a route to a better life. One key avenue of research and policy exploration has been whether markets, state interventions, and civil society initiatives can promote the competitiveness of peasant producers and generate patterns of broadly based growth and poverty alleviation (Carter & Barham, 1996). Another has been whether other livelihood strategies, especially improved labor market opportunities beyond agriculture, offer the rural poor more promising avenues (Lopez and Valdes, 2000; Reardon, Berdegue, and Escobar, 2001). The potential for combining multiple paths that improve rural incomes is captured by those who view rural poverty alleviation from a “livelihood” perspective (Bebbington, 1999; Ellis, 2000), and the fundamental issue then becomes one of improving the capacities of the rural poor to productively engage agriculture, labor markets, and/or other opportunities (Deininger & Olinto, 2001).

Historically, coffee cultivation has provided, at least in some parts of Latin America, a positive example of an agricultural path for the rural poor. In those cases, a relatively broad pattern of initial land distribution, cooperatives, national coffee boards, coffee banks, and expanding export markets has enabled peasant households to develop their land holdings in a sustainable, high return activity, gainfully employ their family (and other) labor, and exit grinding rural poverty (Paige, 1997; Williams, 1994). In a broad historical sense, the recent NGO driven push for international supply chains that operate under Fair Trade and organic norms (Daviron & Ponte, 2005; Jaffee,

2007; Neilson, 2008) can be viewed as an effort to renew that middle road in the late 20th, early 21st century, with producer, consumer health, and environmental concerns blended into the Fair Trade/organic<sup>1</sup> strategy. Coffee has also been the leading edge of other Fair Trade (FT) and organic products (e.g., cocoa, tea, and wine), and is now just one example of a broader set of sustainability initiatives that operate outside the state and through markets (Cashore, Auld, & Newsome, 2004; Reynolds, 2009).

This article assesses the importance of FT/organic coffee in the income and investment mix for a random stratified sample of southern Mexican coffee producers. We complement previous studies (summarized in Section 2) by comparing returns across FT/organic and conventional growers in an area where these markets are most likely to have benefited growers given the region’s historically strong producer organizations that mediate participation in such markets (Bacon, Mendez, & Fox, 2008). We distinguish between the difference in returns to coffee generated by higher yields and higher prices. In addition to a “within” coffee comparison, we also examine these opportunities in light of other household income sources and investment opportunities during a period of major transformation in the Mexican economy.

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A broader discussion of portfolios is critical for understanding the options facing southern Mexican coffee growing households, because livelihood and investment options have changed dramatically since 1990s when the North American Free Trade Agreement (NAFTA) consolidated the economic liberalization that commenced in the mid 1980s (de Janvry & Sadoulet, 2001; Myhre, 1998; Yúnez Naude and Barceinas Paredes, 2002). Two mega-trends (discussed in Section 3) have reshaped household activity options in our sample:

- New government poverty and rural income support programs—Progresa/Oportunidades, which focuses on education and health of children (Rawlings & Rubio, 2005), and Procampo, an agricultural land-based subsidy that largely replaced the pre-NAFTA system of price supports (Levy, 2006; Lustig, 2001; Pastor & Wise 1997);
- Expansion of migration networks and labor opportunities within Mexico and in the United States (Latapí, Martín, López Castro, and Donato, 1998; Massey, Goldring, & Durand, 1994; McKenzie & Rapoport, 2007).

We show that although returns to land and labor among FT/organic coffee growers are higher than for conventional growers, investment opportunities and activity in education and labor opportunities outside coffee dominate those in FT/organic coffee. Our analysis of rural returns and investments centers on two basic comparisons. One (presented in Section 4) explores net cash returns to household land and labor associated with participation in FT/organic arrangements and recent investment patterns among coffee growers. The analysis reveals statistically significant but relatively small economic differences in prices and net cash returns to family labor and land associated with the FT/organic coffee path, and most of this income difference derives from yield differences rather than from price premiums. This result is consistent with Fort and Ruben (2009) and Barham and Weber (2010) in showing that reliance on price premiums for small-scale coffee growers to escape poverty may be problematic.

