WHY IS TRADE REFORM SO POPULAR IN LATIN AMERICA? A Consumption-Based Theory of Trade Policy Preferences

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SCHOLARS, journalists, and politicians alike have been growing more interested in the developing world's reactions to the recently implemented and now nearly ubiquitous free-market reforms. The highly visible, and sometimes violent, protests of antiglobalization activists and angry citizens from Argentina to India have fostered the perception that voters' patience with economic globalization is wearing thin. In Latin America, the region where trade liberalization occurred most rapidly in the 1990s, the concerns of protesters appear to be well founded: free trade has had a detrimental effect on employment opportunities and income equality. Leaders of international financial institutions and promarket heads of state had promised that neoliberal reforms would bear fruit by the end of the 1990s, but the economic roller coaster continued through the turn of the century. However, despite the protests and economic trends, evidence from various surveys indicates that trade liberalization is quite popular throughout Latin America. What explains this popularity? Prevailing explanations of mass attitudes toward free trade cannot solve this puzzle. Trade policy preference theory typically posits that the primary determinants of mass beliefs about foreign trade policy are retrospective economic evaluations and characteristics associated with individuals' earning power. These potential explanations for international trade's popularity, however,

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are clearly incompatible with Latin America's unimpressive economic growth and steadily rising unemployment rates in the postreform era.

This article develops a new theory of trade policy preferences that accounts for this high aggregate support *and* for differences in attitudes across nations and individuals. The theory shifts the explanatory emphasis from determinants of an individual's earning power in a globalized labor market (for example, skills, asset specificity, sector of employment) to more consumption-based characteristics. In developing countries emerging from decades of protectionism, citizens are more likely to assess trade policy based on its highly visible impact on consumer options, not labor markets. Therefore, the impressive degree of support for trade liberalization in Latin America results from the widespread appreciation of its beneficial outcome for the prices, quality, and variety of consumer goods.

To support this argument, I analyze three different cross-national surveys of Latin American public opinion and a more in-depth survey from Brazil. After presenting the evidence of the popularity of international trade in the next section, the subsequent two sections describe the competing theoretical explanations of mass trade preferences and develop the new consumption-based theory. The remaining sections test these propositions with various statistical and qualitative analyses of the survey data.

I. Evidence of Free Trade's Popularity in Latin America

High aggregate support among Latin Americans for free trade and various free-trade agreements is evidenced in numerous surveys and is robust to survey question wording. (Question wordings are in Appendixes 1, 2, and 3.) Tables 1, 2, and 3 show results from four different survey questions in fourteen Latin American nations. Table 1 shows results from the fourteen-nation *Wall Street Journal Americas* survey conducted in January and February 1998. This question measured whether the respondent thought free trade had been good or bad for the country.[1] The vast majority of respondents in every country believed free trade to be "very good" or "somewhat good" for the country.[2]

[1] Translation from Spanish is as follows: "Over the last few years the country has had more and more business and trade with other countries. This tendency is called 'free trade.' Do you think that free trade is good or bad for the country? Very or somewhat?"

[2] All results that are reported may overestimate slightly the degree of aggregate support for free trade because the sampling frame in each country was urban dwellers only. Urban dwellers and free trade proponents tend to be of a higher socioeconomic status, making them, according to results reported below, less protectionist.

TABLE 1
LATIN AMERICANS' BELIEFS ABOUT THE IMPACT OF FREE TRADE ON THEIR COUNTRY[a]

	Very Good	*Somewhat Good*	*Somewhat Bad*	*Very Bad*	*No Response*	*N*
Argentina	28	38	13	6	15	1000
Bolivia	36	46	8	5	5	751
Brazil	45	29	10	7	9	993
Chile	27	52	12	3	7	1000
Colombia	31	49	12	4	4	1000
Costa Rica	45	42	4	3	6	750
Dom. Rep.	39	39	9	5	8	757
Ecuador	52	36	8	2	2	500
Guatemala	55	37	4	2	2	752
Mexico	27	43	12	8	10	1199
Panama	35	39	12	7	7	754
Paraguay	16	43	13	4	24	479
Peru	38	47	6	3	7	1029
Venezuela	48	33	9	6	5	1000

SOURCE: *Wall Street Journal Americas* survey (1998).
[a] Entries are percentage of each national sample.

TABLE 2
THE DISTRIBUTION OF SUPPORT FOR REGIONAL INTEGRATION SCHEMES IN LATIN AMERICA[a]

	Free Trade Agreement of the Americas (1996)					*Latin American Integration (1998)*
	Very Favorable	*Slightly Favorable*	*Slightly Opposed*	*Very Opposed*	*No Response*	*Ratio of "Favorable" to "Against"*
Argentina	23	35	10	10	23	7.2
Bolivia	36	41	9	4	10	4.1
Brazil	46	24	7	8	15	2.8
Chile	29	43	11	5	12	3.1
Colombia	43	36	8	4	9	10.8
Costa Rica	40	36	5	3	17	2.5
Dom. Rep.	35	33	11	9	12	NA
Ecuador	49	32	9	4	7	3.4
Guatemala	46	36	5	6	7	1.6
Mexico	29	39	11	7	15	1.2
Panama	28	29	13	17	14	1.4
Paraguay	19	39	10	6	27	4.1
Peru	34	40	7	5	14	5.6
Venezuela	42	32	9	10	8	2.3

SOURCES: *Wall Street Journal Americas* survey (1998); and Latinbarometer survey (1996).
[a] Entries for FTAA question are percentage of each national sample.

TABLE 3
THE DISTRIBUTION OF SUPPORT FOR FREE TRADE IN BRAZIL[a]

	Strongly Favorable	*Somewhat Favorable*	*Depends*	*Somewhat Opposed*	*Strongly Opposed*	*No Opinion*
Weighted by city population	23	22	3	8	13	30
Unweighted	28	21	3	6	10	32

SOURCE: Four-city Brazil survey (1999).

[a] Entries are percentage of 800-person sample.

In the same survey respondents indicated their degree of support for a potential hemisphere-wide free-trade zone (Free Trade Agreement of the Americas, FTAA). These results, shown in Table 2, also indicate a high level of mass support for the free-market position. The final column of Table 2 also shows the extent of support for greater economic integration with other Latin American countries. These data are from the cross-national Latinbarometer survey administered in 1996. In every country supporters of greater Latin American integration outnumbered opponents, and in most countries they outnumbered them by a ratio of at least two to one. These results are particularly revealing of the region's protrade tendencies because the survey question attempted to induce respondents to consider potential costs of further economic integration: "In general, are you in favor of or against economic integration of the countries in Latin America, even when this might imply some costs or sacrifices for your country?" That a majority of respondents replied positively to this query indicates the robustness of support for trade in Latin America.

A more neutral survey question, administered in four Brazilian cities in 1999, refers neither to potential costs nor to benefits for the country as a whole. Table 3 shows responses to the following survey item: "In the last ten years, Brazil's trade with foreign countries grew. This increase in trade is known as 'trade liberalization' or 'free trade.' Some people favor and others oppose this 'trade liberalization.' Are you in favor of, against, or do you not have an opinion on this policy of trade opening? Are you strongly or slightly favorable/opposed?" Again, a large plurality of respondents in this sample favored free trade.[3] This

[3] Because citizens may not always understand a potentially complex issue such as free trade, a comment on nonresponse levels is merited. High aggregate rates of "don't know" and other "no opinion" responses are typically an indication that citizens, including many who do respond with an opinion, are uncertain or unfamiliar with the policy or issue being queried. See Larry M. Bartels, "Issue Voting under Uncertainty: An Empirical Test," *American Journal of Political Science* 30 (1986). The degree of nonresponse in Tables 1, 2, and 3 varies substantially by question wording but, overall, indicates widespread knowledge and certainty about free trade. Nonresponse rates to a question about the past impact of free trade (Table 1) are very low, in single digits in almost all countries. They are only slightly

result is particularly striking because the survey was administered soon after the major devaluation of Brazil's currency and at the peak of the country's unemployment crisis, events that stemmed in part from its rapid and indiscriminate trade liberalization in the 1990s.

Even recent cross-national data indicate that support for free trade in Latin America remains high. Two-thirds of respondents to the seventeen-nation 2001 Latinbarometer survey believed the FTAA would help the economic development of their country, while over 70 percent favored the economic integration of Latin America.[4] Support for greater Latin American economic integration exceeded 60 percent in every country, and support for FTAA exceeded 60 percent in eight of eleven countries and Central America.[5]

This high aggregate support for free trade contrasts sharply with citizens' attitudes toward privatization, another crucial element of the region's recent economic reform package. In the *Wall Street Journal Americas* survey, free trade is a far more popular policy than privatization, as antiprivatization respondents (39 percent) outnumbered protectionists (18 percent) by a ratio greater than two to one, and the zero-order correlation between attitudes for the two policies was only +.16. Evidence from both the four-city Brazil sample and the 2001 Latinbarometer confirms this pattern. In Brazil free-trade proponents (65 percent) were more numerous than privatization advocates (42 percent). In the seventeen 2001 Latinbarometer countries privatization

higher, although still in the moderately low 7–17 percent range, when respondents were asked about FTAA, a seemingly more complex question about a hypothetical policy that had not yet been enacted (Table 2). (The nonresponse rate in the 1996 Latinbarometer question is 18 percent.) In comparative perspective, these no-opinion rates are about average or even slightly below average, so there is no reason to think that Latin Americans are more uncertain or less knowledgeable about trade than are other democracies' citizens about typical political issues.

