Institutionalizing NAFTA

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What does it mean to institutionalize a trade agreement such as NAFTA? We *could* take a very literal understanding. The agreement, reached in 1992 and ratified one year later, created a number of institutions. For example, NAFTA includes a commission and secretariat to administer the agreement, as well as commissions on labor cooperation and environmental cooperation. There is also a dispute resolution bureaucracy. Moreover, we know from the history of the European Union that trade agreements, through the logic of what is known as functionalism, have the potential to deepen and widen. Put differently, institutions created for narrow purposes can acquire an ever-greater range of functions as part of their mandates (Mitrany 1975).

Formal, legal rules matter, of course. But they hardly are sufficient to institutionalize an agreement. Students of constitutional politics have made this point. Constitutional architecture is an important means to the construction of the good society, but it is not an end in itself. History is replete with examples of good constitutions and bad government, with the German Weimar Republic as only the most notorious example. Constitutions, in many ways analogous to international agreements in that they represent an overarching set of paramount rules, are evaluated not just on their substance, but also on "how the norms they embody first gain acceptance and then retain legitimacy amid the political buffetings of those "who come after"" (Ferejohn, Rakove and Riley, 2001, 1). In other words, constitutional success turns on what Ferejon, Rakove and Riley (2001) deem the constitutional culture. The same logic applies to NAFTA. For that agreement to operate as its framers envisioned, it must be embraced by those 'who come after'. It must be supported by successor governments, whose commitment to the agreement will turn, given the logic of liberal democratic rule, on the commitment of their constituents.

The support of those `who came after` certainly was not guaranteed in the early days of NAFTA. Mexico's president, Carlos Salinas de Gortari, initiated the tripartite accord. So concerned was he with political backlash in the spring of 1990,that, even as he explored the prospect of continental free trade, Salinas took pains to deny that he sought to negotiate a trade deal with the United States (Russell 1994, 335-36). In the fall of 1992, incoming President Bill Clinton came under strong pressure from his own Democratic Party not to ratify the recently negotiated NAFTA (Mayer 1998, ch.6). And in Canada, Liberal Party leader Jean Chrétien, on record as wishing to "tear up" NAFTA (Farnsworth 1993), became prime minister just three months prior to the agreement's January 1, 1994 implementation date.

In the decade since NAFTA came into force, it has survived these early political challenges. It is well entrenched in all three member nations; none seriously has considered exercising its right to pull out of the agreement.[1] It is fair to claim that NAFTA has become institutionalized; its original mandate enjoys the support of those who came after, regardless of their previous disposition toward the agreement. This paper is dedicated to supporting this claim, and to explaining how institutionalization occurred.

NAFTA enjoys a modest degree of popular support in all three countries. At some level, support appears to be a function of national dislocation costs. Thus, Americans are the most likely to consider themselves winners from NAFTA, while Mexicans are most likely to view themselves as losers (Ipsos-Reid 2002). On the other hand, in all three countries,

[1] Canada's Progressive Conservative (PC) leader, Peter MacKay, has promised to "review" Canada's commitment to NAFTA. However, given that 75 percent of Progressive Conservative supporters also support Canada's participation in NAFTA according to a recent Ipsos-Reid poll, and given that MacKay's statements were made in the context of his party's leadership convention, it is not likely that this remark will herald a change in trade policy orientation for the party (McCarthy 2003). A more probable interpretation is that McKay intended to placate the 'Red Tory' base of the PCs rather than set the stage for a platform based on repeal of NAFTA.

respondents are fairly evenly split with respect to their perceptions of the costs and benefits of NAFTA (Table 1). Clearly support for NAFTA has not become a 'motherhood' issue in any of the member nations; by the same token, there is no reason to believe that the

Table 1
Perceptions About the Benefits of NAFTA
Canada, Mexico and the United States 2002

Country	**NAFTA Hurt**	**NAFTA Benefited**	**Neither**
Canada	38%	34%	17%
Mexico	33%	29%	33%
US	23%	34%	32%

Source: Ipsos-Reid (2002)

Table 1 here

agreement is threatened by a popular backlash. As global economic conditions improve, it is unlikely that NAFTA will grow less popular in the coming years.

Of course, while popular opinion is an important consideration in the construction of what might be considered an institutional culture, or a culture of NAFTA, to extend the constitutional analogy articulated previously, there is an even more important factor to consider when considering the threats posed by those who come after. Students of international trade have long been aware that intensity of preference on issues of free trade is neither evenly nor randomly distributed across the population. Instead, free trade must be understood as an *asymmetric good* (Becker 1983; Baldwin 1989). The costs of free trade, manifest and concentrated, are typically borne by producers who heretofore had enjoyed import protection and/or direct subsidies (economists call these trade distortions state-supplied rents). The benefits, though broad and usually greater in the aggregate than the costs, are latent and dispersed among consumers.

