

The Peculiar Political Economy of NAFTA: Complexity, Uncertainty and Footloose Policy Preferences

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Abstract

On a large number of dimensions, the domestic political economy of the North American Free Trade Agreement (NAFTA) in the US was peculiar. In some ways the most surprising aspect of the politics of NAFTA relates to the apparent footlooseness of aggregate opinion. That is, since standard theories of political economy assume that policy preferences are determined by material conditions, those theories only predict changes when material (economic or political) conditions change. In this paper we provide evidence that aggregate public opinion in NAFTA shifted dramatically in the absence of any change in the underlying political and economic fundamentals. We will then sketch the elements of a theory of footloose policy preferences that helps understand this sort of phenomenon and conclude with a discussion of the implications of the analysis for policy analysis and advice.

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On a large number of dimensions, the domestic political economy of the North American Free Trade Agreement (NAFTA) in the US was peculiar. For example, at least from the perspective of standard endogenous policy models of trade policy, the coalitions that emerged would seem to be difficult to rationalize in an *ex ante* compelling way.² Similarly, the level of national political heat generated by a policy estimated to have only very modest effects is surprising. However, in some ways the most surprising aspect of the politics of NAFTA relates to the apparent footlooseness of aggregate opinion. That is, since standard theories of political economy assume that policy preferences are determined by material conditions, those theories only predict changes when material (economic or political) conditions change. In this paper we will argue that aggregate public opinion in NAFTA shifted dramatically in the absence of any change in the underlying political and economic fundamentals. We will then sketch the elements of a theory of footloose policy preferences that helps understand this sort of phenomenon and conclude with a discussion of the implications of the analysis for policy analysis and advice.³

The Fact: Footloose Aggregate Preferences on NAFTA

In this section we first provide evidence of a sizable shift in public opinion on NAFTA and then provide evidence that political and economic fundamentals were, at best, unchanged and, at least arguably, moved in such a way that would have generally been expected to increase support for NAFTA.⁴ Figure 1 shows, from 1991-1995, the shares of responses to questions

asking whether the respondent believes NAFTA “would be mostly good or mostly bad for the US” and, from 1996-2000, whether NAFTA has “had more of a positive impact or more of a negative impact on the US”.⁵ It is easy to see that from very high levels of positive evaluation and very low levels of negative evaluation in 1990 and 1991, the positives drop dramatically while the negatives rise more slowly, but still steadily, so that by the mid-1990s positive and negative evaluations are essentially balanced.⁶ Figure 2 summarizes these two by taking the ratio of “good” to “bad” responses. We now want to argue that this shift in opinion occurs despite that fact that, although NAFTA had been officially “implemented” in January 1994, virtually nothing of economic substance had occurred, or was scheduled to occur for several years. Furthermore, we want to argue that nothing had changed in Mexican or US fundamentals that would lead to a policy reassessment of the sort revealed by these two polls.

First, NAFTA itself. In early 1990, as part of, and as a support to, extensive domestic economic reforms, Mexico’s president (Carlos Salinas de Gortari) approached the Bush White House with a request to negotiate a bilateral free trade agreement with the United States.⁷ Canadian concern with the implications of such an agreement for its recently negotiated trade agreement with the US led to the continental approach that eventually produced NAFTA. Virtually from the beginning, labor and environmental interests began organizing against NAFTA. The central issue in the early period was fast-track negotiating authority and, while there was substantial public opposition by labor and environmental groups, but consistent with the poll evidence cited above, fast track passed with substantial majorities on 23 (House) and 24 (Senate) May 1991.⁸ NAFTA then became a major public issue in the Presidential campaign. However, only minor candidate Ross Perot opposed NAFTA (both George Bush and Bill Clinton

came out publicly in support).⁹ Perhaps surprisingly, NAFTA passed with nearly the same margins as had fast track, though in this case the outcome was considered highly uncertain until virtually the moment of the vote.¹⁰ Under this legislation, NAFTA was scheduled to be implemented in January 1994.

One of the tricky things about implementation of complex legislation like NAFTA is the timetable. The NAFTA was completed in August of 1992 and implementing legislation in the U.S. became effective on January 1, 1994. It incorporated and expanded most of the provisions of the CFTA that was halfway into its ten year phase-in period. While the agreement eliminated tariffs on many goods immediately (over half of U.S. imports and nearly a third of exports with Mexico), it began the phasing-out of remaining tariffs over a fifteen year period. Most of the anticipated effects of the agreement on the U.S. economy, however, were through provisions covering a broad range of nontariff barriers, foreign direct investment, intellectual property rights, trade in services, and a number of other trade facilitating agreements (on customs administration, product standards, antitrust, and telecommunications). Many of these provisions were also to be phased-in over time. There were also two well-publicized side agreements on environmental and labor cooperation.

Prior to NAFTA implementation, the average U.S. tariff rate on imports from Mexico was only around 3 percent and half by value already the U.S. entered duty-free. By 1996, about three-fourths of U.S. imports from Mexico were duty free with an average tariff of around 2.5 percent on the remainder (including sectors such as motor vehicles and motor vehicle parts, apparel and textiles, and fresh vegetables). The average tariff rate in Mexico on U.S. goods started at around 10 percent prior to NAFTA and in 1996 was down to approximately 3 percent

on NAFTA goods. Also, the share of U.S. exports entering Mexico duty free increased from roughly one third to two thirds by 1996.

Most provisions on nontariff barriers were still being implemented in 1996. In particular, prohibitions, quantitative restrictions, and import licensing requirements by Mexico were still being phased-out with the use of tariff-rate quotas. Additionally, implementation was not yet complete in a number of key industries. For example, Mexico is phasing-out trade and investment restrictions on automobiles over 10 years -- including a slow reduction in local content requirements from 36 percent to only 34 percent in the first five years. Additionally, the U.S. is phasing-out quotas on textiles and apparel made with foreign material over a 10-year period and both countries are phasing out nontariff barriers on agriculture (import licenses in Mexico and quota shares in the U.S.) over 10 or 15 years using tariff-rate quotas. Implementation by Mexico is also not complete in the telecommunications, transportation services, and financial services industries. The provisions related to foreign direct investment, intellectual property rights, trade in services, customs administration, and product standards were fully in effect by 1996.¹¹

Complicating an assessment of the impact of NAFTA on the U.S. was the fact that the WTO Agreements entered into effect only one year later and addressed many of the same issues. In general, the WTO Agreements were broader than the NAFTA and went farther in sectors such as agriculture and telecommunication services, but fell short with respect to foreign direct investment and government procurement. Notable overlap includes areas such as sanitary measures, textile and clothing, antidumping, safeguards, intellectual property rights, and dispute settlement. The WTO Agreements also lowered U.S. tariffs by nearly a third and began a five

year phase-in period of tariff reductions on most products, with a ten year phase-in period on sensitive sectors (such as textiles). Mexico did not reduce their MFN tariffs as a result of the WTO Agreements and, instead, merely bound their rates generally at 35 percent. In fact, in response to the peso crisis, Mexico raised MFN tariffs on 502 consumer goods in 1995 from an average of 20 percent to 35 percent. U.S. exports to Mexico under the NAFTA were exempt from these tariff increases.