At the same time, a potential problem with this assessment of aggregate nonresponse levels is the existence of nonattitudes, or people who do not have real attitudes but offer an opinion nonetheless. See Philip Converse, "The Nature of Belief Systems in Mass Publics," in David Apter, ed., *Ideology and Discontent* (New York: Free Press, 1964). To address this, the four-city Brazil survey (Table 3) offered respondents an "easy out" by including "no opinion" as an explicitly read option. Among those who did offer an attitude, the "realness" or validity of reported opinions could also then be double-checked against open-ended justifications for the response, discussed in more detail in Section IV of this article. Not surprisingly, nonresponse increased (compare Table 1 with Table 3) to 30 percent in Brazil. The remaining 70 percent, therefore, are those with definite attitudes toward free trade, and almost all of their open-ended responses indicated familiarity with the issue. That said, research indicates that offering the "easy out" increases the occurrence of "false negatives," or "no opinion" responses that mask real attitudes. In sum, although nonresponse varies with the issue and question wording, it seems safe to assume that uncertainty or lack of familiarity with free trade varies from about 10 percent to *at most* 25 percent in most of these countries. See Mikael Gilljam and Donald Granberg, "Should We Take Don't Know for an Answer?" *Public Opinion Quarterly* 57 (Autumn 1993).

[4] "An Alarm Call for Latin America's Democrats," *Economist* (July 26, 2001).

[5] The presentation in "An Alarm Call" (fn. 4) aggregates results for six Central American countries (El Salvador, Guatemala, El Salvador, Costa Rica, Honduras, and Nicaragua) into one data point. The eleven countries besides the Central American ones are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

opponents outnumbered its supporters in all but one nation. Moreover, beliefs about privatization had grown more negative from 1998 to 2001 in every country but one, in contrast to the unchanging support for free trade expressed in both years.[6] In short, aggregate support for free trade is much higher than support for privatization, indicating that positive orientations toward free trade are not simply a vague expression of support for economic liberalization.[7] Instead, many citizens *favorably single out free trade* from the list of Latin America's recent market reforms.

The existence and persistence of support for trade liberalization is all the more impressive in light of the region's recurring economic problems, which are caused in part by trade liberalization itself. Regionwide crises struck in 1995 and 1999. Moreover, no country has sustained economic growth levels over 4 percent, a frequently achieved rate during the import-substitution years. Income inequality has not declined in any country in the postreform era, and in some cases it has worsened.[8] World Bank president James Wolfensohn admitted in 2000 that Latin America was "no better off than . . . in the 1970s." Some of the decline has been linked to free trade itself. The proglobalization Inter-American Development Bank has acknowledged the following: "[Reforms] have slowed the pace of employment growth and may have been one cause of the rise in unemployment rates. . . . Employment rates have declined, and that has happened more forcefully where the structural reforms, and particularly trade and finance reforms, have been deepest."[9] Restructuring due to import competition has increased unemployment and inequality and has shrunk the formal sector.[10] Finally, a recent econometric study demonstrated a negative relationship between trade liberalization and GDP growth.[11]

[6] See "An Alarm Call" (fn. 4).

[7] David E. Hojman, "The Political Economy of Recent Conversions to Market Economies in Latin America," *Journal of Latin American Studies* 26 (February 1994), 210; Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly* 40 (June 1996); idem, "Swallowing the Bitter Pill: Sources of Popular Support for Neoliberal Reform in Latin America," *Comparative Political Studies* 31 (October 1998).

[8] Albert Berry, ed., *Poverty, Economic Reform and Income Distribution in Latin America* (Boulder, Colo.: Lynne Rienner, 1998); and John Sheahan, "Effects of Liberalization Programs on Poverty and Inequality: Chile, Mexico and Peru," *Latin American Research Review* 32, no. 3 (1997).

[9] Inter-American Development Bank, *Economic and Social Progress in Latin America: 1997 Report* (Baltimore: Johns Hopkins University Press, 1997), 58. See page 90 for the econometric results backing this assertion. Also concurring are Barbara Stallings and Wilson Peres, *Growth, Employment and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean* (Washington, D.C.: Brookings Institution/ECLAC, 2000).

[10] Stallings and Peres (fn. 9).

[11] David Greenway, Wyn Morgan, and Peter Wright, "Trade Liberalization and Growth in Developing Countries: Some New Evidence," *World Development* 25, no. 11 (1997). See also Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," in Ben Bernanke and Kenneth S. Rogoff, eds., *Macroeconomics Annual 2000* (Cambridge: MIT Press, 2001).

Citizen attitudes reflect this economic malaise. In 2001 citizens in nine of eleven countries (excluding Central America) were more negative about the national economy than they were in 1995.[12] In none of the seventeen Latinbarometer countries did positive assessments of the national economy outnumber negative ones. Similarily, a majority of citizens evaluated the current national economy as "bad" or "very bad" in eight of eleven countries and Central America.

What explains, then, the high degree of support for trade reform, which exists alongside more pessimistic attitudes toward the economy and other neoliberal policies? While this is a question about aggregate public opinion, an accurate theoretical explanation should also account for interpersonal and cross-national differences in trade preferences. The remainder of this paper describes and assesses both aggregate-level and individual-level observable implications of each potential theoretical explanation.

II. Theories Based on Earning Power

Heckscher-Ohlin

The leading economic theory of international trade and its domestic impact, the Heckscher-Ohlin model, provides predictions of interpersonal differences in trade policy preferences and a plausible explanation for Latin America's high aggregate support for free trade.[13] The Heckscher-Ohlin theory states that freely trading countries will tend to export goods that employ their most relatively abundant factor (the four factors being land, capital, unskilled labor, and skilled labor) of production while importing goods whose production relies on their

[12] "An Alarm Call" (fn. 4).

[13] Another leading earning power theory is based on the Ricardo-Viner, or specific factors, model, which claims that individuals who are employed in or who own capital in internationally competitive industries should favor free trade while individuals with assets and employment in uncompetitive industries should favor protection. See Jeffry A. Frieden, *Debt, Development and Democracy: Modern Political Economy and Latin America* (Princeton: Princeton University Press, 1991); and James Alt, Jeffry Frieden, Michael J. Gilligan, Dani Rodrik, and Ronald Rogowski, "The Political Economy of International Trade," *Comparative Political Studies* 29 (January 1996). I disregard Ricardo-Viner because the data to test it rigorously (surveys must record respondents' sector of employment) are not available in any cross-national Latin American survey projects and because it has so far received limited empirical support as a theory of mass trade preferences. See Kenneth F. Scheve and Matthew J. Slaughter, *Globalization and the Perceptions of American Workers* (Washington, D.C.: Institute for International Economics, 2001); and Anne Maria Mayda and Dani Rodrik, "Why Are Some People More Protectionist Than Others?" Working Paper no. 8461 (Cambridge: National Bureau of Economic Research, 2001). The four-city Brazil survey does allow for a test of the Ricardo-Viner model, but it receives no empirical support. (These results are available from the author upon request.) Finally, the Ricardo-Viner model clearly does not provide an answer to this paper's central question about high aggregate support for free trade since only a slim minority of the Latin American population is employed in an internationally competitive sector. In fact, most citizens are not employed in a tradable goods sector at all.

relatively scarcest factor.[14] According to the model, trade restrictions distort these naturally occurring tendencies, thereby favoring scarce factors over abundant ones. As a result, trade liberalization in a protected economy brings income losses to individuals with scarce factor assets (because they face increased competition from imports) and income gains to individuals with abundant factor assets (because foreign demand for their assets increases).

As developing nations, Latin American countries possess a relative abundance of unskilled labor and land over capital and skilled labor, so protectionism during the import-substitution years favored the latter two over the former two. According to the Heckscher-Ohlin model, then, export expansion through trade liberalization should increase the relative wealth of unskilled labor and farmers by decreasing demand for locally produced, capital-intensive goods and by increasing demand for labor-intensive and land-intensive products. Because capital and skilled labor comprise less than 15 percent of most Latin American populations, trade liberalization should reduce wage inequality, thereby producing an enormous protrade coalition of unskilled and rural workers.[15] If this is true, then the relationship between skill level (measured by educational attainment) and support for free trade will be negative in Latin America. At the same time, the strength of this relationship will depend on the relative abundance of skilled labor in each country.[16] Skilled individuals in economies with a moderate supply of skilled labor (like Argentina) will be less protectionist than individuals of the same skill level in countries that are poorly endowed with skilled labor (like Guatemala).