Given this asymmetry, despite the aggregate economic benefits of trade, "rent-seeking" producers can be expected to be far more politically engaged over the issue of trade than will be consumers. These rent-seekers represent an enormous challenge to the institutionalization of free trade. The logic of asymmetry suggests that free trade deals will be hard to negotiate, because elected politicians have an incentive to gratify constituents with the greatest intensity of preference. Moreover, even if the trade deal is signed and ratified, rent-seekers represent a threat to the new institutional culture; they are another of the forces who come after. To touch upon a point made earlier, the existence of a committed constituency of rent-seekers provides a strong incentive for successor governments to gain political traction through opposition to the trade arrangement. It is not surprising that many in Clinton's Democratic Party urged him not to ratify NAFTA; we should not be shocked that Chrétien threatened to take Canada out of NAFTA; and we reasonably might have expected the new Mexican government of Vicente Fox to distance itself from NAFTA.

The fact that North American free trade appears to have survived the two greatest threats to the culture of NAFTA (rent-seekers and successor governments) is perhaps the strongest evidence of the institutionalization process. How did this institutionalization occur and what are the implications for other free trade agreements? The remainder of this paper is dedicated to addressing these questions. The next section outlines a simple expected utility model to demonstrate how NAFTA altered the incentive structures of both rent-seekers and successor governments. After that, we apply the model to the three NAFTA member states. Finally, we provide some ideas about the prospects for the extension of free trade southward, possibly through the Free Trade Area of the Americas (FTAA) currently being negotiated.

The Limits of Rent-Seeking: An Expected Utility Model

Given the threat posed by rent-seekers to the institutionalization of free trade agreements, it is critical to understand the dynamics that can neutralize this menace. The limits of rent-seeking model seeks to explain conditions under which rent-seekers cease to stand as an obstacle to trade liberalization, and indeed can actually become allies of liberalizing governments. The model begins with the premise that rent-seekers do not represent a monolithic population. Instead, we must conceptualize two ideal-typical classifications of rent-seeker. The first is *inflexible rent-seekers*. Inflexible rent-seekers are producers who are hopelessly inefficient. They tend to produce in sectors that suffer from comparative disadvantage; that is, in a free market environment, their production resources would be invested more profitably in other sectors. Comparative disadvantage could stem from insufficient supplies of capital or labor; it could be a function of poor infrastructure in a nation or region; it could be the result of insufficient technological sophistication; or finally, it could be the product of climate or geography. Because markets tend to be efficient, and inflexible rent-seekers are not, free market conditions tend to spell doom for inflexible rent-seekers. They fall victim either to foreign competition, or (where possible) to the incentive to move resources into more productive sectors. In any case, inflexible rent-seekers are defined as those who cannot survive without a generous helping of state supplied rents in the form of import protection and/or subsidy.

By contrast, *flexible rent-seekers* seek state-supplied rents out of preference, not necessity. Such producers could adjust to meet the challenges of global competition. But such adjustment is not easy. Typically it entails product innovation, rationalization of product lines and personnel and greater investments in research and development. To retain domestic market shares, quality control has to improve; prices and (in the short-term) profits must fall. To replace market-share lost at home, such flexible rent-seekers will have to find compensatory markets abroad. Add uncertainty – producers cannot be absolutely sure that such adjustment will succeed – and the costs of adjustment lead flexible rent-seekers, all things being equal, to prefer the protectionist status quo.

Given their preference for the status quo, flexible rent-seekers have every incentive to portray themselves as inflexible. Governments may have ideas about who is competitive and who is not, but in many cases, it is very difficult before the fact to gauge such things. However, once rent-seekers recognize that the government is firm in its resolve to reduce rents below a critical threshold (variant by producer), flexible rent-seekers behave very differently than their inflexible cousins.

For inflexible rent-seekers, significant rent-reductions are a death sentence. When rents are reduced below the critical threshold, and governments remain resolute, inflexible rent-seekers are culled from the market. The hardest core of the protectionist lobby falls to the cruel reality of economic mortality. By contrast, under like circumstances, rather than squander precious resources on a battle that is unlikely to be won, flexible rent-seekers will prefer to apply them towards the considerable adjustment costs outlined above. Faced with replacing domestic market shares with foreign ones, flexible rent-seekers will become more export-oriented. Many can be expected to reverse their trade policy preferences, hoping (through the logic of reciprocity) that lowering domestic rates of import protection, they will gain greater access to foreign markets. Moreover, because efficiency becomes more important in servicing foreign markets, reducing domestic import protection is beneficial because it lowers the cost of imported factor inputs. Ironically, governments that defy the preferences of flexible rent-seekers by imposing free trade upon them, may actually create long-term allies on the free trade front.