Thus, the major political event in the period 1991-1992 was the fast-track vote. The passage of the legislation, and thus the final legal form of NAFTA was not determined until the end of 1993, with “implementation” occurring in 1994.¹² It would be hard to argue that the sizable shift in opinion occurring between 1991 and 1993 was a function of the sort of shifts in political fundamentals that might be taken to account for changed policy preferences in standard political economy models. While the institutional environment had not changed significantly, it is entirely possible that a change in economic conditions induced the change in public trade policy preferences. We know from previous research on the correlates of trade policy that trade balance and general macroeconomic conditions are associated with changes in trade policy demands. Chart 3A shows the balance on goods and services (1980-1999), where 1991 is the last year of a multi-year improvement in the trade balance and where 1992 and 1993 show positive performance by historical standards. By contrast, the large deteriorations in 1998 and 1999 do not appear to be particularly associated with changed evaluations. Similarly, chart 3B shows the (possibly more relevant) merchandise trade balance with Mexico, where we see 1991 and 1992 are years of improving trade balances and, again, the large deterioration from 1994 to 1995 is not associated with changed evaluations. Aggregate economic indicators, shown in Chart 4, are

equally unsupportive of an economic fundamentals story.¹³ The period of strongest support coincides with a period of low (even negative in 1991) growth and high unemployment, while the periods of weaker support are characterized by stronger growth performance and lower unemployment. The picture that emerges from these data is clear: standard theoretical and empirical models of trade policy preference/behavior would have predicted greater activism in 1990-1993 than in the latter half of the decade. Interestingly, this suggestion is supported by the data in Chart 5, which shows the number of Title VII (anti-dumping and countervailing duty) petitions initiated per year. Activity in the administered protection mechanisms, of which the Title VII mechanism is the most prominent, is well-known to be a major indicator of protectionist activity. That figure shows a relatively smoothly rising trend in filings consistent with a period of deteriorating economic performance, and a drop in 1995 to a lower annual level of filings.¹⁴ Thus, as we asserted at the outset of this section, it would be difficult to attribute to changed institutional or material conditions the shift in public attitudes with respect to NAFTA.

Policy Complexity, Social Learning and Footloose Preferences

As economists/political-economists, the conclusion of the previous section leaves us in an awkward position. All positive political economy models operate by assuming that the policy preferences of individuals are derived in some relatively straightforward way from the effect of policy (and policy changes) on material well-being. But we have just displayed a case where policy preferences changed, and changed dramatically, with no relevant change in material or institutional conditions. In this section we argue that the complexity of NAFTA makes determining the effects of implementation difficult. It is under precisely such conditions that we

might expect agents to condition their behavior on the actions of others, not for strategic reasons, but because those who have already taken actions might reasonably be expected to possess knowledge one does not possess. This attempt to learn from the behavior of others is called *social learning*.

From the point of view of the citizen, or policy-maker, trade policy is extremely complex. Trade policy rarely comes in the form of a single, discrete act of protection.¹⁵ Instead, trade policy is embedded in legislative acts made up of complicated bundles of changes in the law regulating trade that even experts have a hard time evaluating. NAFTA is a very interesting example. NAFTA itself is a document of over 300 pages (not including the national tariff schedules and various other lists—with these the text runs over 2000 pages) covering trade in goods, technical barriers to trade, government procurement, investment, services, intellectual property, and the administrative and institutional conventions needed for implementation; the agreement on environmental cooperation is another 20 pages; as is the agreement on labor cooperation; all of these need to be implemented with specific national regulations in all three signatory countries. Some of these regulations will affect trade in goods, others will affect trade in factors of production; some will liberalize this trade, others will restrict it. In addition, while NAFTA officially became law in 1994, as we saw above, full implementation will not occur in sensitive sectors for periods of 10 to 25 years. In this environment even trade economists might be expected to have fairly diffuse priors with respect to NAFTA's aggregate and distributional effects.¹⁶

Clearly, in the case of NAFTA, some form of “learning” had occurred, since expressed evaluations had shifted fairly dramatically. What is completely unclear is what triggered this

reassessment. There was virtually no NAFTA-specific information and the aggregate facts of the economy suggest the sort of environment in which trade is usually viewed relatively benignly. This would seem to be a virtually archetypal example of footloose preferences. Given the weakened domestic political institutions supporting trade liberalization in the U.S., and the concomitant likelihood of increased prominence for trade as a public political issue, such footloose-ness of trade preferences could play a significant role in the future politics of trade.¹⁷ As proponents of liberal trading relations, it behooves us to seek an understanding of such preferences.

While there may have been no change in the material or policy environment, the period from 1991 to 1996 (and especially 1991-1993) was characterized by an extraordinary amount of public discussion about NAFTA. It was the first instance of highly public trade politics since the heyday of the classic tariff system and, as such, it may tell us something about the politics of trade in years to come. NAFTA was in the news, it was dinner table and cocktail party conversation among non-economists, every politician had (and had to have) a public opinion (sometimes different from their private opinion). Perhaps most importantly, NAFTA was a major issue in the 1992 presidential election. Trade economists approached minor celebrity status, and the unanimity with which trade economists concluded that NAFTA was economically insignificant for the US was truly stunning. With similar unanimity we heaped well-earned scorn on dishonest claims about the “giant sucking sound”.¹⁸ But note that the timing is important. NAFTA really takes off as public issue only when candidate Ross Perot decided to focus on it, and this focus really comes after the change in public evaluations. While both Patrick Buchanan and Perot were critical in 1991 and 1992, it is only in 1993 (especially with the publication of

Perot's book in September and the Gore-Perot debate in November) that there was wide discussion of the issue. Where economists appear to have been successful in convincing Congress that NAFTA's economic effects would be small, the public was clearly confused and worried (with "undecided" responses rising rapidly in 1991 and 1992).