Human Capital

Like Heckscher-Ohlin, the human capital hypothesis claims that trade preferences stem from characteristics that determine an individual's earning power in the labor market.[17] Individuals with a high degree of human capital, namely, formal education, have a relatively large pool of skills from which to draw, thereby increasing their ability to adapt to the shifting configuration of labor demand caused by economic liberalization. Less-educated citizens, by contrast, tend to have skills that are

[14] Eli Heckscher, "The Effect of Foreign Trade on the Distribution of Income," *Readings in the Theory of International Trade*, vol. 4 (Philadelphia: Blakiston, 1949); and Paul Samuelson, "International Trade and the Equalisation of Factor Prices," *Economic Journal* 58 (June 1948).

[15] Ronald Rogowski, *Commerce and Coalitions* (Princeton: Princeton University Press, 1989).

[16] Mayda and Rodrik (fn. 13).

[17] Matthew Gabel, *Interests and Integration: Market Liberalization, Public Opinion, and European Union* (Ann Arbor: University of Michigan Press, 1998).

more specific to a particular sector or type of employment.[18] As a result, contrary to Heckscher-Ohlin's prediction, education should be positively correlated with support for free trade in *all* countries.

The human capital hypothesis also differs from Heckscher-Ohlin in that it predicts a low level of support for free trade in less developed countries because of their undereducated labor forces. Although this seems incompatible with the observed empirical patterns mentioned to this point, I test the relative merits of these two theories nonetheless. To date, scholars have tested these two theories using public opinion data from only the United States and Western Europe, where they both have the same observable implications. Because developed countries have a relative abundance of skilled labor, both theories predict a positive relationship between skill level and support for free trade. Therefore, the relative explanatory power of these theories can be rigorously assessed only with data from the developing world, where the two theories make opposing predictions.

III. A Consumption-Based Theory

The earning-power theories of trade preferences assume that actors' self-interested assessments of trade policy rest largely on the characteristics of their employment or income source and not on the type of goods and services they buy. In other words, while liberalization initially shifts the relative prices of goods and services that foreign and domestic consumers encounter, its most serious impact occurs once the resulting changes in consumer behavior cause a reshuffling of demand for particular types of employable assets. Figure 1 illustrates this logic, with the "×" indicating the empirical link that these theories ignore.

In predicting trade preferences, therefore, these models focus on 3b, the welfare effects of the reshuffling that occurs in 3a. This overlooks the welfare effects in 2b of the shifting prices for consumers in 2a, even though 2a is a more immediate result of the policy change itself than 3a. Most scholars of mass trade preferences have ignored the possibility that individuals may be just as, if not more, likely to form their beliefs about trade liberalization by observing its impact on the prices, quality, and availability of goods and services they buy and consume.[19]

[18] Torben Iversen and David Soskice, "An Asset Theory of Social Policy Preferences," *American Political Science Review* 95 (December 2001).

[19] See Scheve and Slaughter (fn. 13); Mayda and Rodrik (fn. 13); Gabel (fn. 17); Alt et al. (fn. 13); Miguel Basáñez, Ronald Inglehart, and Neil Nevitte, *North American Trajectory* (Ann Arbor: University of Michigan Press, 1996); and Rogowski (fn. 15).

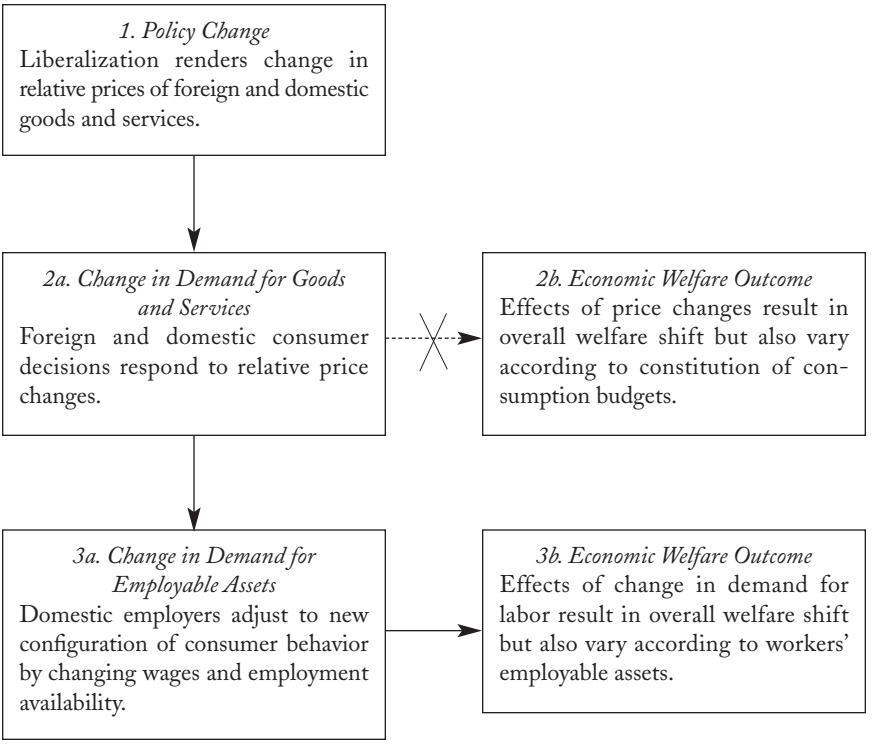

FIGURE 1
THE LOGIC UNDERLYING THE EARNING-POWER THEORIES

The impact of trade and protection on prices and consumer welfare is well established in economic theory, but political scientists have yet to use these principles as a means to generate hypotheses about trade policy preferences. Economic theories of rent seeking claim that a protected industry decreases aggregate national income by artificially increasing prices for its goods.[20] Because citizens would pay less for that industry's good if they had access to world markets, they have less money to devote to other purchases under protectionism. In essence, citizens are charged extra for a protected industry's inefficiencies, so only owners and employees in this industry benefit. As such, ceteris paribus, all consumers (ignoring temporarily the impact of trade on

[20] Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal* 5 (June 1967); and Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974).

their income) benefit from trade liberalization. Moreover, these benefits vary according to the nature of each person's consumption budget.

Although political scientists have yet to derive and test a consumption-based model of trade preferences, cognitive theories of policy preference suggest that individuals, especially in developing countries, may be more likely to base their free trade attitudes on their own patterns of personal consumption than on their status as producers and income earners.[21] For self-interest to be politicized, the linkage between policy and personal welfare must be evident to an individual, and there is reason to believe that citizens in Latin America have been much more aware of trade's impact on consumer choice than of its impact on employment opportunities. In countries that practiced decades of import substitution, the relaxation of import tariffs had an immediate and obvious impact on consumer choice. During the protectionist decades demand in many product markets was filled by domestic monopolies or oligopolies that sold low-quality goods at well above the world's market price. Consumers had few alternatives and limited purchasing power. With trade liberalization and the influx of imports (combined in many countries with an overvalued exchange rate), consumer options exploded. The quality, variety, and affordability of many goods expanded rapidly and in a process that most consumers perceived.

Why would this process be more visible than job loss and industrial restructuring to Latin American citizens and therefore more likely to shape their trade preferences? First, the cause/effect linkage between unemployment or wage fluctuations and imports may not always be obvious to the affected workers and the unemployed, many of whom are influenced indirectly through a tightened labor market. Second, only a minority of the population works in a tradable goods sector whose employment status and wages would be most visibly touched by trade liberalization. Workers in a given sector are likely to perceive whether they are benefiting from increased exports or losing from greater import competition. However, the remaining majority of the population is either employed in the service sector or not even in the economically active population. Less obvious to these individuals are the effects of foreign trade on their employment (for service sector employees), employment potential (for the unemployed and students), or the employ-

[21] Samuel Popkin, *The Reasoning Voter: Communication and Persuasion in Presidential Campaigns* (Chicago: University of Chicago Press, 1994); William Gamson, *Talking Politics* (Cambridge: Cambridge University Press, 1992); and idem, "Media Discourse as a Framing Resource," in Ann N. Crigler, ed., *The Psychology of Political Communication* (Ann Arbor: University of Michigan Press, 1996).

ment of their main income providers (for homemakers and the retired). Consumer behavior is also more likely to be linked to noticeable trends in aggregate support for trade policy because nearly every citizen is a consumer, while not everyone is a producer. In short, the impact of trade policy on consumer options creates a ready-made information shortcut for citizens to use in developing their preferences.[22]

This asymmetry in perception between the impact of trade on consumption options versus employment opportunities holds the key to understanding high aggregate support for free trade in Latin America. Trade liberalization in heavily protected societies has nothing but positive ramifications for consumer choice. Not only does the influx of foreign goods itself expand and increase the average quality of consumer options, but the increased competition encourages domestic firms (if they survive) to create higher-quality goods at a lower price. If consumers ignore or are unaware of the impact of this beneficial outcome on domestic industry and employment opportunities, then the typical response to free trade will be highly favorable.

Observable Implications of a Consumption-Based Theory

The consumption-based framework posits numerous empirical patterns that are observable at various levels of analysis: multinational, national, and individual. First, the most obvious and important observable implication was demonstrated in the data presented above: in formerly protected countries with small manufacturing sectors, trade liberalization will raise overall consumer welfare and therefore be quite popular. Remaining observable implications are empirically tested in subsequent sections of this article.