The Cases

Canada

Canada represents a fascinating example of the construction of an institutional culture for free trade. The two great threats to institutionalization that we identified earlier – rent-seekers and successor governments – have a long history of effective support for protectionism in Canada. Indeed, Canadian rent-seekers enjoyed a century of industrial protectionist hegemony, and the Liberal Party, which has formed the government in Canada since 1993, shows strong and sustained commitment to a philosophy of Canadian 'left nationalism' since the mid-1960s. This left nationalism, characterized by antipathy to economic continentalism and subordination of the market to the state in areas of key economic concern for Canada, is undoubtedly what inspired Chrétien's threat, in the autumn of 1993, to tear up NAFTA. The Canadian case begins with the conversion of industrial rent-seekers. Their conversion, which actually served as a permissive condition for Canada's pursuit of NAFTA's forerunner, the Canada-US Free Trade Agreement (CUFTA) of 1988, helps to explain the commitment of the successor Liberal government to continental free trade.

Canada was born a free trading nation. The Elgin-Marcy (Reciprocity) Treaty with the United States was abrogated the year prior to Confederation and, for the first decades of its national life, Canada sought to re-establish free trade ties with its southern neighbor. By the late 1870s, however, Canada's enthusiasm for free trade was greatly tempered, as manifested in introduction of the National Policy. Designed to protect a nascent manufacturing sector in Central Canada, the National Policy developed a rent-seeking constituency dedicated to the retention, even expansion, of industrial tariffs in Canada. The "free-trade election" of 1911 illustrates the success of this constituency was in institutionalizing protectionism. The trade deal negotiated between Canada and the US early in 1911 served merely to satisfy a long-standing Canadian objective, advanced by both political parties, to liberalize continental agricultural trade. Regardless of the benign impact on industrial protection, however, industrial rent-seekers successfully mobilized to defeat the Liberal Administration of Sir Wilfrid Laurier (for more on the politics of the 1911 free trade agreement and election see Skelton 1916; Ellis 1939; Brown and Cook 1974). The fallout from the 1911 election saw removal of continental free trade from the political agenda for over 70 years.[2]

Free trade agreement or not, the massive US market exerted a gravitational pull that was difficult to resist and problematic to Canadian nationalists. The palliative was multilateralism. Prior to World War II, Britain and the Commonwealth was used as a multilateral counterweight to US economic influence. In the post-war era, the General Agreement on Tariffs and Trade (GATT, now the World Trade Organization) served the same purpose.

The GATT was especially valuable because, in its earliest years, it eschewed the so-called Swiss Formula (or comprehensive method) of reducing import barriers in favor of a commodity-by-commodity formula that grew out of the 1934 US Reciprocal Trade Agreements Act (RTAA).[3] Moreover, the early rounds of the GATT focused on tariff reductions, permitting non-tariff barriers (NTBs) to remain well entrenched. As such, the early years of the GATT were a comfortable fit for a country such as Canada, committed to striking a balance between multilateralism and gratification of industrial rent-seekers. Things were not to remain so comfortable.

As early as 1957, Prime Minister John Diefenbaker was sufficiently perplexed by Canada's reliance on the American market that he proposed (absent any means to implement

[2] Some qualifications to this statement are necessary. Prime Minister McKenzie King was receptive to the idea of pursuing another continental free trade deal as early as the 1920s, and the two countries secretly negotiated an agreement immediately after the Second World War. However, King's acute political antennae persuaded him not to go forward with the deal (see McDiarmid 1946, 274; Reisman 1984, 39-40; Hart 2002, 143). Canada and the United States negotiated more modest trade deals in 1935 and 1938 under the auspices of the US Reciprocal Trade Agreements Act (RTAA). The tariff concessions granted by Canada were modest, and at least in part, were a response to Britain's own RTAA agreement with the US (Hart 2002, ch.4; Stone 1992, ch.2). Finally, the 1965 Auto Pact significantly liberalized trade in automobiles and automotive parts.

[3] The RTAA operated according to the unconditional most-favored-nations principle, whereby a commodity-specific tariff concession to one most-favored nation was extended to all others.

the plan, as it turned out) the diversion of 15 percent of Canada's cross-border trade to Great Britain (Diefenbaker 1976, 73-74). A more ambitious initiative was launched under the auspices of the Trudeau government's Third Option. The Third Option was an explicit rejection of two others: maintenance of the trade policy status quo and pursuit of closer economic ties with the US. Instead, and consistent with Canada's long-standing trade objectives, it sought to inject greater geographic diversity into Canada's foreign economic orientation (Sharp 1972). The Third Option may have been better planned than Diefenbaker's off-the-cuff initiative, but it proved no more successful. In fact, its timing coincided nicely with the Tokyo Round of the GATT, producing the following irony: Canada recommitted itself to multilateralism at precisely the time that the Tokyo Round effectively dismantled the system of protection created by the National Policy. In turn, as we will demonstrate, this triggered the trade policy conversion of industrial rent-seekers, which facilitated the Canada-US Free Trade Agreement, which led to NAFTA, an accord that became institutionalized in Canada with the conversion of Trudeau's own Liberal Party to continentalism.