Clearly, high uncertainty and learning play a major role in the NAFTA case. However, at least if we believe that the effects of NAFTA were likely to be small (and probably positive), as we claimed at the time, this is a peculiar kind of "learning". That is, instead of converging on the "true" facts of the matter, the public moved in the opposite direction. One useful way of approaching this phenomenon is to consider it as an example of herd behavior. Herding occurs whenever agents focus on a single behavior, with particular reference to cases in which there are multiple plausible candidate behaviors. The phenomenon of herd behavior is common enough that it has been used as the basis for a wide variety of economic analyses based on such things as demand interdependence (Leibenstein, 1950; Schelling, 1978; Becker, 1991) and network externalities (Dybvig and Spatt, 1983; David, 1985; Farrell and Saloner, 1985; Katz and Shapiro, 1985). An alternative explanation in terms of information cascades has recently been presented by Bikhchandani, Hirshleifer, and Welch (BHW, 1992), and further developed in a number of later papers.¹⁹

In an environment where individuals can learn about the environment from both private information and the behavior of others, an *information cascade* occurs when agents ignore their private information and follow the information implied by the behavior of others. Where the behavior of others is not perfectly informative with respect to their private information, an information cascade effectively traps socially useful information, thus permitting socially

suboptimal outcomes. Thus, the essential elements of the information cascade model are coarse public signals and private signals of bounded accuracy. Without the first assumption, the law of large numbers suggests that, with a sufficiently large number of observations, the true state of the world is revealed (almost surely). In most information cascade models this assumption takes the form that agents observe the actions of other agents but not their signals, and that the actions are imperfectly informative with respect to signals. Without the second assumption, individuals might receive fully informative signals, allowing them to take actions that would break the cascade. In addition, BHW (1992) make a number of additional assumptions that permit a very simple expository model.

Consider the NAFTA case. Suppose that we start from an equilibrium and, thus, from a cascade involving all citizens. Specifically, suppose we start from a situation in which people have essentially no beliefs at all about NAFTA, and possibly have a weakly held belief that trade liberalization (whether NAFTA or multilateral) would have a negative effect on the economic interests of the US.²⁰ That is, we assume that citizens as a whole believe that trade liberalization is harmful, but this support of increased liberalization is highly conditional and subject to large shifts. Now recall that in the run up to the fast-track vote, virtually all respectable economists and the political leadership of both parties argued very publicly that, essentially, NAFTA was no big deal economically for the US, but that it was important politically (by being important economically for Mexico). The result, as we have already noted, was strong public support for NAFTA. However, the public had not *learned* that liberal trade was good, if by “learned” we mean “identified the true state of the world”, but had simply shifted to another weakly held prior. With the campaigns in 1992 and the debate over NAFTA itself in 1993, the opposition forces

began to receive considerable greater visibility and, even though there was no change in the material environment, people shifted their evaluations. Furthermore, once NAFTA was passed by Congress, economists in general (and trade economists in particular) not only lost interest in NAFTA, but began to argue that maybe NAFTA wasn't such a great idea after all. It isn't really relevant that the free trade fundamentalist critique of NAFTA was that it distracted political attention from broader trade liberalization. The public listens for the conclusion, not the argument—especially when the argument is, at best, arcane.²¹ The result, in the face of continued aggressive public relations against NAFTA, as we have already noted, is that public opinion shifted back to opposition to NAFTA.

An Illustrative Model

This section sets up a very simple political economy model of individual citizen preferences for or against the NAFTA under uncertainty over the impact of the agreement. Preferences over the trade agreement depend on two factors: an economic effect; and a political effect. The latter reflects the claim that NAFTA would help lock-in liberal political and economic reforms in Mexico. We will assume that this effect is certain, but has a relatively small weight in citizen welfare. The first reflects concerns with the economic effects of NAFTA on US labor. Poll data seem to suggest that negative evaluations of NAFTA were highly correlated with a perception of high labor adjustment costs in the US. If Mexico is economically small, we suppose that there are no significant adjustment costs; but if Mexico is large there will be significant adjustment costs. Furthermore, if Mexico is large, the adjustment costs are taken to outweigh the benefits of locking in Mexican reform. We will assume that these preferences

are common and reflected in a common evaluation function $V(E, P) := v(E(S)) - P$, where E and P reflect the economic and political factors, S denotes the economic size of Mexico, and $v(\cdot)$ is the value of protecting displaced factors from adjustment costs, so a positive value of $V(\cdot)$ implies a preference for *rejecting* NAFTA.²²

We now assume that Mexico's size is uncertain. Each agent therefore faces a decision under uncertainty of whether or not to reject the trade agreement depending upon whether he/she expects it to be welfare improving. Specifically, we will assume that each citizen observes a conditionally iid signal $\sigma_i = \{L, S\}$ and that $\sigma_i > .5$ if the true value of Mexico's size is L and $1 - \sigma_i$ if the true value is S . In addition to the private signal, citizens take their action in a known order and each citizen observes the action (but not the signal) of all agents that precede them in this order. Thus, after the first citizen decides whether or not to reject NAFTA, all later deciders have two sources of information: one public; and one private. It is common knowledge that all agents are Bayesian rational. If we adopt BHW's normalization of $v(H) = 1$, $v(L) = 0$, $P = 1/2$, and letting γ_i be the posterior probability that Mexico is large: $E[v_i] = \gamma_i \cdot 1 + (1 - \gamma_i) \cdot 0 = \gamma_i$; and $V_i > 0$ if $\gamma_i > 1/2$. Finally, BHW adopt the tie-breaking convention that a citizen that is indifferent between rejecting and accepting NAFTA chooses to accept. This model is now identical to that of BHW's "specific model" (BHW, 1992, pp. 996-999).

The logic of cascades is straightforward in this model. Suppose that the first citizen observes $\sigma_1 = L$. She has no additional information, so $V_1 = 1 - 1/2 > 0$ and she rejects NAFTA. For citizen two there are two possibilities: $\sigma_2 = L$ and citizen 2 rejects; or $\sigma_2 = S$, so 2 computes $E[v_2] = 1/2$, $V_2 = 0$, and by the tie-breaking rule accepts. Citizen 3 is in one of three cases: both previous citizens reject NAFTA, so 3 rejects *independently of her private signal*; both previous

citizens accepted, so 3 accepts *independently of her private signal*; or 1 and 2 split, in which case 3 is in the same situation as 1—i.e. her private signal determines her action. Either of the first two cases is a cascade: all later citizens ignore their private signals and adopt the same action of those preceding them. In this simple framework it is easy to see that: cascades occur with probability 1; cascades occur more quickly the further is σ from .5; and good cascades occur more often the further is σ from .5. With reasonably high uncertainty, σ not terribly far from .5 (as we have argued may have been the case with NAFTA), but with a large number of citizens, everyone knows that they are in a cascade almost surely. This is the opening wedge for BHW's other key result that: 1) once an informational cascade has begun, individuals still value public information and 2) a small amount of public information can reverse a cascade. That is, even a strong informational cascade rejecting NAFTA can be suddenly reversed into an equally strong cascade supporting the agreement. The key result here is their result 3: "the release of a small amount of public information can shatter a long-lasting cascade, where a 'small amount' refers to a signal less informative than the private signal of a single individual" (BHW, 1992, pg. 1005).²³

Conclusion: On Economists as Participants in the Politics of Trade Policy

It is important to be clear that, while the class of models considered here is positive, they are not predictive over the domain of final political-economic outcomes. These models do not avoid, in fact they rest on (or, more accurately, provide a formal representation of) the fact that, with appropriately chosen priors, we can reproduce virtually any final outcome.²⁴ Thus, any predictions of these models with respect to final outcomes are vacuous. Nonetheless, we hope that this paper suggests that ignorance and learning in a social context are issues of first rate

importance, both as empirical phenomena and as potential determinants of trade policy outcomes. Furthermore, there are, we think, several implications of these models (and of ignorance/learning more generally) for us as policy analysts. We consider two: one with respect to evaluating the predictive content of our positive models; and the second with respect to the role of economists in the public discourse over trade policy.