Second, due to the visibility of trade's impact, citizens will recognize the positive effects on their consumer options and will tend to justify their support for free trade by referring to these types of gains. Similarly, they will tend to believe that trade has been more beneficial for the availability and price of consumer goods than for wages and employment opportunities. Moreover, justifications of support based on consumer considerations will outnumber justifications of protectionism based on labor-market considerations.

Third, aggregate mass support at the national level will vary inversely with a country's ability to produce its own goods. Under protectionism, individuals living in countries with small, highly concentrated manufacturing sectors have far fewer tradable goods options available for

[22] Popkin (fn. 21); and Paul Sniderman, Richard Brody, and Philip Tetlock, *Reasoning and Choice: Explorations in Political Psychology* (Cambridge: Cambridge University Press, 1991).

purchase than have citizens in countries with large, diversified manufacturing sectors.[23] The beneficial effect of trade liberalization on consumer options is therefore even more pronounced and more visible in a country (like Panama) that historically has not produced a wide variety of manufactured goods than in a country (like Mexico) with a reasonably large and diversified economy. This hypothesis is in sharp contrast to an earning-power approach, which would predict higher support for free trade in countries with large markets. Under protectionism large-market countries can more easily achieve economies of scale, which advantages them in international market competition and creates more jobs.

A fourth and final observable implication pertains to individual-level heterogeneity in trade policy attitudes and merits a lengthier discussion. The relative price changes resulting from free trade will render welfare effects that vary across consumers according to the type of goods and services they tend to buy. Trade liberalization leads to relative declines in the prices of *f*oreign i*m*ports (M_F) and *l*ocally produced goods that compete with i*m*ports (M_L). It also leads to relative increases in the prices of *n*on*t*raded (NT_L) goods and services[24] as well as of locally produced goods in e*x*port-oriented sectors (X_L). Therefore, a theory of trade preferences based on self-interested consumers makes a clear-cut prediction: consumer support for free trade varies according to the individual's consumption budget. Consumers become increasingly disadvantaged by protectionism as the share of M_F and M_L in their consumption budgets increases, so support for trade barriers should vary inversely with this share. In contrast, consumers also become less favored by trade liberalization as the share of NT_L and X_L in their consumption budgets increases, so support for trade barriers should vary directly with this share. In sum, support for trade liberalization should vary directly with the following percentage, which is the share of income that consumer i devotes to imports and import-competing goods:

$$\frac{M_{F_i} + M_{L_i}}{M_{F_i} + M_{L_i} + X_{L_i} + NT_{L_i}}, \tag{1}$$

where each term is the amount of money spent on those types of items.

[23] Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

[24] This includes financial services such as savings and investment. According to free trade advocates, liberalization increases the demand for, and therefore the prices of, nontraded goods and services because it leads to greater economic growth. For reasons discussed above, I do not make this assumption; however, this does not negate the fact that prices of M_F and M_L will decrease *relative* to those of NT_L.

A precise test of this individual-level element of the theory calls for a data set with detailed information both about citizens' consumption budgets *and* about their trade policy attitudes. Unfortunately, household spending surveys are expensive, time consuming,[25] and therefore rare in Latin America; they are collected by census bureaus just a few times per decade in only a handful of countries. More importantly, the few that do exist are not coupled with attitudinal surveys on political and economic issues. However, existing knowledge and data on household spending do reveal that income can be used as a viable proxy for consumption budgets, especially when proper statistical controls are introduced.

Scholars have used income, like education, to operationalize a vast array of concepts. I introduce a measurement theory of income as consumer interests and argue that it is best conceptualized as a measure of consumer benefits vis-à-vis trade policy. Engel's law, one of the first theorems in modern economics (1857), states that the proportion of income spent on food declines as income rises.[26] A corollary of this original insight is that durable goods and clothing replace food in overall share once the basic need for the latter is fulfilled.[27] At the same time, Keynesian economic theory indicates that upper-class citizens save and invest a greater proportion of their income than does anyone else. The Latin American upper class also spends a larger share of its income on nontradables, namely, on services such as education and health.[28] Therefore, the share of traded, durable goods and clothing in one's consumption budget is at its peak among the middle class. Table 4 shows these patterns with household budget data from various countries.

Latin America has a comparative advantage in products that have relatively little value added and are both land intensive and natural-resource intensive. By contrast, the region has a comparative disadvantage in technology-intensive, high-value-added products. Therefore, clothing and durable goods (which are more processed and higher tech than food and other commodities) constitute a much greater share of

[25] Household budget surveys require family expenditures to be tracked rigorously for at least a week.

[26] H. S. Houthakker, "An International Comparison of Household Expenditure Patterns: Commemorating the Centenary of Engel's Law," *Econometrica* 25 (October 1957); and Debraj Ray, *Development Economics* (Princeton: Princeton University Press, 1998).

[27] Masao Ogaki, "Engel's Law and Cointegration," *Journal of Political Economy* 100 (October 1992); and Masao Ogaki and Carmen M. Reinhart, "Measuring Intertemporal Substitution: The Role of Durable Goods," *Journal of Political Economy* 106 (October 1998).

[28] Inter-American Development Bank, *Economic and Social Progress in Latin America: 1998–1999 Report* (Baltimore: Johns Hopkins University Press, 1998).

TABLE 4
PROPORTION OF INCOME SPENT ON DURABLE GOODS AND CLOTHING BY INCOME PERCENTILE[a]

Poorest									*Richest*
Argentina 1996 and 1997									
0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
.032	.062	.076	.084	.096	.094	.098	.100	.097	.084
Ecuador 1994 and 1995									
0%	12%	43%	78%	88%	93%	95%	97%	98%	99%
.115	.128	.135	.129	.116	.124	.100	.097	.080	.054
Mexico 2000									
0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
.091	.095	.103	.104	.111	.101	.110	.115	.106	.088

SOURCES: Argentina—Instituto Nacional de Estadistica y Censos, *Encuesta Nacional de Gastos de los Hogares 1996/1997*, original data consulted. Ecuador—Instituto Nacional de Estadistica y Censos, *Encuesta Nacional de Ingresos y Gastos de Hogares Urbanos: Resultados Anuales* (Quito, Ecuador: Instituto de Estadistica y Censos, 1995). Mexico—Instituto Nacional de Estadistica, Geografia, e Informatica, *Encuesta Nacional de Ingresos y Gastos de los Hogares* (Aguascalientes, Mexico: Instituto Nacional de Estadistica, Geografia e Informatica, 2000).

[a] Entries in the first row for each country indicate that column group's income level vis-à-vis the rest of the country's population. These percentages should be understood as the percentage of the population with family income smaller than that group. The second row is the mean (median in Argentina) proportion of income that families in that group spent on durable goods and clothing. Census bureaus in these countries each used different classificatory schemes for goods and services, so the categorization of durable goods varies somewhat by country. Details are available from the author upon request.

Latin American imports than exports.[29] According to equation 1, then, middle-class consumers benefit the most from trade liberalization because highly processed goods like consumer durables and clothing, which tend to be imported to Latin America, constitute a greater share of their consumption budgets than of the consumption budgets of any other class. In short, the relationship between income and consumer interests vis-à-vis free trade in the region is nonlinear, so support for trade liberalization should be highest among the middle class and lowest among the poor and the very wealthy. This does not mean that the average prices and quality of items that the lower and upper classes tend to purchase do not improve with free trade. Rather, the average prices and quality of items purchased by middle-class consumers are likely to undergo greater improvements.

Consumer price indices (CPI) from Latin America bear out these

[29] Vivianne Ventura-Dias, Mabel Cabezas, and Jaime Contador, *Trade Reform and Trade Patterns in Latin America* (Santiago, Chile: Economic Commission on Latin America, 1999).

TABLE 5
RELATIVE PRICE CHANGES BY TYPE OF GOOD AND BY CLASS

	Clothing Inflation	*Durables Inflation*
Country and Starting Year	*Food Inflation*	*Food Inflation*
Argentina 1990	.57	1.15
Bolivia 1981	.69	.86[a]
Brazil 1987	.50	.63
Chile 1974	.29	.73[a]
Colombia 1989	.70	NA
Costa Rica 1986	.55	.93[a]
Dominican Republic 1990	1.02[a]	.94[a]
Guatemala 1986	.57	.78
Mexico 1986	.74	.80
Panama 1991	.40	.91
Paraguay 1986	.67	NA
Peru 1991	.89	.92
Venezuela 1989	.45	.91

Overall Inflation in Mexico by Income, December 1985–December 1997[b]

Lower Class	*Lower-Middle Class*	*Middle Class*
Less than three minimum salaries	Three to six minimum salaries	Six or more minimum salaries
4608	4233	4151

SOURCES: Economic Commission on Latin American and the Caribbean, "America Latina: Índices de Precios al Consumidor" (manuscript); and Instituto Nacional de Estadistica, Geografia y Informatica, *Banco de Información Económica INEGI* (http://www.inegi.gob.mx/estadistica/espanol/economia/feconomia.html, accessed January 2002).