The Tokyo Round negotiations took place from 1973-79. It was an ambitious round, which mandated the implementation of six codes designed to reduce the use of industrial NTBs; it also obliged Canada to reduce industrial tariffs by an average of 34 to 40 percent by 1987 (Canada 1983, ch.7; Finlayson and Bertasi 1992, 30). More pertinently for present purposes, the consequence of the Tokyo Round was to render the effective rate of import protection insufficient to shelter rent-seeking industrialists. There are a number of measures of effective rates of import protection; they need not concern us here. The most meaningful measurement for our purposes is that rent-seekers – both flexible and inflexible – behaved as the limits of rent-seeking model predicts for a situation in which rents fall below the critical threshold.

Inflexible rent-seekers, further weakened by the recession of the early 1980s, failed at a significant rate in the aftermath of the Tokyo Round. For example, the number of total industrial bankruptcies and insolvencies was 6,595 in 1980; the figure soared to 10,765 by 1982 (Canada 1985, 584-586). By 1983, employment in manufacturing declined 11.5 percent from its 1980 level, representing a net loss of 583,000 jobs (Organization for Economic Cooperation and Development 1984, 28). More significantly, flexible rent-seekers also behaved as predicted. The early 1980s witnessed, for the first time in Canadian history, the mobilization of industrialists to lobby for liberalization of continental trade. Almost immediately upon the conclusion of the Tokyo Round, the Business Council on National Issues (BCNI),[4] consisting of the chief executives of Canada's 150 largest corporations, began to lobby the Trudeau (and later Brian Mulroney) government to pursue free trade with the United States. By 1983, two of the staunchest opponents of liberalization during the 1970s, the Canadian Manufacturers Association (CMA)[5] and the Canadian Federation of Independent Business (CFIB),[6] also became powerful advocates of free trade. Finally, a number of other prominent confederations and sectoral organizations[7] publicly shifted their

[4] Now the Canadian Council of Chief Executives.

[5] Now the Canadian Manufacturers and Exporters (CME), the organization's membership accounts for roughly three-fourths of Canada's manufacturing output.

[6] The CFIB is the largest direct-membership business confederation in Canada, with over 100,000 members.

[7] These organizations are the Canadian Chamber of Commerce, Canadian Association of Toy Manufacturers, Canadian Chemical Producers' Association, Machinery and Equipment Manufacturers' Association of Canada, Rubber Association of Canada, and the steel industry.

trade policy preferences (for more on the conversion of flexible rent-seekers in Canada during the early 1980s, see Lusztig 2004, ch.5).

This lobbying initiative was not in vain. In 1982, the Trudeau government appointed a Royal Commission on the Economic Union and Development Prospects for Canada, which ultimately recommended in favour of continental free trade. More significantly, the lobbying effort helped to convince a reluctant Brian Mulroney to take the enormous risk of being the first prime minister since Laurier to fight an election on the issue of continental free trade.[8] Ultimately, of course, the continental free trade initiative was extended to create NAFTA, an agreement that was supported strongly by the former (flexible) rent-seekers who had pushed so hard for the 1988 agreement.

The other strong threat to the institutionalization of NAFTA was the successor Liberal government. Jean Chrétien's 1993 threat to tear up NAFTA was not terribly surprising. As noted, the Liberal Party had long been a locus of left nationalism in Canada. During the 1970s, and under the auspices of the Third Option, the Trudeau government had implemented barriers to foreign direct investment and trade through the Foreign Investment Review Agency and the National Energy Programme. Later, under the leadership of John Turner, the Liberals and openly and defiantly opposed the Canada-US Free Trade Agreement of 1988. Chrétien, a long-time member of Trudeau's cabinet, was hardly ideologically predisposed towards free market economics. Moreover, as Hart puts it, "he had fully accepted the critical Liberal position during the NAFTA debate and had given full rein to its most vocal critics in his party…." (Hart 2003, 423). Yet, within three weeks of the

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[8] Space does not permit an adequate discussion of the politics of the Canada-US Free Trade Agreement. For more on the free trade lobby by flexible rent-seekers see Cameron 1986; Langille 1987; Newman 1998. For more on Mulroney's conversion to free trade see Lusztig 1996, ch.4; Lusztig and James 1996.

1993 election, the Chrétien government dramatically reversed its field (Hart 2002, 397). Not only did the Chrétien government embrace NAFTA, but it subsequently negotiated bilateral free trade accords with Israel, Chile and Costa Rica and has taken a leading role in the FTAA negotiations.

What accounts for the Chrétien government's dramatic turn around on the issue of free trade? The answer helps explain the dynamics of institutionalization of free trade deals. Political economists long have been aware of the fact that free trade increases a country's aggregate wealth, but skews the benefits in a politically suboptimal way. As noted, the biggest losers are the ones most able to create political unpleasantness, and politicians have an incentive to listen to those who make the most fuss. On the other hand, absent such political unpleasantness, politicians' incentive structures can change. Regardless of their ideological orientation, elected politicians have a dominant preference for strong economic performance (Lindblom 1977). A strong economy is permissive; it permits fiscally conservative governments to lower taxes or liberal ones to raise spending. During good economic times, voters tend to be happier and happy voters typically reward incumbent politicians with re-election (Lewis-Beck 1986). As such, all things being equal, incumbent governments, even of the left, may prefer the efficiency of the marketplace over their ideological mandate to rely on the state as an instrument of resource allocation.