There is no substitute for basing predictive political-economy models on political and economic fundamentals. We have good reason to expect such fundamentals to play a central role in determining trade policy, and we have equally good reason to predict the direction of the effects. However, if learning effects also play a, largely unpredictable, role, we also need to expect prediction errors that are occasionally large. That is, the right kind of ignorance can yield wildly different outcomes from those predicted by models. An excellent example, away from the trade policy focus of this paper, is the poor performance of macro political-economy models in the 1992 Bush-Clinton election (Haynes and Stone, 1994). While the data seem to show recovery of the economy, and thus success for the incumbent, there was widespread perception that the economy was still in an economic crisis (“It’s the economy stupid”). The result, as they say, is history.

As noted in the introduction and suggested by the discussion of the NAFTA case, one of the most interesting implications of learning models with information cascades as a prediction is the suggestion of a major role for policy analysts. Some of the recent attempts to justify an active policy role for economists turn on difficult philosophical issues of freedom of choice that seem rather removed from the actual practice of participation by economists in the public policy discourse. The advice on how and whom to advise that emerges from this kind of argument

seems of limited use.²⁵ The problem seems to emerge from taking our models seriously where we should not. We have just argued that these models serve a very useful positive purpose in understanding and predicting public policy. However, when we abstract from complexity and uncertainty in the interest of building parsimonious models, we have abstracted from the most obvious warrant for an active advisory role. When agents, whether citizens or policy-makers, are highly uncertain about the workings of the economy (i.e. most of the time), expert advice can have a substantial effect on final outcomes via precisely the channels identified in learning models.²⁶ It makes perfectly good sense for citizens and politicians to listen to, and even to seek out, the advice of economists because that advice is better informed than much of the policy advice that is given during a political process—though note that this need not be even vaguely perfect information. A public signal of strong agreement among economists, especially when supported by compelling evidence, during a political process can have the effect of a public information release in the models discussed above. Even if policy-makers, or citizens, believe that this information is less informative than any individual privately observed signal, such a public release can have the effect of reopening the public discussion and dramatically shifting the structure of governmental or public opinion.²⁷

It seems to us that a focus on this non-strategic, informational role of economic advice has useful implications. To the extent that the warrant for advice-giving is uncertainty, as much about the working of the economy as about simple facts, it seems particularly fruitless to give advice based on the presumption that those receiving it are well-trained economists.²⁸ We need to convince our auditors that a consensus on fundamental issues related to, say, trade policy, exists, and we need to do so in ways that are clear to relatively engaged, relatively intelligent

non-economists. This clearly means that complicated arguments, requiring many closely argued steps, and knowledge of economic theory, are likely to be unsuccessful. However, as Matthew Slaughter (1999) argues, while outright lies may be successful in the short-run (e.g. “NAFTA will create thousands of jobs”), sooner-or-later they are likely to backfire. The most successful of our public representatives—e.g. Milton Friedman, Alan Blinder, Paul Krugman—seem to identify simple but compelling metaphors, which are mixed with a small number of striking facts, to argue for a single clear policy point. Finally, it should be noted that, if social learning does not produce knowledge of the intertemporally sturdy type, but rather of the type suggested by informational cascade models, we need to be prepared to stay engaged in the public discourse beyond the passage of any particular piece of legislation.

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Endnotes

1. This paper is solely meant to represent the opinions of the authors, and is not meant to represent in any way the views of the United States Government or the Department of Commerce.

2. We specifically have in mind the strong opposition of a number of unions in sectors where research suggested that NAFTA would permit rationalization of production involving increased production in the US. The most obvious case is the automotive sector where an end to domestic content rules will permit rationalization of production that was estimated to increase US employment in that sector. Similarly with respect to environmental organizations where research was far from clear on the environmental effects of NAFTA (though here it is important to recall that environmental organizations were actually split on NAFTA). With respect to bizarre coalitions, we need only recall that the Democrat president and the Republican congressional leadership led one coalition, opposing a group led by Pat Buchanan, Ross Perot, Richard Gephardt, Jesse Jackson, and Ralph Nader. Note that this is not to say that such a rationalization cannot be produced. We have no doubt that several can. We are, after all, professionals. The question is whether such a rationalization can be produced that would have been compelling *ex ante*.

3. The theory of footloose policy preferences is developed in more detail in Nelson (1998).

4. Philip Levy (1998) discusses such a shift in terms of two polls asking: will NAFTA be “mostly good for the country” (1991); and has NAFTA had “more of a positive ... or a negative impact” (1996). It turns out that these two polls are the most extreme polls on NAFTA in the Roper Center database.

5. These data are drawn from the Roper Center for Public Opinion Research database (available from Lexis-Nexis), and include all questions in that database of the form described in the text. The number of polls in each year are: 1990 (1); 1991 (2); 1992 (3); 1993 (3); 1994 (2); 1995 (0); 1996 (2); 1997 (8); 1998 (1); 1999 (3); and 2000 (1).

6. Following a sizable jump, from 1% to 19%, between 1990 and 1992, undecided responses stay in a fairly narrow range around 20% [except for 1999 (32%)]. Null responses—i.e. either “about the same” or “neither one nor the other”—also make up a small number of responses (usually less than 5%).

7. It is useful to recall that Mexico acceded to GATT membership in 1986. This was part of a substantial trade liberalization begun by President de la Madrid in 1983. See Ten Kate (1992), Weiss (1992), Pastor and Wise (1994), and Tornell and Velsaco (1997) for useful discussions of the trade policy aspects of Mexican liberalization in the period leading up to NAFTA. For more on Mexican reforms generally, see Lustig (1998).

8. 231-192 in the House and 59-36 in the Senate. These majorities are actually majorities against disapproval resolutions. These counts are from Destler (1995), which provides a fine treatment of the politics surrounding NAFTA, and all other aspects of US trade policy. Boadu and Thompson (1993) and Kahane (1996) provide conventional econometric studies of the fast track vote.

9. It should be noted, however, that candidate Clinton did express concern about both labor and environmental issues, stressing the importance of side agreements on both.

10. House, 234-200 (17/11/93); and Senate, 61-38 (20/11/93). The NAFTA votes, especially in the the Senate, have been extensively studied, see: Conybeare and Zinkula (1994); Steagall and

Jennings (1996); Kahane (1996); Thorbecke (1997); Holian, Krebs, and Walsh (1997); Kamdar and Gonzalez (1998); Bailey and Brady (1998); and Baldwin and Magee (2000).

11. For a much more detailed discussion of the status of NAFTA implementation in 1996, see chapter 2 of *The Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three-Year Review*, U.S. International Trade Commission, publication 3045.