[a] Data are not available for actual year before that in which trade liberalization began. The earliest available data are used in these cases: Bolivia (1988), Chile (1992), Costa Rica (1995), and Dominican Republic (1991).

[b] The "Middle Class" category in the Mexico data includes upper-class citizens, but, because six minimum salaries in Mexico is not much above the poverty level, the vast majority of individuals falling in this category would be middle class.

patterns in relative price changes. Table 5 presents price changes for durable goods[30] and clothing, expressed as ratios to price changes in food. The ratios are based on price changes from the year before trade liberalization began in each country (or the earliest year for which data were available) to 1997.[31] A ratio below one means that prices under

[30] Although the government agencies that record CPIs do not report prices for a "durable goods" category, they do typically report price changes for "home equipment and maintenance." This category consists largely of tradable consumer durables like electronic appliances and furniture.

[31] To determine the first year of trade liberalization, I consulted the commercial policy reform index in Samuel A. Morley, Roberto Machado, and Stefano Pettinato, *Indexes of Structural Reform in Latin America* (Santiago, Chile: ECLAC, 1999).

trade liberalization for goods in that particular category increased at a rate slower than that of food prices. The price of food increased at a faster rate than that of clothing and durables in all but two of twenty-four cases. Table 5 also presents postliberalization price changes for the Mexican lower and middle classes, indicating that inflation was greater for the former.

Summing up this fourth observable implication, then, I use income as a proxy measure in lieu of actual consumption data in attitudinal surveys. From this I generate related hypotheses based on what is known about Latin America's comparative advantage, foreign trade, and inflation patterns, as well as about its citizens' consumption patterns by class. As consumers, the middle class should perceive the most visible benefits from trade liberalization.

IV. Evidence: Addressing the Aggregate Question

This section presents evidence to support the argument that the consumption-based model better accounts for the high aggregate popularity of trade liberalization in Latin America. I demonstrate that Latin Americans (1) recognize and appreciate the benefits of free trade for their consumer options and (2) are more positive overall toward free trade because they recognize these benefits. The subsequent section employs a multivariate model of individual-level survey data to indicate that trade preference heterogeneity among individuals and across countries is also compatible with a consumption-based theory.

Open-Ended Responses in Brazil

Results from open-ended probes about free trade in the four-city Brazil sample strongly indicate that consumer welfare dominates citizen thinking about free trade and is the principal reason for positive reactions toward liberalization. A procedure on the questionnaire prompted interviewers to follow up a close-ended response about free trade (results indicated in Table 3) with the following open-ended query: "And what are your reasons for being favorable/opposed to free trade?" Interviewers then wrote down everything the respondent said and asked "anything else?" until the respondent was finished. A coder read these texts and identified distinct "rationales" that were mentioned by multiple respondents. A single rationale characterized thoughts and phrases of a nearly identical ilk. Because respondents were able to say as much as they wanted about the reforms, many made multiple statements that fell into multiple rationales. After reading all of the open-ended texts

TABLE 6
REASONS FOR SUPPORTING FREE TRADE IN BRAZIL:
OPEN-ENDED RESPONSES[a]

	Raw, Unweighted Frequency	*Weighted Percentage of Sample*	*Weighted Percentage of Supporters*
Free-Trade Supporters	*392 of 800*	*45*	*100*
Consumer Welfare	*211*	*28*	*60*
Lower-priced goods and services	149	21	45
Higher-quality goods and services	62	10	21
Greater variety of goods and services	69	6	14
Employment	*120*	*14*	*29*
Generates jobs	79	9	20
Increases markets for Brazilian goods, exports	47	5	10
Macroeconomic Performance	*87*	*11*	*24*
Spurs economic growth	49	6	12
Enhances technological development	22	4	8
Encourages investment	19	3	6
Relationship with Foreign Countries	*25*	*3*	*7*
Exchange with other countries is good	14	2	3
Economic integration is good for country, world	7	1	2
Tax Revenues: Generates tax revenues to spend on social areas	*9*	*1*	*2*

SOURCE: Four-city Brazil survey (1999).

[a] Sampling weights account for differences in city size. The sums of the *Frame* frequencies and percentages do not sum to the column totals in the top row because many respondents made remarks that fell into multiple frames. Likewise, the sums of the rationale (roman type) frequencies and percentages do not sum to the frame totals because many respondents made remarks that fell into multiple rationales.

and coding them into rationales, the coder grouped each rationale into a limited number of identifiable "frames" that describe the general area of concern, such as employment, prices, or the macroeconomy. The results from this coding are presented in Tables 6 and 7. Frames are underlined and in italics while rationales are in roman type.

The most popular justification for one's attitude toward trade liberalization, either for or against, was a consumer welfare frame. Thirty-three percent of the weighted sample used and 47 percent of all valid responses were justified with a consumer-based rationale.[32] The vast majority of respondents that used this frame, about 90 percent, were

[32] Results were weighted by city size to portray a representative sample of the aggregated four cities.

TABLE 7
REASONS FOR OPPOSING FREE TRADE IN BRAZIL:
OPEN-ENDED RESPONSES[a]

	Raw, Unweighted Frequency	*Weighted Percentage of Sample*	*Weighted Percentage of Supporters*
Free-Trade Opponents	*127 of 800*	*21*	*100*
Employment: Decreases demand for Brazilian goods, businesses fail and jobs disappear	*50*	*11*	*40*
Relationship with Foreign Countries	*59*	*9*	*35*
Need to value and buy more Brazilian goods (free trade "*desvaloriza o produto nacional*")	38	7	32
Brazil must be an independent country	5	0	1
Consumer Welfare	*22*	*5*	*16*
Imports are lower quality	9	3	4
Imports are more expensive	4	1	4
Macroeconomic Performance: Stunts economic growth	*6*	*1*	*1*
Tax Revenues: Imports generate fewer tax revenues than Brazilian goods	*4*	*0*	*1*
Miscellaneous: Brazil has enough to survive on its own	*19*	*5*	*19*
Other Responses			
Depends: Depends on sector or country, or should be more gradual	40	7	—
Nonresponse: Respondent doesn't know or has no opinion	259	30	—

SOURCE: Four-city Brazil survey (1999).
[a] *Frames* are underlined and in italics; rationales are in roman type.

favorable toward free trade, citing the lower prices, higher quality, and/or greater variety of goods brought by the relaxing of trade barriers. In fact, 28 percent of the entire weighted sample and 60 percent of all trade proponents justified their support in this manner.

A labor market or employment frame followed as a close second; it was mentioned by 25 percent of the weighted sample. However, despite the objective evidence about trade's deleterious effects on employment opportunities (especially during the crisis weeks in which the survey was conducted) and the best efforts of leftist politicians to make this an

issue during the elections that had occurred five months earlier, a majority of respondents who used a labor-market frame were trade supporters! Almost 60 percent of these respondents believed that free trade in Brazil had helped to generate jobs, mainly by increasing global markets for Brazilian exports. Only 11 percent of the weighted sample (40 percent of free-trade opponents) attributed business failures and unemployment to free trade. In short, many Brazilians exhibited an asymmetry in their perceptions of the impact of trade: realistic understanding of its benefits for their consumer options with unrealistic perceptions of its impact on their employment opportunities. As described above, this is a formula for high aggregate support.

Evaluations of Regional Trade Blocs and Their Impact

In an item on the *Wall Street Journal Americas* survey, respondents were asked if the regional trade bloc of which their country was a member had helped or harmed the following things: (1) the price of consumer goods, (2) employment, and (3) salaries. Responses were coded as follows: (0) harmed a lot, (1) harmed a little, (2) no effect, (3) helped a little, and (4) helped a lot.[33] The results, presented in Table 8, strengthen the argument that Latin American consumers notice and appreciate the impact of free trade on the price of their options as consumers.

Table 8 presents paired difference of mean *t*-tests for whether individuals were more inclined to say that their regional free-trade bloc had helped prices or that it had helped labor markets. A positive and statistically significant difference indicates that respondents did think more highly of their bloc's influence on prices than on either employment or salaries. The results for the aggregated data set of the thirteen countries where these questions were asked are highly statistically significant.[34] In the region as a whole citizens thought that their regional trade bloc had a much more beneficial impact on prices than on employment and salaries.

The country-level results also lend support to this argument. The difference in mean between the assessment of the bloc's impact on prices versus employment is positive and statistically significant in seven of thirteen cases and highly negative in only one case. The latter case, Mexico, is easily explained when one considers that it is the only country to experience some success with export-led job creation. The findings are even more supportive of the consumer-choice argument

[33] Because individuals who had never heard of their country's regional trade bloc were not asked these questions, there was a substantial amount (about 40 percent) of missing data.

[34] These questions were not asked in the Dominican Republic.