Of course, not every incumbent government rallies to the free trade cause simply because there are economic rewards to reap. By contrast, most Canadian governments have operated in an environment in which rent-seekers were the ultimate arbiters of appropriate foreign economic policy. In other words, the extent to which Canadian protectionism since the 1960s was driven by ideology, as opposed to the pragmatism of gratifying the most committed political constituency on the issue, is unclear. More certain is that when the rent-seeking community changed sides during the 1980s, they removed an enormous obstacle to liberalization of trade. Governments, both Conservative and Liberal, quickly determined that they could enjoy the benefits of increased economic performance without suffering the attendant political backlash that, even a few years previously, would have been inevitable.

In sum, the ideological 'jujitsu' practiced by both major political parties in Canada, upon the conversion to free trade by flexible rent-seekers, goes a long way towards explaining the institutionalization of NAFTA in Canada.

The United States

The case can be made that the United States represents the country in which NAFTA is least institutionalized. The massive 1999 anti-globalization protest in Seattle speaks to this, as does the thin margin with which Bush won trade promotion authority (TPA) from Congress in 2002.[9] In part, resistance to NAFTA, and hemispheric free trade in general, is grounded in trade unions, which in turn are a key constituency of the Democratic Party.[10]

On the other hand, even in the Democratic Party, opposition to NAFTA is not universal. In the context of the January 2004 Democratic Party primaries, Democratic pollster Stanley Greenberg's survey of Democratic voters in the politically attenuated states of Iowa, New Hampshire and South Carolina found that roughly half supported NAFTA

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[9] TPA allows the president to negotiate trade deals, within a prescribed time frame, subject to congressional oversight that is limited to acceptance or rejection of the agreement as presented to Congress.

[10] Canadian trade unions also are opposed to globalization and continental free trade. On the other hand, rank and file union members are not overwhelmingly hostile to NAFTA. The 2000 Canadian National Election survey, for example, asked respondents if they believed that: "Overall, free trade with the U.S. has been good for the Canadian economy." Of respondents who were in a union, or lived with a union member, 59 percent either strongly or somewhat agreed with the statement, while only 33 percent strongly or somewhat disagreed.

(Brooks 2004). Moreover, even among Democratic presidential hopefuls seeking to rally the base in anticipation of the primaries, only fringe candidate Dennis Kucinich vowed to pull the US out of NAFTA.[11] Indeed, the reality is that too much has been invested, both in terms of foreign policy with Mexico (and other Latin American countries),[12] and in terms of business, for the US to consider abrogating its NAFTA responsibilities. As with Canada, we find that the business community appears to be driving the institutionalization of NAFTA in the United States. In other words, as with Canada, former rent-seekers appear to have shaped the parameters of political contestation; business support for NAFTA has limited political opposition to the agreement.

Uslaner (2000) and Lake (1988) help explain an important element of the institutionalization process. Uslaner points out that, at least since the RTAA, free trade has been the policy choice of winners, operationalized as the party that wins the presidential election. His argument is that economic prosperity and political success generate a symbiotic relationship. Candidates with a stronger free market orientation are more likely to have a good economic track record and hence are more likely to be entrusted with control of the executive branch. While there have been protectionist episodes since the 1930s, it is no exaggeration to say that every president since (and including) Franklin D. Roosevelt has been a free trader. Lake (1988) suggests that the free-trading orientation of presidents is reinforced by the fact that the so-called "foreign policy executive" is insulated from the effects of rent-seeking special interests to a far greater extent than is Congress. The fact that the foreign policy executive is

[11] Richard Gephardt, now out of the presidential race, is a long-time opponent of free trade and NAFTA in particular. Howard Dean, also now withdrawn, has deemed NAFTA flawed and in need of revision, although he is also on record as being a strong supporter of the agreement.

[12] The Bush Administration has used its TPA to further negotiations on the proposed FTAA. In addition, it has negotiated a bilateral trade deal with Chile, and a free trade zone (Central American Free Trade Agreement) with El Salvador, Guatemala, Honduras and Nicaragua.

charged with serving the interests of the nation as a whole, rather than a comparatively narrow constituency base, helps explain the distinction. Moreover, for reasons we discussed above, the "interests of the nation" tend to be difficult to distinguish from the preferences of big business (Lindblom 1977). In short, the free-trade bias built into US trade policy since the RTAA has helped institutionalize NAFTA and other major free trade initiatives (such as the WTO). Trade may not be universally embraced – protectionist pockets of Congress can be expected to persist, and a number of inefficient industries such as steel will continue to seek protection– but so strong is the free trade orientation of US presidents that even a Democrat like Clinton could ratify NAFTA and launch the FTAA process.