12. With reference to Levy's (1998) paper we simply note that: 1) opinion shifts well before this date; and 2) actual implementation occurs much later (i.e. many of the most significant changes in US and Mexican law were scheduled to occur only with lags of up to 15 years).

13. It should also be recalled that this is the period of realignment of the US dollar from a period of very large overvaluation. It will be recalled that the dollar began accelerating in late-1980 or early-1981, reaching its peak in February 1985, and ultimately returning to something like an equilibrium level in late-1987 or early-1988. The essential fact would seem to be that 1991 is at the end of a period of exchange rate instability, while 1996 is in a relatively stable period.

14. The spikes in 1992 and 1997 are associated with massive steel industry filings that are determined institutionally (i.e. as a part of the steel industry's strategy relative to the mechanism) and are not in any obvious way associated with Mexico, Canada, or NAFTA.

Although, using annual data (1980-1999 and 1990-1999) there are too few data points for convincing analysis, simple regression of Title VII petitions on unemployment and trade balance suggests that both of these play a role in explaining filing behavior (with unemployment playing the larger role). Carrying out the same analysis using positive responses, negative responses, or their ratio yields no significant results at all.

15. Even in the days of the classic tariff system—say, 1870-1932—the political action revolved

around tariff acts with hundreds of line items. In addition, as research on 19th century voting suggests, the social meaning of the tariff was highly variable across local electorates.

16. For the purposes of this paper we abstract from the central importance to the US of locking in Mexican economic reforms. This is consistent with nearly all of the political-economy research on free trade areas in general, and NAFTA in particular. Though see the important series of papers by Ethier (1998 a-c, 1999, 2002).

17. The events surrounding the WTO meeting in Seattle (30 November 1999), illustrate this point even more clearly than does the politics of NAFTA. Nelson (1989) provides a discussion of the role and transformation of US trade policy institutions for the support of trade liberalism. Nelson (1995) discusses the collapse of those institutions in the early 1970s.

18. It is probably useful, given the recent vogue among trade economists for attacking free trade areas, to recall that during the NAFTA debate support for NAFTA was seen as a litmus test of one's status as a serious economist.

19. See Bikhchandani, Hirshleifer, and Welch (1998) and Nelson (1998) for surveys.

20. Both assumptions here strike us as plausible approximations for the purposes of this example. What poll data exist with respect to trade policy generally strongly suggests that a considerable majority believes further liberalization will be harmful to the US economy—though there is little evidence of support for general increases in protection (though support for sectoral increases is often strong)—see Scheve and Slaughter (2001). Furthermore, there is very little evidence that citizens make much of a distinction between preferential and multilateral liberalization. This makes sense. The difference in complexity, from the point of view of a citizen, between NAFTA and, say, a GATT agreement, is trivial.

21. Abstracting from details of trade creation and trade diversion, which are characterized by complexity considerations of the sort central to this paper, it is notable that virtually all of the arguments against regionalism, whatever their validity, are arguments that only an economist would love. Unlike the simple models used to illustrate powerful, but difficult, notions of comparative advantage and gains from trade, which are based on assumptions that isolate the key causal relation generating gains from trade, the political economy arguments used to argue against free trade areas are based on assumptions that seem unrelated to the core processes involved. Their purpose seems more to be to stiffen the spine of the profession in its support of multilateralism than to persuade citizens or their representatives.

22. That is we are assuming that citizens have a very simple form of *sociotropic preferences* (Kinder and Kiewiet, 1981; Mutz and Mondak, 1997), i.e. they evaluate policies in terms of the way policy affects community welfare. We simplify by assuming that the relevant community is the nation as a whole, and that the evaluation of community welfare is unaffected by individual preference. These latter two assumptions are generally false. We can prove the existence of cascades in more standard political economy models, but the additional analytical freight does not produce any additional insight relative to the central point of this paper: footlooseness of policy preferences.

23. BHW (1992) develop their analysis in a somewhat more general informational environment involving a sequence of possible signals and a more careful formalism. More importantly, it would be straightforward to extend their analysis to the case of preference heterogeneity, as generated for example in a standard endogenous tariff model, under full information about citizen types. In that case, while actions (e.g. accept, reject, abstain) will vary, so there need not

be complete herding, there will still be good and bad cascades with strictly positive probability. More interesting possibilities emerge with type heterogeneity and uncertainty about types. Smith and Sørensen (2000) develop this case in some detail. This is an important topic for future research, but beyond the needs of the simple point made in this paper.

24. It is the *reproduction* of outcomes that is most worrying in social scientific analysis. Thin predictions (unless strictly unfalsifiable) will not last, but compelling post-dictions (“stylized facts”) can sustain empirically weak theoretical analyses for long periods.

25. This is the entering wedge for Dixit’s (1997) comment on O’Flaherty and Bhagwati (1997).

26. Just as trade and political economy models abstract from informational issues to focus on the causal forces of most immediate interest, learning models of the sort developed in this paper abstract from a variety of complexities to highlight the effects of ignorance and learning in a social context. In particular, these models abstract from the important, and complementary, forces that make advisors participants (in a game theoretic sense) in the political process. Dixit (1997) provides a very nice sketch, with appropriate references, of models which highlight the role of advice giving in a strategic environment with asymmetric information.

27. Although we are presumably better informed, as we noted above, economists are at least as prone to being trapped in cascades as any other rational agents engaged in learning about the world, possibly more so. Because economists have very similar understandings of the workings of the economy—due to strong socialization—we may behave more like the agents in the BHW models than any other group. Smith and Sørensen (2000) find much more complex aggregate behavior characterizing groups with heterogeneous preferences than in groups with homogeneous preferences.

28. While admirable, the attempt to transform citizens and policy-makers into economists is almost certainly doomed to failure.