TABLE 8
DIFFERENCES BETWEEN ASSESSMENTS OF REGIONAL TRADE BLOC'S EFFECTS ON PRICES AND LABOR MARKETS[a]

	$\bar{x}_{prices} - \bar{x}_{employment}$	$\bar{x}_{prices} - \bar{x}_{salaries}$	N
All 13 Countries	.22**	.42**	6021
	(.03)	(.02)	5924
MERCOSUR			
Argentina	.73**	.87**	665
	(.05)	(.05)	650
Brazil	.56**	.70**	394
	(.05)	(.06)	382
Paraguay	−.06	−.02	305
	(.06)	(.05)	301
Chile	.28**	.33**	700
	(.03)	(.03)	695
Andean Pact			
Bolivia	.10*	.20**	321
	(.05)	(.05)	319
Colombia	.10*	.26**	578
	(.04)	(.04)	570
Ecuador	−.03	.08	310
	(.05)	(.06)	310
Peru	.24**	.30**	605
	(.04)	(.04)	592
Venezuela	−.06	.13**	468
	(.05)	(.05)	458
Central American Common Market			
Costa Rica	.09*	.19**	487
	(.04)	(.04)	480
Guatemala	−.09	.11*	352
	(.06)	(.06)	340
Panama	.05	.15**	281
	(.06)	(.06)	275
NAFTA			
Mexico	−.35	.14**	555
	(.05)	(.05)	549

* $p < .05$; ** $p < .01$

SOURCE: *Wall Street Journal Americas* survey (1998).

[a] Entries are paired differences in mean evaluations of trade bias impact with standard errors in parentheses. In the variables that are being compared, higher values indicate a more favorable evaluation. All hypothesis tests are one-tailed. Results in the top row are weighted by population. Chile is an associate member of MERCOSUR. Bolivia is an associate member of MERCOSUR and a full member of the Andean Pact, so Bolivians were queried about the latter.

when comparing results from the prices question with those of the salaries question. In all but two countries the results are positive and statistically significant.

V. More Evidence: Cross-National and Individual-Level Patterns

Data and Model Specification

The analyses in the preceding section indicate that the consumption-based framework explains the aggregate question about the popularity of trade in Latin America. However, an accurate theoretical explanation should also be compatible with observed interpersonal and cross-national differences in trade preferences. In this section I describe the specification of two multivariate models that assess the ability of the earning power and consumption-based theories to explain preferences at both the individual and country level. The models are a pair of two-stage least squares procedures with binomial functional forms that pool data from all fourteen nations in the 1998 *Wall Street Journal Americas* data set. The dependent variable in both models is a continuous-variable index of general support for free trade, created from the shared variance between responses to the two *Wall Street Journal Americas* questions in Tables 1 and 2.[35] (See Appendix 1 for more on how the dependent variable was constructed.)

Both models contain the following individual-level variables: education (years of formal education), income (measured in 1997 U.S.$1,000), income squared, knowledge of trade issues, gender, age, town of residence size, presidential approval, and a series of dummy variables measuring occupation. Presidential approval is measured with an instrumental variable created in the two-stage least squares procedure and is explained below. The two models differ only in their treatment of cross-national variation in mean support for free trade. The first model contains three variables that are country specific: supply of skilled labor, GDP of manufacturing sector, and 1997 GDP per capita growth. This

[35] By using a linear combination of these two variables instead of just one of them, I tap an underlying dimension of free trade orientations that is less subject to either item's idiosyncrasies of question wording or measurement error. It is also crucial to note that hypothesized relationships are the same for *both* questions in the dependent variable. Both the Heckscher-Ohlin and consumption-based theories rely on the notions of relative abundance and comparative advantage. Therefore, a comparison of resource endowments between trading partners is necessary to understand economic consequences and to predict individual preferences. Throughout this paper, I have developed predictions based on Latin American countries' comparative advantage as developing countries vis-à-vis the global economy. Both questions are similar in this regard, then, since one refers to unilateral trade liberalization and the other to the FTAA, which would be dominated by the skill-intensive and capital-intensive economy of the U.S.

model also contains a term to capture any potential multiplicative relationship between supply of skilled labor and education. The second model drops these variables and simply includes dummy variables for all but one country. Although atheoretical about cross-national differences, this "fixed effects" model is a robustness check because it allows for a more precise estimation of the regionwide individual-level relationships than the model with the country-level variables. The models employ sampling weights that account for the population of the respondent's country, so the reported results pertain to a sample from the real-world population of these fourteen nations.[36] (See Appendix 1 for more detail.)[37]

Hypotheses

If the Heckscher-Ohlin theory of trade preferences is accurate, such that people possessing scarce factors favor protectionism, then the education coefficient will be negative. Moreover, these coefficients should be more negative in countries with a small supply of skilled labor, so the model includes an interaction term that is the respondent's education level multiplied by the country's supply of skilled labor (measured as the percentage of the population twenty-five and older that has attained some postsecondary education).[38] Heckscher-Ohlin predicts that the coefficient on the interaction term will be positive. If the human capital hypothesis holds, however, then the education coefficient will be positive and the interaction coefficient will be zero. Moreover, if the

[36] The estimation procedure adjusts for the multilevel nature of the data by correcting for nonindependence or clustering within countries. See J. Eltinge and W. Sribney, "Svy4: Linear, Logistic, and Probit Regressions for Survey Data," *Stata Technical Bulletin Reprints* 6 (1997); and Marco R. Steenbergen and Bradford S. Jones, "Modeling Multilevel Data Structures," *American Journal of Political Science* 46 (January 2002).

[37] To avoid a severe loss of cases, the reported estimates are averages of model results from twenty data sets with different imputations for missing values on income (10 percent missing), education (1 percent missing), and the variables used to construct the presidential approval instrument. Gary King, James Honaker, Anne Joseph, and Kenneth Scheve, "Analyzing Incomplete Political Science Data: An Alternative Algorithm for Multiple Imputation," *American Political Science Review* 95 (March 2001). Imputations were made by country using the EMis algorithm in *Amelia, 2.0*; James Honaker, Anne Joseph, Gary King, Kenneth Scheve, and Naunihal Singh, *Amelia: A Program for Missing Data* (Cambridge: Harvard University, 1999) (http://Gking.Harvard.edu, accessed January 2002).

[38] Data are 1999 figures from Robert J. Barro and Jong-Wha Lee, "International Data on Educational Attainment" (http://www.cid.harvard.edu/ciddata/ciddata.html, accessed January 2002). Education is expressed as deviation from the overall weighted sample mean while supply of skilled labor is expressed as deviation from the fourteen countries' mean, and the interaction term is therefore the product of these two variables. Centering these variables in this manner provides a more intuitive and substantive interpretation of the coefficients. The education coefficient is the relationship between education and free trade support in a country with the region's mean supply of skilled labor, while the supply of skilled labor coefficient expresses the relationship between skilled labor and free support for a citizen with the region's mean education level.

human capital argument is useful in solving the puzzle about aggregate preferences, then the first-order measure of supply of skilled labor, which varies by country, will be positive.

If the consumption-based theory holds, then three results will obtain. First, the coefficient on income will be positive. Second, the coefficient on the square of income will be negative. Together, these results would indicate that support for free trade peaks among the middle class, concave with respect to income.[39] Third, the variable measuring GDP of the manufacturing sector will be negative.[40] Consumers in small countries with limited manufacturing sectors stand to benefit more from trade liberalization, so they should be less protectionist on average than are consumers in large, diversified economies.

I test a simple sociotropic policy evaluation model with a measure of GDP per capita growth in 1997,[41] the year before the survey occurred. The sociotropic policy evaluation model states that citizens support an existing policy during periods of economic growth while opposing it during economic slowdowns.[42] If this theory is correct, the coefficient will be positive, since citizens in countries experiencing high economic growth should be less protectionist than are citizens in countries with low or negative economic growth.

The model also controls for several variables whose exclusion would potentially bias the coefficients on the variables of central theoretical import. First, certain occupations, namely, professional and white-collar jobs that tend to be in the nontradable service sector, are more cushioned from international market competition. As such, middle-income individuals may be less protectionist not for consumer-oriented reasons but because their jobs are not as vulnerable to market fluctua-

[39] Income is recalculated as deviations from the sample mean, with income squared equivalent to the square of this value. John Neter, William Wasserman, and Michael H. Kutner, *Applied Linear Regression Models,* 2d ed. (Homewood, Ill.: Irwin, 1989). The decision to measure income in 1997 U.S.$1,000 *without* adjusting for purchasing power parity is crucial. It retains cross-national differences in purchasing power in international markets even though over- or undervalued exchange rates may contribute to these differences.

[40] This variable is not a percentage but a measure of the sheer size of this sector. More specifically, this is the natural log of the country's 1997 manufacturing sector output in US$ at purchasing power parity. Data are from World Bank, *World Development Indicators 2000 CD-Rom* (Washington, D.C.: World Bank, 2000).

[41] World Bank (fn. 40).