Once again our interest is drawn to a watershed event in a country's trade policy that altered the trade policy orientation of political parties and industrial rent-seekers alike. The RTAA can best be understood as the forerunner of the contemporary trade promotion authority (TPA) process.[13] Under the terms of that act, Congress loaned its tariff-making authority, for clearly defined (usually three or four year) periods, to the executive branch, allowing the latter to negotiate reciprocal trade agreements without the necessity of congressional oversight. More specifically, the president was authorized to enter into bilateral accords that reduced (or increased) U.S. tariffs by as much as 50 percent from their base-line levels. In this way, Congress – cognizant of its own propensity to gratify rent-seeking interests– was able to bind its own hands and insulate the trade policy process from rent-seeking pressures. Moreover because, as noted, the RTAA operated according to the unconditional most-favored nations principle, each trade deal represented an iterative

[13] Formerly known as fast-track authority, TPA permits the executive branch to negotiate trade deals that lower both tariffs and non-tariff barriers. Congressional oversight is limited to passing implementing legislation that is immune from amendment. Congress must vote either to accept or reject the agreement as negotiated.

reduction to aggregate tariff rates applicable to each of America's principal trading partners (for more on the RTAA see Brenner 1978; Rhodes 1993; Gilligan 1997).

Between 1934 and 1947 the U.S. entered into reciprocal trade deals with 27 countries. The cumulative effect of so many tariff reductions was significant. As one study noted of the period 1930 to 1939: "Never before in world history had the direction of global trade relations moved so broadly and deeply toward reduced trade barriers" (Cohen, Paul, and Blecker 1996, 33). For commodities covered by these 27 agreements, average *ad valorem* duties fell by roughly 44 percent, or almost the maximum amount permitted under the terms of the RTAA (United States 1948, 3: tab. 2).

The effects of the RTAA represented a sea change in US, and indeed global, industrial trade policy.[14] Passage of the RTAA was a perilous risk for the Roosevelt Administration (see Hull 1948; Lusztig 1996), as rent-seeking industries lined up squarely in opposition to it (see Ferguson 1984; Frieden 1988). As was the case in Canada, when examining the fate of inflexible rent-seekers it is difficult to distinguish the effects of the RTAA from those of the prevailing Great Depression. But our concern is with flexible rent-seekers. Here the evidence is clearer. First, US industrial exports rose sharply in the latter half of the 1930s. While this might be expected in the wake of deals that permitted increased access to overseas markets, it is worth noting that exports increased markedly to countries with which the US had *not* entered into reciprocal trade deals (Schnietz 2003). This suggests that US producers had begun taking steps to become more internationally competitive. Second, evidence of a change in trade policy preferences can be tracked through

[14] The RTAA was not restricted to industrial goods. On the other hand, the large network of agricultural subsidies and supports set up under the auspices of the New Deal Agricultural Adjustment Act limited the maneuverability of US trade negotiators (see Verdier 1994, esp. 188). To this day, agricultural trade remains far less open than does trade in industrial goods.

congressional testimony of business leaders during the triennial renewals of the RTAA. While business leaders had overwhelmingly opposed the RTAA and its first renewal in 1937, by 1940, there was a marked shift. By a margin of more than two to one, non-labor and non-agricultural interests testifying before Congress in person or via written brief, supported renewal of the RTAA (Brenner 1978, 355-65; for more on the changing tide of business preferences during this period see Gilligan 1997). Finally, we have at least some survey data to support the claim that flexible rent-seekers shifted their trade policy preferences. By 1954,[15] executives of US firms favored lowering domestic tariffs to raising them by a factor of 7 to 1 (Bauer, Keller and de la Sola Pool, and Dexter 1955; see also polls in *Saturday Review* (1954) and *Dun's Review and Modern Industry* (1962)).

The transformation of flexible rent-seekers in the United States has led to a robust and strong preference for open markets among industrial producers. While pockets of protectionism still exist (the steel and textile industries are excellent examples), there can be little doubt that US business retains a strong preference for free trade (Milner 1988; Gilligan 1997). The transformation of industrial rent-seekers was accompanied by a similar trade policy shift by the Republican Party, the traditional party of protectionism. While, as noted, the Democratic Party has become much less wedded to trade liberalization, the Democrats hardly can be characterized as a protectionist party. Indeed, it would be fair to characterize Herbert Hoover as the last protectionist president of either stripe. Given this fact, despite America's ambivalence towards embracing the FTAA, it seems quite clear that NAFTA is in no danger from those who came after.

Mexico

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[15] This poll appears to be the first taken on business attitudes to free trade since a 1939 Roper poll, which asked almost the same question as the one taken by Bauer, Keller and de la Sola Pool that found far more modest support for free trade among business leaders (*Fortune* 1939).