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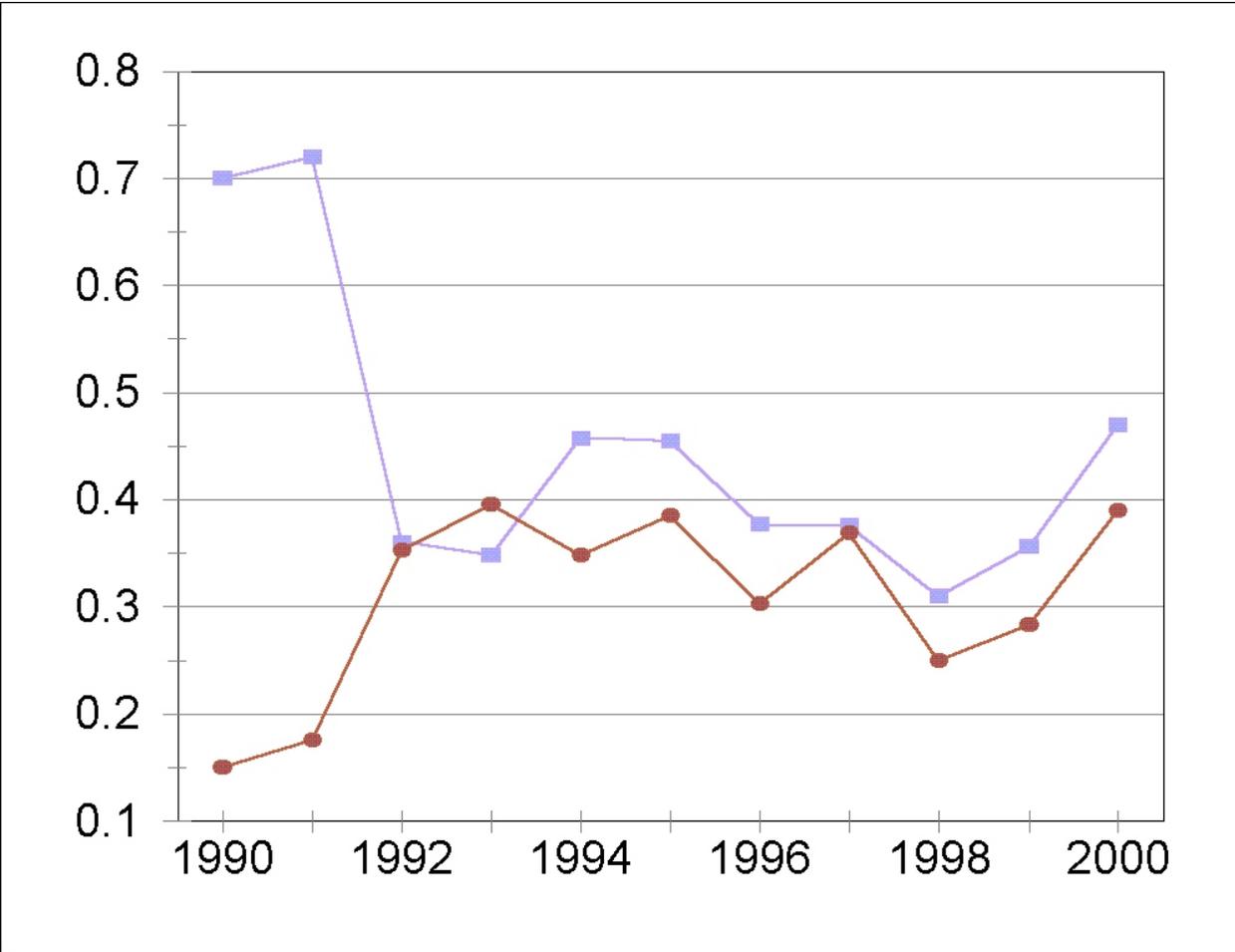


Chart 1: Positive (■) and Negative (●) Evaluations of NAFTA.

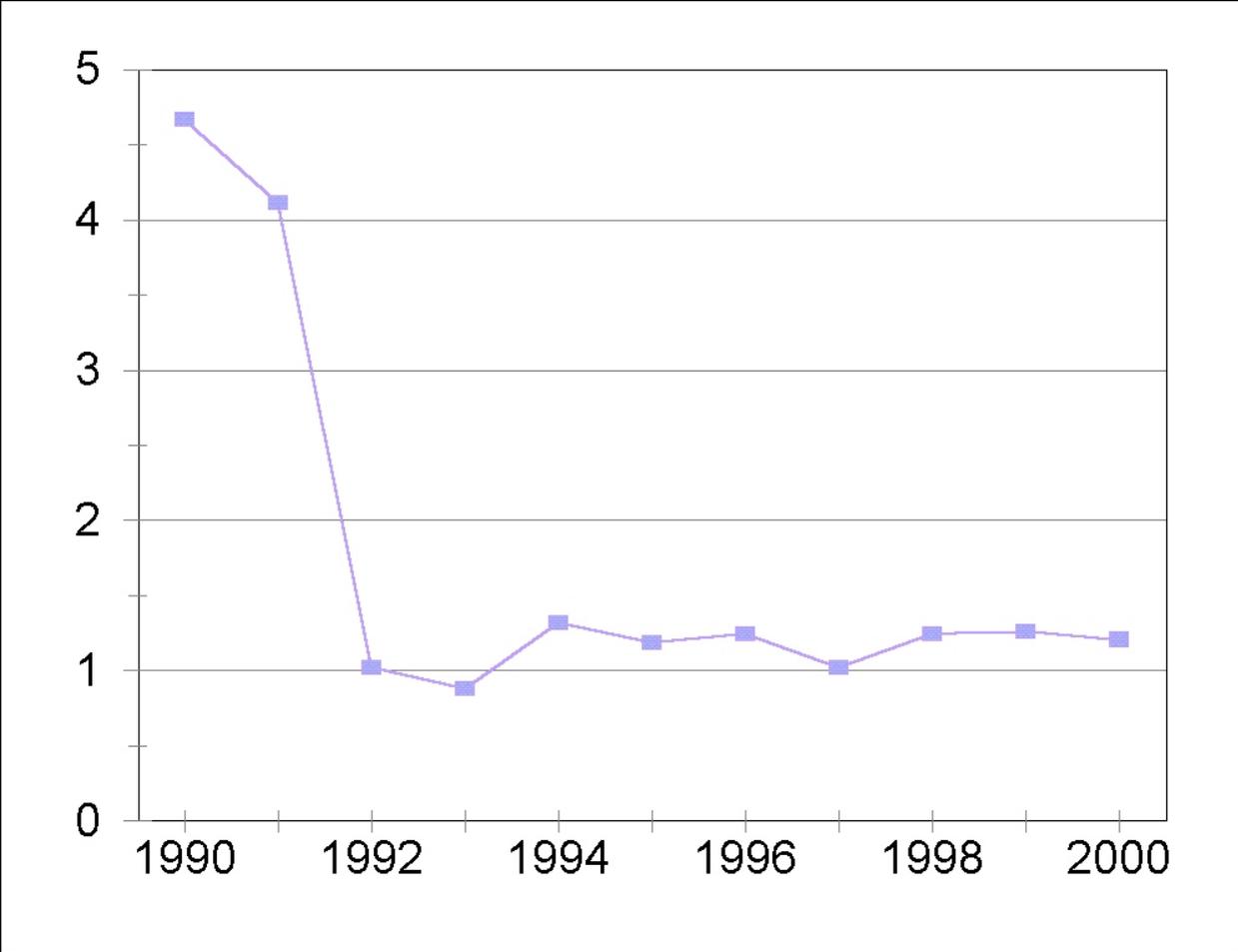


Chart 2: Ratio of Positive to Negative Evaluations.

