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Height, trade, and inequality in the Latin American periphery, 1950–2000☆

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Abstract

Which variables determine whether a country chooses an open or protected market? It has been argued that economic downturn leads to a higher propensity for protectionism. We find for seven Latin American countries in the second half of the 20th century that declining GDP motivated the opening wave, especially during the 1980s.

Moreover, inequality could play a role, either in favor of ''opening'', as Stolper–Samuelson models would predict, or in favor of closing, as recent empirical studies found that open periods were associated with higher inequality. Using anthropometric indicators, we find that inequality in general tended to motivate ''closing'', whereas inequality did not stimulate opening.

JEL classification: F02; F43; O54; N76

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1. Introduction

The question whether a country chooses free trade or protectionism – and why – is one of the crucial issues in a globalizing world. Wallerstein (1987) argued that higher union-induced unemployment leads to a higher propensity to protectionism. In other words, workers perceive the world market as a possible culprit for the threat of unemployment, and hence promote closing of their economy, especially in rich countries. For Less Developed Countries (LDCs), inequality could be a motivation for opening their economies, as unskilled workers' wage might rise with new export possibilities of their products, if workers had enough influence on economic policy (see Milner and Kubota, 2005 for a sceptic view of this influence). In contrast, recent research found that ''closed'' periods were associated with less inequality, and vice versa, even after controlling for a large number of other potential influences (Baten and Fraunholz, 2004). This would suggest that inequality experiences could increase the propensity for protectionism.

Apart from purchasing power based measures (such as the Gini coefficient of income inequality), we use anthropometric techniques to measure inequality. This study is the first which assesses the relationship between

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inequality, opening and closing using a long-run perspective, given its newly constructed data set on inequality for the 1950–1980 period based on anthropometric indicators.

Motivated by the political economy impact of height we also consider height as a proxy variable for the standard of living. Beside education and medical supply we find that high-quality protein consumption was an important determinant of average height in Latin America in the second half of the 20th century.

2. Theories and hypotheses

Both economists and political scientists have put forward a number of theories about the phenomenon of protectionism and liberal trade policies. While economists assumed a free trade policy as ''natural'', because it allows Smithian growth, political scientists assumed protectionism as the usual behavior because of the infant-industry argument of Friedrich List, and they tried to explain the puzzle that some countries were opening their markets (Milner, 1999). For example, the opening wave during the 1860s, 1950s, or 1980s would have been expected by economists, whereas political scientists find it puzzling that a number of countries opened up to international trade during this period (Haggard and Webb, 1994; Milner, 1999).

Which opening and closing behavior would be expected from standard trade models? Those focus on the question how the incomes of production factors and industries changed by opening or closing of economies. In the simplest two-factor, two-good general equilibrium Stolper–Samuelson model, poor countries will increase their exports of unskilled labor intensive products in globalization periods, because their abundant factor and their comparative advantage are likely to be in this segment. Increasing production with unskilled labor should increase the demand for unskilled labor and their wages should rise. Therefore, a decline of inequality could be expected in LDC's upon expanding international trade. If there would only be two factors playing a role, Latin American unskilled laborers should favor free-trade policies, whereas capital-owners should object to it. However, it is obviously an important question whether workers (or a populist government striving for legitimization) can perceive their interest and are powerful enough to transform their de factor interests into economic policy (Milner and Kubota, 2005). Moreover, clearly ideology or nationalism could also stimulate policies without economic background.

Similar arguments hold for mobility of factors of production. For the reverse movement on the international labor market during the late 19th and early 20th century, O'Rourke and Williamson (1999) reported that the closing of the Argentine, U.S. and other New World economies against immigration was caused by increasing inequality, whereas the continued openness of the Brazilian economy can be explained by modest inequality and relatively high wages during the coffee boom. In the latter country, relatively low inequality kept the country open for migrants, whereas in the former three countries high inequality led to closing, what we would expect from the model described above. In other words, during this period, Stolper–Samuelson forces worked for the countries under study. We will assess three hypotheses for Latin American product markets 1950–2000:

Hypothesis 1. High inequality led to an opening of Latin American countries.[1]

However, the empirics for the 1980s and 1990s do not confirm the effects expected from the two-country, two-factor, two-good Stolper–Samuelson model for Latin America. After opening up most of Latin American countries to imports in the 1980s and early 1990s, wage gaps between skilled and unskilled workers increased rather than decreased as expected (Ahsan and Oberoi, 2003; Bulmer-Thomas, 1996). In contrast, three East Asian Tigers in the 1960s and early 1970s had declining wage gaps after opening their economies to foreign competition. Wood (1994, 1997, 1998) hypothesized that the reason for this might be because at the time the Asian Tigers entered the international market they had only modest competition in the market for goods with a high content of unskilled labor. However, by the 1980s the Chinese giant entered the world market, and many others followed. The Latin American unskilled workers were unlucky, because by continental Asian standards, their wage was already impressively high. In other words, the Stolper–Samuelson world did not apply to the Latin American situation. This suggestion is plausible,

[1] A competing model was based on the Ricardo-Viner-model (or specific factor model). The basic idea here is that import-competing industries will be in favour of protectionism, whereas export-oriented industries might benefit from free trade and hence advocate those policies. However, this view cannot be put to test with our data.