In no country was NAFTA deemed radical as it was in Mexico. Both Canada and the United States, despite protectionist histories, were thoroughly liberal countries in the early 1990s. Both boasted relatively free markets and political systems. While CUFTA and NAFTA were important trade policy changes in those countries, they hardly constituted regime change. Yet regime change is precisely what NAFTA represented in Mexico. Not only did the agreement cap a decade-long shift to free market economics in Mexico, something that had heretofore not existed, it also accompanied, if not stimulated, radical democratic reform that ultimately produced the 2000 presidential election of Vincente Fox Quesada. The 2000 election was the first in over 70 years not captured by the Institutional Revolutionary Party (PRI) or its forerunner.

Seven decades of one-party rule was the product of more than merely exceptionally good government. The PRI retained its dominance through subversion of the liberal democratic process known as authoritarian corporatism. Under this system, key social sectors (principally labor, peasants and the lower middle class) were obliged to organize into hierarchically structured "peak associations." Leaders of these peak associations were part of the ruling elite, and maintained control of their organizations, which included delivering the political support of their constituents to the PRI through a system of positive (bribery) and negative (thuggery) incentives (see Purcell and Purcell 1980). The business sector, less vulnerable to such crude organizational tactics, was controlled through its dependence on the narcotic of protectionism.

As in most of Latin American, Mexican protectionism took the form of import substituting industrialization (ISI) (see Hirschman 1968; Izquierdo 1964). ISI is an attractive short-term development strategy that contains inherent long-term limitations. It is enticing because it provides a means for very late industrializers to modernize their economies in spite of inherent non-competitiveness in the global marketplace. ISI operates according to three distinct phases. The early phase, which occurs in the wake of the construction of a formidable barrier to import penetration in the industrial sector, sees the emergence of indigenous manufacturing enterprises, stimulated by the market opportunities born of limited foreign competition as well as generous state-supplied subsidies and loans.[16] The second, exuberant, phase witnesses an explosion of economic growth. In Mexico, the Mexican economy expanded at an average rate of 6 percent per year between 1950 and 1972 (Ramirez 1993, 174). Of course, there is an inherent artificiality to these figures, insofar as they were achieved in the absence of foreign competition. While that does not make the wealth created any less real, it is vital to note that exuberant-phase firms had little incentive to become globally competitive. Wealth was created on the back of limited research and development or innovation of product lines. Consumer goods – overpriced, lacking in quality, and reliant on obsolete technology – had limited attraction to overseas consumers. Under these conditions, the exhaustion phase of ISI becomes inevitable. Characterized by slowing profits, decreased investment, and low growth rates, the exhaustion phase sees the economy saddled with a mass of inefficient firms dependent upon state-supplied rents for their very survival.

ISI exhaustion manifested itself in a number of ways in Latin America. In Chile, it led to revolution, in Brazil (although here the connection is less clear) to a military coup. In Mexico, ISI exhaustion coincided with the oil crisis and the apparently fortuitous discovery of new oil deposits in that country. These deposits, along with generous lending practices by US banks eager to lend out the glut of "petrodollar" reserves generated by the explosion of

[16] In 1940, just prior to the introduction of ISI, there were roughly 13,510 industrial firms in Mexico. By the end of the easy phase, circa 1950, there were approximately 74,252 such firms (Story 1986, 19).

wealth in oil producing countries, provided Mexico with the means to postpone the reality of having to deal with ISI exhaustion. The administration of President José Lopez-Portillo, recognizing the problem, did announce that it would seek membership in the GATT. However, the government backed down in the face of overwhelming opposition from rent-seeking special interests (see Story 1982).

By 1982, the costs of Mexico's unwillingness to restructure its economy in the wake of ISI exhaustion became all too manifest. The precipitous decline in world oil prices and the concomitant tightening of capital markets deprived Mexico of vital sources of income. Compounding the problem was the fact that many of Mexico's loans were short-term. When those came due, it became apparent that Mexico, which struggled in vain to support the peso, would be obliged to default on its debts (for a more detailed analysis see Wyman 1983; Lustig 1992). The resulting crisis, which lasted for the remainder of the decade, brought with it hyperinflation and massive capital flight. More pertinently, for present purposes, the crisis robbed subsequent Mexican governments of policy maneuverability. Henceforth, key economic decisions largely would be in the hands of multilateral lending institutions such as the International Monetary Fund (IMF) and World Bank. Indeed, international lenders insisted upon neo-liberal economic reforms, such as lowering spending, liberalizing trade, and joining and conforming to the GATT (Lustig 1992).

There were a number of casualties of Mexico's economic crisis of the 1980s. One was corporatism. There were simply insufficient resources to maintain the vast network of political support for the PRI. Another casualty was inflexible rent-seekers. Ironically, it was the demise of corporatism and inflexible rent-seekers that opened the door for NAFTA and helps explain its institutionalization.