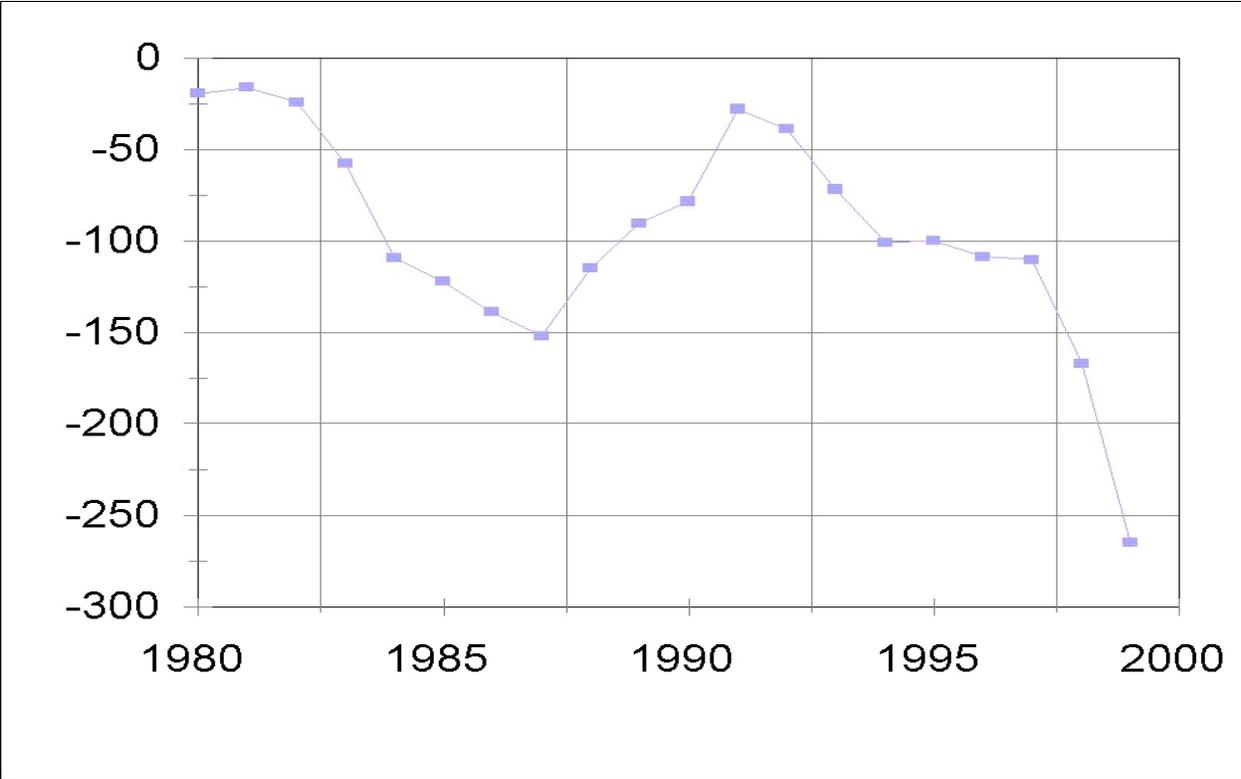


Chart 3A: US Balance on Trade in Goods and Services

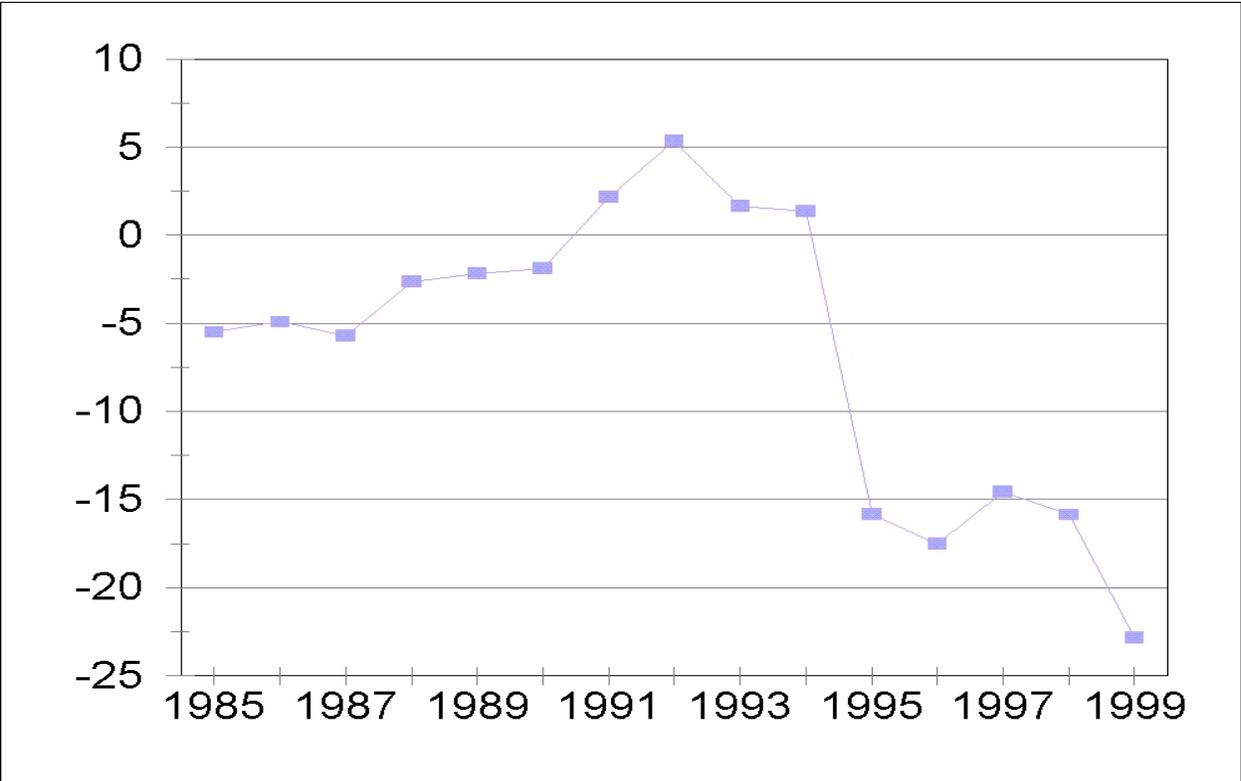


Chart 3B: US - Mexico Merchandise Trade Balance