[42] Susan Stokes, ed., *Public Support for Market Reforms in New Democracies* (Cambridge: Cambridge University Press, 2001); Kenneth M. Roberts and Moises Arce, "Neoliberalism and Lower-Class Voting in Peru," *Comparative Political Studies* 31 (April 1998); Morris Fiorina, *Retrospective Voting in American National Elections* (New Haven: Yale University Press, 1981); and Donald Kinder and D. Roderick Kiewiet, "Economic Discontent and Political Behavior: The Role of Personal Grievances and Collective Economic Judgements in Congressional Voting," *American Journal of Political Science* 23 (August 1979).

tions. To increase the validity of income as an indicator of consumer interests, then, I control for different occupational types, including white-collar jobs, with a series of dummy variables.

Second, extensive research indicates that many citizens form political attitudes by taking cues from parties and politicians they support.[43] Because presidents, not parties, have been central figures in advocating and implementing Latin America's market reforms, I measure these political orientations with the respondent's approval of the incumbent president.[44] Citizens who support a neoliberal president may be more likely to accept his cues encouraging them to support free trade, while citizens who are opposed to such an incumbent are more prone to reject these promarket messages in favor of protectionist ones. In the rare cases in which statist presidents held office in early 1998 (Colombia and Ecuador), the reverse should obtain, whereby supporters of the incumbent accept more protectionist cues.[45]

While the cue-taking model of attitude formation has extensive empirical support, scholars often test it without accounting for the potential endogeneity involved.[46] A sizable body of evidence, including the widely applied spatial model, indicates that the causal arrow may be reversed: citizens have fixed issue attitudes and evaluate the incumbent based on her or his propensity to support their preferred policy.[47] So that endogeneity does not bias the coefficient estimates, I estimate a two-stage least squares model in which the original presidential approval measure is replaced with an instrumental variable. The instrumental variable is the predicted values from a regression of presidential approval on all the variables used to explain free trade support plus some other exogenous variables, such as ideology and other issue attitudes (listed in Appendix 1), that are correlated with incumbent approval.

Third, a related variable is one's overall degree of exposure to persuasive messages that are positive about trade liberalization. Because the

[43] Robert R. Kaufman and Leo Zuckerman, "Attitudes toward Economic Reform in Mexico: The Role of Political Mediations," *American Political Science Review* 92 (June 1998); and John Zaller, *The Nature and Origins of Mass Opinion* (Cambridge: Cambridge University Press, 1992).

[44] Susan C. Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (Cambridge: Cambridge University Press, 2001); and Javier Corrales, "Presidents, Ruling Parties, and Party Rules: A Theory on the Politics of Economic Reform in Latin America," *Comparative Politics* 32 (January 2001).

[45] I categorized each president's economic policy orientation using Stokes's (see fn. 44) classification of the president's government as either "security"-oriented or "efficiency"-oriented (pp. 14–15). For the two security-oriented presidents, I reversed the coding of presidential approval for the respondents in these two countries.

[46] Kaufman and Zuckerman (fn. 43).

[47] Melvin J. Hinich and Michael C. Munger, *Analytical Politics* (Cambridge: Cambridge University Press, 1997).

"Washington consensus" in favor of market orthodoxy has become a near consensus among Latin American political and economic elites as well, Latin American citizens with frequent exposure to elite discourse about trade might be more likely to share these promarket views.[48] Omitting a measure of exposure to elite discourse could bias assessments of the trade theories because this variable is positively correlated with both income and education.[49] Following developments in political psychology, I measure this variable using respondents' score on a "quiz" of objective facts about trade policy, namely, whether they were familiar with their country's regional economic integration scheme and with "fast track" authority.

Finally, because protectionism in Latin America favored urban, industrial sectors at the expense of the agriculture-based rural areas, I hypothesize a negative relationship between town size and support for free trade.[50] Older individuals may be more likely to remember the "glory days" of import-substitution industrialization, when Latin American countries frequently achieved annual GDP growth rates above 5 percent, so I hypothesize a negative relationship between age and the dependent variable. Last, although no research on gender and economic policy preferences in Latin America exists, I hypothesize that women in these fourteen countries, like their counterparts in the developed world, are more economically statist than men.[51]

Multivariate Results

The multivariate results are presented in Table 9. The consumption-based theory passes all tests. In both models, and even more so in the fixed-effects version, income is a positive and statistically significant predictor of support for trade liberalization. At the same time, the relationship is nonlinear since the square of income is negative and statistically significant. Support for free trade is concave with respect to

[48] Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (Oxford: Oxford University Press, 1995); and John Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute for International Economics, 1990).

[49] Cue-taking theory dictates an interactive effect between awareness and political orientation, since highly aware citizens are both more exposed to the persuasive messages of their favorite politicians and more likely to reject those of their least preferred politicians. See Zaller (fn. 43). Although I estimated a model with this interaction term, I do not present the results because scholars do not yet know how to calculate the correct standard errors for a model with an interaction term that contains an instrumental variable. Besides this, the inclusion of this variable did not significantly enhance the predictive power of the model nor did it noticeably change any of the other coefficients.

[50] Frieden (fn. 13).

[51] R. Michael Alvarez and Edward J. McCaffery, "Are there Sex Differences in Fiscal Political Preferences?" *Political Research Quarterly* 56 (March 2003)

income: at its peak among the middle class and at its nadir among the lower and upper classes. The inflection point is at about U.S.$1,000 per month, which is approximately the 85th percentile on the region's income ladder. The other main test of the consumer-based theory also turns up the hypothesized result: citizens in countries with large (in absolute size), diversified manufacturing bases are less enthusiastic about trade liberalization, on average, than citizens in countries with a limited manufacturing sector.

Education has a positive and robust relationship with support for free trade, lending substantial credence to the human capital hypothesis.[52] The positive and statistically significant sign on the interaction coefficient in model 1 does support the Heckscher-Ohlin model. However, its magnitude indicates that the relationship between education and support for free trade is positive in all fourteen countries. According to this coefficient, education is positively correlated with free trade support even in Guatemala, the country with the smallest share of individuals with a postsecondary education.[53] This means that skill level in these countries increases one's tendency to support free trade despite their comparatively low-skilled labor forces. In short, the human capital model performs far more impressively than Heckscher-Ohlin in explaining interpersonal heterogeneity in Latin America. However, as mentioned above, this argument cannot explain the high aggregate support for free trade in countries with low levels of human capital. The negative sign on the supply of skilled labor coefficient in model 1 further confirms this suspicion.

The central finding among the control variables is the importance of elite opinion leadership. Citizens who are exposed to media messages about trade are less likely to be protectionist, as evidenced by the statistical significance of the knowledge variable. Moreover, the statistical significance of the presidential approval variable indicates that citizens accept the cues of their incumbent president when they support him and accept countervailing cues when they oppose him. Finally, the results disconfirm the sociotropic policy evaluation model since GDP per capita growth is actually negatively associated with aggregate support for free trade.

[52] This finding on education coincides with the results in Mitchell Seligson, "Popular Support for Regional Economic Integration in Latin America," *Journal of Latin American Studies* 31 (February 1999).

[53] Guatemala's value on the supply of skilled labor variable is −8.8, or almost 9 percentage points below the mean of the fourteen nations. Therefore, the education coefficient for Guatemala would be −8.8 × .0011 + .0211 = .011.

TABLE 9
MASS SUPPORT FOR TRADE LIBERALIZATION IN LATIN AMERICA BY SKILL LEVEL, CONSUMER INTERESTS, AND CONTROL VARIABLES: TWO-STAGE LEAST SQUARES RESULTS[a]

	(1) With Country-Level Variables	*(2) Fixed Effects: With Country Dummy Variables*
Country-Level Variables		
GDP of manufacturing sector	−.0220*	—
	(.0134)	
1997 GDP per capita growth	−.0270	—
	(.0097)	
Supply of skilled labor	−.0077	—
	(.0052)	
Education × supply of skilled labor	.0014*	—
	(.0006)	
Individual-Level Variables		
Income	.0109*	.0182**
	(.0053)	(.0042)
Income^2	⁻.0006*	−.0010**
	(.0003)	(.0002)
Education	.0237**	.0172**
	(.0046)	(.0044)
Knowledge of trade issues	.0315**	.0312**
	(.0139)	(.0146)
Age	−.0003	−.0003
	(.0008)	(.0009)
Woman	.0056	.0035
	(.0172)	(.0168)
Town size	.0321	.0081
	(.0237)	(.0240)
White-collar workers	0	0
	(0)	(0)
Entrepreneurs (formal and informal sector)	.0317**	.0291**
	(.0127)	(.0107)
Manual laborers	.0438	.0250
	(.0310)	(.0257)
Farmers	.2864**	.2303**
	(.0660)	(.0756)
Unemployed	−.0430	−.0441
	(.0712)	(.0693)
Not in the economically active population	−.0098	−.0075
	(.0151)	(.0167)
Other occupations	−.0274	−.0004
	(.0653)	(.0711)

TABLE 9 *(cont.)*

	(1) With Country-Level Variables	*(2) Fixed Effects: With Country Dummy Variables*
Presidential approval (instrumental variable)	.3799**	.3711**
	(.1135)	(.1064)
Constant	.5304	−.0026
	(.3478)	(.0381)
R^2	.09	.10

*p < .05; **p < .01.

