

Real Protection and Policy Inertia in Peru, 1900–1940: Evidence on the Determinants of Trade Policy in a Price-Driven Tariff System



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1. Motivation

Did early 20th-century Latin American tariffs protect domestic industries or merely raise fiscal revenue? The question matters for understanding the region's development path, yet remains unsettled.

Evidence on Peru is scarce and divided. Thorp & Bertram (1978) argue that absent protection and adverse price movements harmed local industry. Boloña (1994) contends that exchange rate movements compensated. Zegarra (2017) suggests protection would have imposed costs regardless, given Peru's economic structure.

Two problems limit what we can conclude. Studies rely on highly aggregated trade data that mask heterogeneity across sectors. And they ignore the Aforo System — official valuations that created a wedge between nominal and real protection.

2. Purpose

The paper uncovers the actual orientation of Peruvian trade policy. It answers:

Were tariffs protective? we reconstruct Peru's tariff protective structure accounting for slowly-adjusting official valuations could have generated or eroded protection independently of legislative intent.

Did price movements drive tariff changes? the paper measures the relative contribution of world price movement in explaining changes in real protection (Cruccini, 1994).

3. Rich trade data

Novel product-level dataset. Universe of Peru's tariff lines (~2,600/year) for benchmark years in 1902–1940. Source: Superintendencia General de Aduanas.

Tariff schedules harmonised under the Peruvian Nomenclature and translated to SITC. Four major tariff reforms provide policy variation.

Trading partners: US (Historical Statistics of the United States) and UK (Thomas & Dimsdale, 2017). Exchange rates: Anuario Estadístico del Perú 1931–1933.

4. Methodology

Aforo correction. *world-to-official price ratio* (mark-up) computed for each tariff, using 1922 report — the first to record market prices under the same PN as 1921 avalúos:

$$m_c \equiv \frac{P_{1922}^M}{P_{1921}^O} \quad (1)$$

4. Methodology (cont)

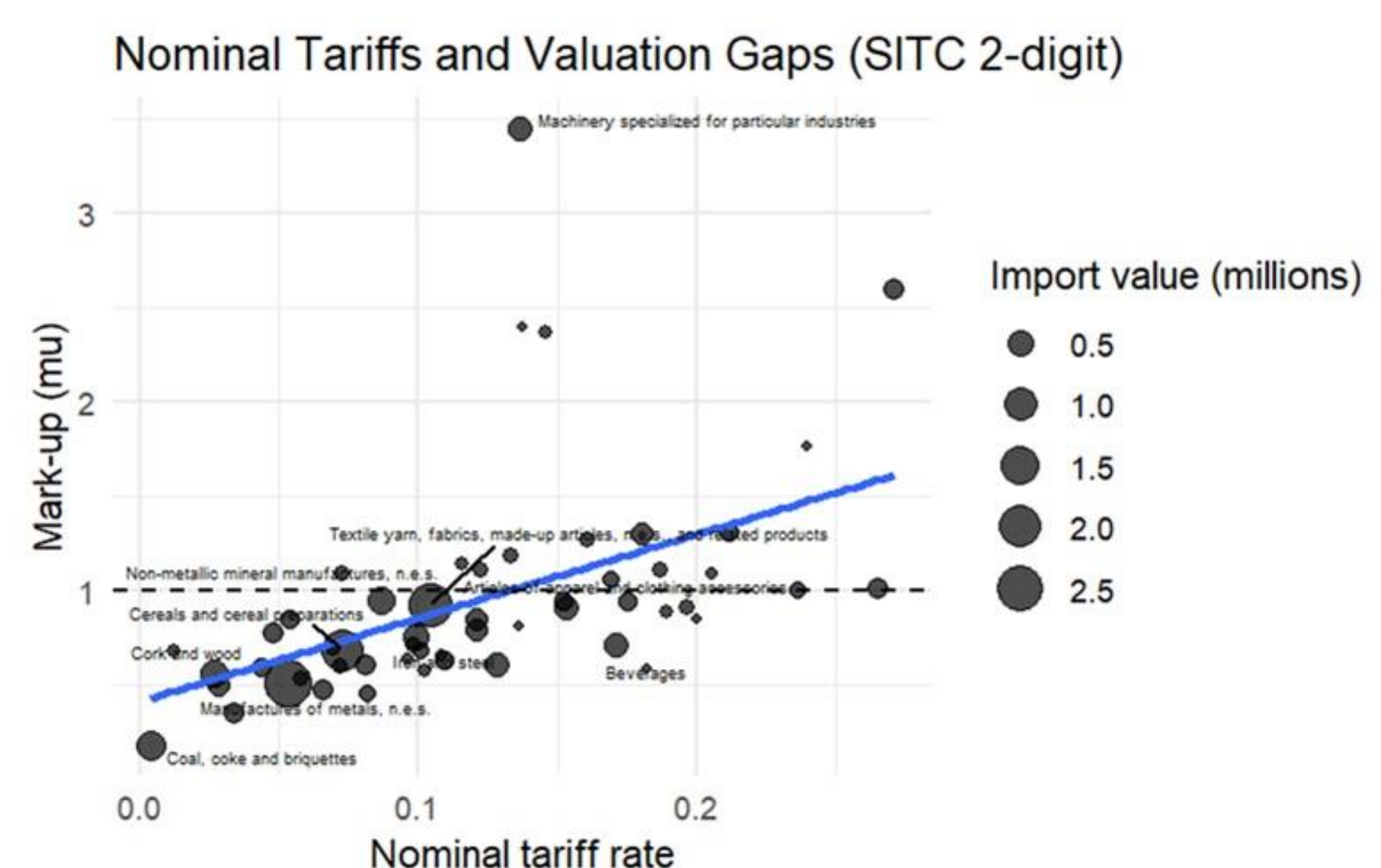
Backcasting (pre-1922). A price correction factor combines m_c with changes in US & UK export unit values (P) and exchange rates (ϵ), weighted by each partner's import share (w_k):

$$cf_{ct} = m_c \cdot e^{\sum_k w_k (\Delta \ln P_{kt} + \Delta \ln \epsilon_{kt})} \quad (2)$$

Tariff measures. ad-valorem equivalent at product level: $\tau_{cit} = \alpha_{cit} + \frac{s_{cit}}{p_{cit}}$. Import-weighted industry tariff (3-digit SITC) is:

$$T_{it} = \sum \omega_{cit} \cdot \tau_{cit} \quad (3)$$

For pre-1922, p_{cit} is the corrected price from (2).



4. Findings (very preliminary)

- ✓ Peru's tariff system was primarily fiscally motivated rather than a protectionist one.
- ✓ Yet, targeted protection existed for certain commodities: sugar, tobacco, leather, and garments. Some of these retained protection into the 21st-century suggesting path dependence in the political economy of protection, but further research on this is warranted.

References

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