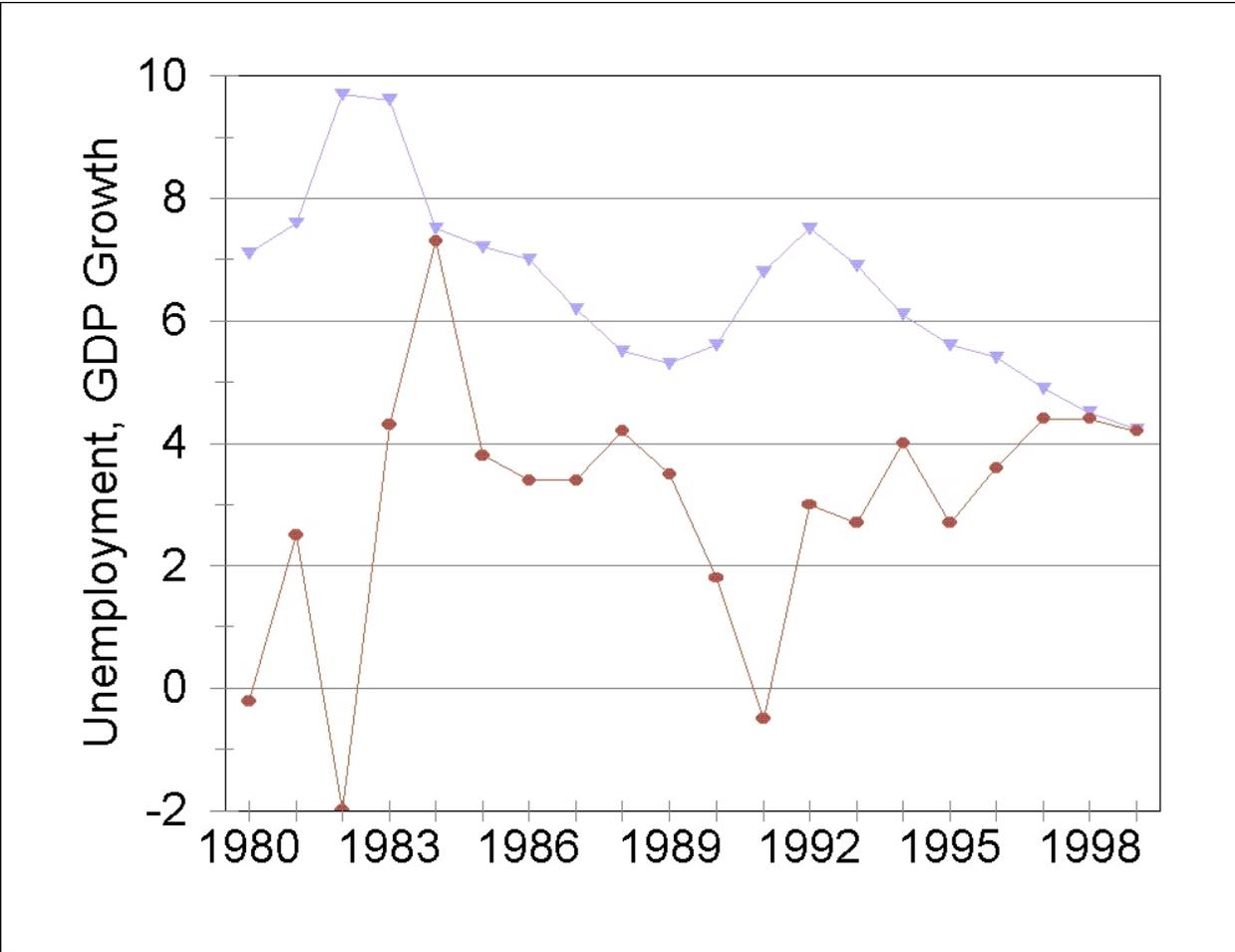


Chart 4: Aggregate Economic Indicators

Unemp DriGDP



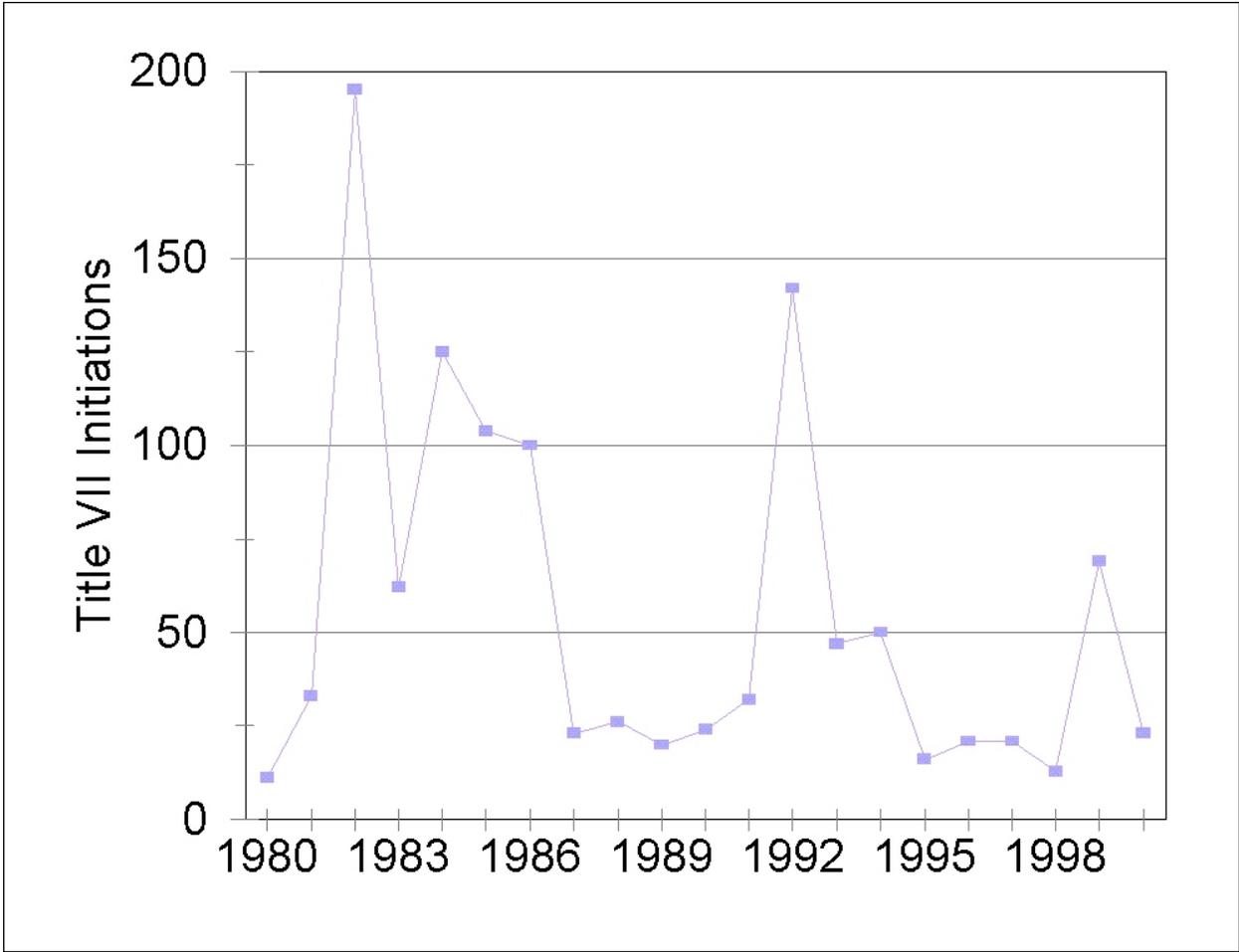


Chart 5: Title VII Petitions Initiated