# Fair Prices to achieve a Living Income[1]

By Ruud Bronkhorst[2]

## Introduction

An ethical aspect in food production that until now has not received the attention it deserves, is the living condition of the small farmer. There is broad agreement that small farmers have a larger output/ha than large farms (IFPRI). Yet these small farmers and their living conditions are not sufficiently taken into consideration. A result of the bad living conditions is the abandoning by young farmers of the rural areas and their flight to already overcrowded cities.

In industry the Living Wage concept has been developed, implying that every worker has a right to a decent income, sufficient for him/her and his family. In agriculture a similar concept has been developed, the Living Income. When a farmer works full-time, he should be able to earn a Living Income. In order to achieve this, the price he receives for his products should be such that this is possible.

The solution of Fair Trade Int. to fair prices is prices consisting of a price floor combined with a premium (FLO). This approach does not define fair prices in an exact way however. Therefore a methodology has been developed to calculate a so-called ‘fair’ price for each crop in order to enable the farmer to earn a living income, as well as have financial resources for sustainable investments.

This fair price is the minimum price the farmer should receive in order to attain a living income and food security. This methodology takes as point of departure the real local costs of living and the real production costs, and thus leads to different fair prices in different places.

## Methodology

The methodology applied consists of the development of a theoretical model that then is applied on a real case. Starting from the definition of Living Wages as the minimum amount wage-earners should earn, a concept of Living Income for the peasant is developed. The Living Income concept takes into account the same basic needs for the farmer as for the wage-earner (a decent standard of living for the worker and her or his family, meaning sufficient and qualitative-well food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events),

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[2] Chairman of InfoBridge Foundation, the Netherlands (rbronkh@infobridge.org)

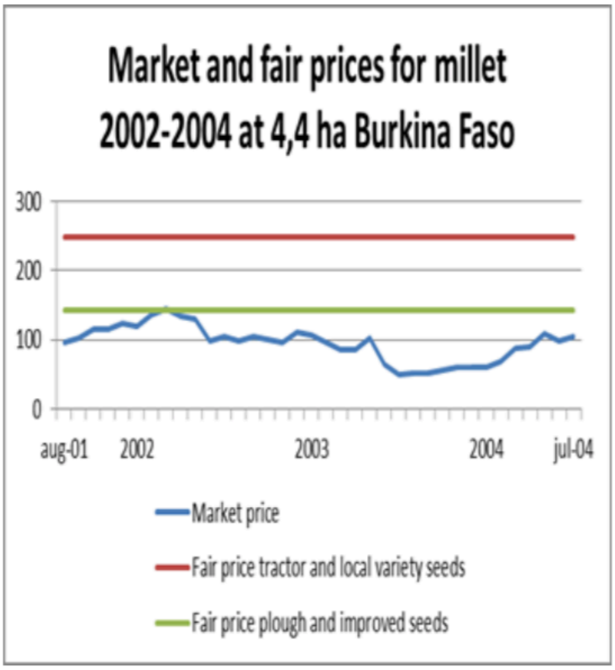
and adds to this an additional amount for investments in agricultural tools. In order to achieve this income on a given surface, with climate, crops that can be grown and other circumstances given, the crops must have a certain sales price.

This price that the producer should receive in order to attain a Living Income, is called the 'fair' price. This price is based on the assumption of full-employment on the specific crop. 'Fair' means here that any price below this fair price is not sufficient, so this is the absolute minimum price the producer must receive. The methodology how to calculate such 'fair' prices has been applied on food crops in Burkina Faso, in the Boucle du Mouhoun (maize, sorghum and millet), and then compared to market prices.

**Results**

The graph below shows the difference between the calculated fair prices for two different production methods for millet and the market price in the Boucle du Mouhoun region in Burkina Faso, a region with a Sudano-Sahelian climate. The graph shows the difference between the market price and the calculated fair prices for two cases, namely that the farmer uses a tractor combined with local variety seeds, and the case that a plough is used in combination with improved seeds. Not shown in the graph are the combination of tractor and improved seeds, and plough with local variety seeds. The fair prices for these two cases are located in between the two shown in the graph. So it appears that the combination plough and improved seeds is in the present circumstances, most beneficial for the farmer.

**Graph**




These calculated fair prices can be used by governments as a guideline to decide whether there is a need to intervene in the food market. In the case of food assistance e.g. the effects of food aid on prices at the local markets should be examined more in detail, and in the case of local purchase for food aid this fair price can be a guidance to what prices should be paid to producers in order to have optimal positive development effects on the region where food is bought (Bronkhorst 2011).

For companies it provides a guideline how to pay minimum ethical prices. For a detailed description how to calculate fair prices, see Bronkhorst 2016.

**Conclusion**

A paradigm change from the use of prices decided by the market with all its imperfections, to an approach founded on ethics is needed. 'Ethical' here implies that any worker receives a decent income for full-time, sustainable work.

Fair prices are an important, but not the only solution for the farmers' problems. The Living Income / Fair Price methodology can be used in combination with other approaches, like sustainable agricultural practices such as ecological agriculture or FAO's Commodity Chain Analysis (FAO, Bronkhorst 2014). Combined it will provide a boost for a decent life and food security for the farmer and his family and stimulate sustainable agricultural practices.

Attention should be paid to the effects on others, such as food consumers, as well. As conditions are different in each country, more research is needed to analyse the consequences of the payment of fair prices on several groups of the population and advice local governments about adequate accompanying measures.

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**References**


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