SOURCE: *Wall Street Journal Americas* survey (1998).

[a] N = 11,580. Entries are two-stage least squares coefficients and robust standard errors in parentheses. Standard errors are corrected for clustering within countries. All hypothesis tests, except for those on the education and occupation coefficients, are one-tailed. The results are weighted so that they reflect a sample of the fourteen-nation population. Coefficients on country dummy variables in the second model are not shown.

VI. CONCLUSION: BRINGING THE CONSUMER IN

Latin America's postreform macroeconomic crises and its inability to generate sustained job growth preclude a simple "retrospective evaluations" explanation for the popularity of free trade among the region's citizens. Moreover, the commonly invoked Heckscher-Ohlin trade theory, which appears to explain trade preferences in developed countries, fails to solve this puzzle in Latin America. As a solution, I constructed a theory that shifts the focus from individual earning power to consumption behavior. This explanation succeeded on three empirical fronts. Evidence confirmed that aggregate support for free trade receives a substantial boost because of consumption concerns: citizens are appreciative of how it has improved the quality, price, and variety of goods available to them. In subsequent multivariate analyses, consumption behavior helped explain cross-national and interpersonal differences in mean beliefs about trade policy. The two earning-power theories, by contrast, received more ambiguous empirical support. Neither succeeded in explaining cross-national differences, interpersonal heterogeneity, *and* high aggregate support for free trade, although the human capital hypothesis provided substantial analytical leverage at the individual level.

These results indicate a need to pay greater attention to citizens' interests qua consumers, not simply income earners. Rarely are consumer concerns incorporated into theories of issue attitudes. In particular,

most scholarly explanations of economic policy beliefs privilege indicators of earning power despite the fact that citizens, when they are away from work, spend a significant amount of their free time consuming and deciding what to consume. This oversight also colors the conclusions that political economists and politicians make about the sustainability of policy reform. Many political economists once believed that public opposition to market liberalization in developing countries would make these reforms more probable and sustainable in authoritarian regimes, where such outrage could be repressed or ignored. Likewise, politicians in protected, poverty-stricken economies often avoided reform for fear of reprisal from nationalist citizens as well as from angry labor unions and workers. However, trade liberalization in Latin America has actually created a large coalition of supporters who recognize the policy source of the visible change in their consumer options.

This does not, of course, give carte blanche to zealous, promarket politicians in Latin America, especially as they look to negotiate a potential hemisphere-wide trade zone that would include the rather protectionist United States. Evidence does indicate a certain degree of citizen attentiveness to the impact of trade on earning power and employment opportunities. Overly rapid economic integration with the U.S. could alienate undereducated citizens who lack the skills to adjust to global markets, particularly if unemployment rates continue to rise. Moreover, the novelty of being able to buy higher-quality foreign goods may dwindle. Regardless, scholars and politicians alike should not underestimate the ability of citizens to learn about policy consequences in creative and often unexpected ways.

Appendix 1: *Wall Street Journal Americas* Survey

The *Wall Street Journal Americas* poll was conducted by RAC & MORI international, headed by Miguel Basáñez, from January 20, 1998, to February 20, 1998. Local polling firms conducted 11,964 face-to-face interviews in fourteen countries (a parallel phone survey in the United States was also administered). The samples are primarily urban, with only 8 percent of respondents residing in cities smaller than fifty thousand people. In each country, a stratified sampling procedure was used in which five homes in two hundred geographic units were each randomly chosen, and respondents within each home were chosen using the "most recent birthday" technique. Regionwide analyses were conducted with population-size probability weights so that results pertain to a sample from the real-world population of these fourteen countries. This shifts

only the relative influence of each respondent (based on her or his nationality); it does not artificially change the overall *N*. The weighting factor varies by country and accounts for the country's share of both the Latin American population and the *Wall Street Journal Americas* sample. The weight for a respondent in country *c* is the following:

$$\frac{p_c}{\sum p_c} \times \frac{\sum n_c}{n_c},$$

where *p* is a country's population and *n* is the number of respondents from country *c* in the survey (11,964). This factor was adjusted by city-size sampling weights in the four countries that had them.

The dependent variable was constructed from the free trade evaluation and FTAA support variables listed below. I used the scores from the only extractable factor from a principal components analysis of these two variables (alpha = .50). To avoid a high degree of missing data, individuals with "don't know" responses to one of the two items still received a factor score based on the assumption that they would have scored the same degree of support for free trade on the other item. Respondents were therefore dropped in listwise fashion only when they said "don't know" to both items, resulting in a loss of 384 (3 percent) cases. The index has a mean of −.024 and a standard deviation of .9382, with a minimum of −3.02 and a maximum of 1.14.

—*Free trade evaluation*. "Over the last few years the country has had more and more business and trade with other countries. This tendency is called 'free trade.' Do you think that free trade is good or bad for the country? Very or somewhat?"

—*FTAA support*. "The presidents of North and South America are talking about forming a single free trade zone for the entire continent. Are you in favor of or against this idea? Very or slightly?"

—*Knowledge of trade issues*. Respondents were asked to describe their country's regional trade area (Andean Pact/CACM/MERCOSUL/NAFTA) and "fast-track" authority. Their score on this variable was the number (0 to 2) of which they had an accurate knowledge.

—*Regional trade agreement's impact*. "Do you think that [Andean Pact/CACM/MERCOSUL/NAFTA] helped or harmed (1) the prices of consumer goods, (2) employment, (3) salaries? Greatly or slightly?"

—*Education*. From zero to twelve years, education is coded as the number of years of education. Beyond 12, (13) = undergraduate incomplete, (14) = undergraduate complete, (15) = postgraduate incomplete, (16) = postgraduate complete.

—*Income*. Survey administrators coded income into four categories: lower class (bottom 40 percent of population); middle and lower-middle (next 30 percent); middle-upper class (next 20 percent); upper class (top 10 percent). I converted these figures into income in 1997 U.S.$1,000s using country-level data on GDP per capita and income distribution by decile. Sources for this were Economic Commission on Latin America

and the Caribbean, *Statistical Yearbook for Latin America and the Caribbean 2000* (Santiago, Chile: United Nations, 2000); World Bank (fn. 40); and World Bank, *World Development Indicators 2001* (http://www.worldbank.org/data/, accessed January 2002).

—*Town size*. The town size variable is recoded from the manner in which survey administrators recorded it. The code is the middle number of inhabitants for the recorded category divided by 1,000,000: (.0075) rural zone (less than 15,000 inhabitants); (.0325) small city (15,000 to 50,000 inhabitants); (.075) medium city (50,000 to 100,000 inhabitants); (.55) big city (100,000 to 1 million inhabitants), (2) metropolis (over 1 million inhabitants).

Other variables used to construct the presidential approval instrument are:

—*Presidential approval*. "In general, what opinion do you have of President X? Good or Bad? Very or slightly?"

—*Privatization attitude*. "Do you think that the change toward privatization is good or bad for the country?"

—*Foreign direct investment support*. "Which phrase is closer to your way of thinking? Foreign investment is good because it helps the economy grow. Or foreign investment is bad because it gives other countries too much influence over our economy."

—*Neoliberal values*. "With which phrase do you agree more? Government should take care of the well-being of individuals. Or each individual should take care of his own well-being."

—*Left-right self-placement*. "In politics, 'left' and 'right' are often mentioned. On a scale where 0 is left and 10 is right, where would you place yourself?" I created a separate dummy variable to indicate individuals that did not place themselves on this scale.

Appendix 2: Four-City Brazil Survey

The four-city Brazil survey was conducted in late March and April 1999. Respondents were chosen in Belém, Porto Alegre, Recife, and São Paulo with two hundred face-to-face interviews on weekend days in residences in each city. Samples were selected using age, sex, and neighborhood-size quotas (based on census data), with interviewers choosing respondents at their own discretion within neighborhoods. The entire questionnaire lasted an average of thirteen minutes.

—*Free trade support*. "In the last ten years, Brazil's trade with foreign countries grew. This increase in trade is known as 'trade liberalization' or 'free trade.' Some people favor and others oppose this 'trade liberalization.' Are you in favor, against or do not have an opinion on this policy of trade opening? Are you strongly or slightly (favorable, opposed)? And what are your reasons for being favorable/opposed to free trade?"

Appendix 3: Latinbarometer Surveys

The 1996 Latinbarometer was carried out in seventeen Latin American countries with probability samples (about one thousand per country)

representative of the urban population of each country. The original data are available for purchase at http://www.latinobarometro.org/.

—*FTAA support (1996)*. "In general, are you in favor or against economic integration of the countries in Latin America, even when this might imply some costs or sacrifices for your country?"

Results from Latinbarometer 2001 are those reported in *Economist* (fn. 4). The original data are not yet available to the public domain.

—*FTAA support (2001)*. "Generally speaking, are you in favor of or against the economic integration of the countries of Latin America? Would you say that you are very in favor, slightly in favor, slightly against or very against it?" "Do you think the establishment of the Free Trade Area of the Americas will help a lot, somewhat, slightly, or not at all the economic development of your country?"