The other basic comparison (presented in Section 5) is on the labor market side, where we compare returns to labor in FT/organic coffee with returns to non-agricultural labor and investments in education and migration. We find that the economic “game-changer” for most coffee growing households in southern Mexico is integration with better labor opportunities elsewhere rather than deepening coffee participation of any type. This shift is evident in the take-off in educational attainment that has occurred over the past decade among youth in sample households, an investment bolstered by the broadening and deepening of the support provided by Progresa/Oportunidades since its introduction to the region in 1998.<sup>2</sup> Significant investment in education contrasts with little investment in coffee production, despite continuing subsidies for coffee producers that account for about 25–33% of their income from coffee. The Discussion (Section 6) and Conclusion (Section 7) explore the role of FT/organic coffee arrangements and labor market opportunities in the broader agrarian question of rural poverty alleviation.

## 2. LITERATURE REVIEW

Third party certifications, such as Fair Trade and organic, seek to shape market outcomes related to producer welfare and ecosystems through rules governing production, organization of producers, and commercial relationships. Certification efforts are generally led by both local and transnational non-governmental organizations that implicitly or explicitly seek

to develop alternative institutions and arrangements to the classic “state” *versus* “market” approaches.

In the case of Mexico, the state dismantled its state-run coffee agency INMECAFE in 1989, which through marketing control and production subsidies had managed the sector for two decades (Snyder, 1999). Around the same time, a number of cooperatives and non-governmental organizations began efforts that made the country a leader in Fair Trade and organic certification programs (Raynolds, 2002; Rice, 2001). Growers in southern Mexico, in particular, have been at the forefront of Fair Trade and organic coffee trends, having now participated in such arrangements for two decades in some cases. UCIRI (The Union of Indigenous Regions of the Isthmus Region), whose members are well represented in our sample, pioneered Fair Trade and organic arrangements. The cooperative adopted an organic program in 1986 in cooperation with a German organic certification entity, and it helped to form the first Fair Trade seal, Max Havelaar, with a Dutch organization in 1988 (Vander Hoff Boersma, 2002). Other large cooperatives represented in the sample followed close behind (Pérezgrovas & Cervantes Trejo, 2002; Gonzales Cabañas, 2002; Aranda & Morales, 2002). It should be noted, however, that Mexico has recently lost ground in FT/organic markets, with Peru becoming a major supplier to both markets (Giovannucci, Liu, & Byers, 2008).

While the FT/organic strategy sidesteps the state *versus* market discourse, it has an embedded tension because it operates within the market while critiquing and trying to reform it. Taylor (2005) highlights this tension, noting that FT organizations increasingly work with and through mainstream actors in the conventional commodity supply chain. The same cooperatives also play a continuing role in helping farmers to access state production subsidies and deficiency payment schemes.

We use data collected specifically for inquiry into FT/organic arrangements to contribute to a limited literature on the importance of these markets for coffee growers. While some Fair Trade-related studies have emerged in recent years, Becchetti and Constantino (2008) state that, “the literature on FT [Fair Trade] impact analyses is surprisingly scarce, given the importance of evaluating claims that participation in the FT chain brings advantages to producers.”

It remains unclear whether Fair Trade and sustainable certification programs can shape market forces to deliver higher producer incomes. A growing literature seeks to quantify the price premiums associated with participation in certified markets. Some studies (Bacon, 2005; Calo & Wise, 2005; Jaffee, 2007) rely on simple mean comparisons. A growing body of work has tried to control for the various factors that can affect a producer’s marketing performance and has generally found more modest (or no) premiums compared to descriptive studies (De Janvry, McIntosh, & Sadoulet, 2010; Fort & Ruben, 2009; Ronchi, 2006; Weber, 2010; Wollni & Zeller, 2007).

Identifying premiums is important to quantify gains from higher prices, but the impact of participation in FT/organic markets on net cash income is of greater interest. The literature on FT/organic coffee is thin in this area. Martínez-Torres (2008), for example, only looks at gross revenue (price multiplied by coffee production). Calo and Wise (2005) present net revenue for conventional, organic, and FT producers in Oaxaca, but their measures of net revenue are a product of parameters provided by key informants or other studies as opposed to sampling growers and collecting cost, yield, and price data. Jaffee (2007), who conducted his study at the height of the coffee crisis (2001–03), uses a sample of 51 producer households (half of which are involved in FT) in two contiguous villages and finds that for both FT and conventional households

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