That inflexible rent-seekers were casualties of the twin disasters of severe depression and forcible weaning from the public purse is no surprise. Even in the most dynamic industrial region, Monterrey, the effects were severe. The Monterrey Manufacturers' Association, for example, claimed to lose over 3,700 members between 1987 and 1992 (*The Economist* 1992). On the other hand, even in the midst of this devastation, new life was being created. During the same period, the Monterrey Manufacturers' Association saw roughly 5,000 new members join the organization (Tirado 1998, 185). In fact, it was this sort of wholesale shift in the composition of the business community that helped doom the corporatist political structure. As inflexible rent-seekers were rationalized out of the market, they were replaced by firms better able to meet the harsh realities of global competition. During the second half of the 1980s, firms that survived the economic crisis (new firms and flexible rent-seekers) became far less wedded to the paternal statism that had characterized the corporatist era. Many businessmen shifted their political allegiances away from the PRI and towards the more free market National Action Party (PAN). At the same time, the government's financial predicament precluded spending the money necessary to keep other clients of the corporatist arrangement satisfied, and the PRI suffered defection of workers and peasants to the new Democratic Revolutionary Party (PRD) (Klesner 1993).

When Salinas came to power, following what was almost certainly a fraudulent 1988 election victory, he faced economic crisis and defection of partisan support on both left and right. His solution, pioneered by US President Franklin D. Roosevelt 50 years previously (see Lusztig 1996, ch.3), was classic welfare economics. To recapture the support of his clientele constituency, Salinas created a broad network of welfare state spending known as the Program of National Solidarity (PRONASOL). To fund the enterprise, and to win back support of the newly free trading business community, he undertook his boldest stroke – he turned his back on over 100 years of nationalist antipathy towards the United States and gambled that NAFTA would attract the investment necessary to rebuild the economy.

We began this section by suggesting that NAFTA was a far more radical proposition in Mexico than it had been in Canada and the United States because it was a departure not just from the country's traditional trade policy, but also served to stimulate a regime-shift in favor of liberalism. By helping to usher in liberalism, NAFTA may well have unleashed the forces necessary for its own institutionalization. This is not to overstate the claim. Mexico is hardly a model liberal democracy; corruption is rampant, and one decade is scarcely enough time for a wide scale cultural shift to have taken hold. Nor has the long, slow process of rebuilding the economy moved beyond the point of hopeful signs for the future. NAFTA is not a magic bullet. But it is an important brick in the wall of Mexico's quest to remake its political economy.

NAFTA was baptized by fire. Its immediate aftermath witnessed armed rebellion in the southern state of Chiapas, the assassination of the PRI's presidential candidate, and a severe economic crisis borne of the government's inability to support the peso. Yet NAFTA also witnessed the extension of liberal principles beyond the economic market. Under the final president of the PRI dynasty, Ernesto Zedillo Ponce de Leon, reforms were undertaken to empower Congress, weaken the power of the president (who no longer chooses his successor as party leader, which for the PRI meant the president as well), and most importantly permitting free and fair elections (Rubio 1998). The first tangible fruits of this liberal revolution were harvested in July 2000, when PAN candidate Fox won the presidential election.

While there is still ambivalence among the Mexican public towards NAFTA, the agreement appears to be well protected against those who come after. The Mexican business community is wedded strongly to free trade. As early as 1990, only one of Mexico's five largest business confederations was still opposed to trade liberalization. In the immediate wake of NAFTA, even that recalcitrant organization had come on board (see Lusztig 2004, ch.4).[17] Mexican business organizations continue to support the expansion of trade liberalization through the FTAA (Ortiz 2000). The Fox Administration, fighting against congressional sclerosis and having possibly squandered a golden opportunity to capitalize on President Bush's unprecedented interest in America's southern neighbor by its stance on Iraq, remains resolute in its pro-trade position. Indeed, since NAFTA, under both PRI and PAN, Mexico has demonstrated its commitment to trade liberalization by completing trade deals with Bolivia (1995); Costa Rica (1995); Colombia and Venezuela (Group of Three) (1995); Nicaragua (1998); Chile (1999); the European Union (2000), Israel (2000); the European Fair Trade Association (2001); and Honduras, Guatemala and El Salvador (the Northern Triangle) (2001).

Conclusion

This paper set out to investigate institutionalization of NAFTA in particular, with some interest in relating our findings to trade agreements in general. The fundamental result is that institutionalization of NAFTA is the rule rather than the exception, with the sum of internal and external forces after liberalization always pointing toward such policies being sustained in the future among the countries concerned. This is true, moreover, even when

[17] The last holdout for protectionism was CANACINTRA (National Chamber of Manufacturing Industry), which consists of mostly small to medium-sized firms. The other major confederations are: CONCAMIN (National Confederation of Industrial Chambers), CONCANACO (National Confederation of Chambers of Commerce, which like CONCAMIN represents larger firms), COPARMEX (Employers' Confederation of the Republic of Mexico, representing employers in the industrial, agricultural and retail sectors) and the CCE (Business Coordinating Council, an omnibus business organization consisting of representatives of other business confederations and with roughly 1.25 million affiliates).

those who had opposed a trade agreement re-take power. Free trade is preserved in all instances – an interesting norm that may, for various reasons, approach the status of a social scientific law. In this concluding section we revisit each of the cases individually and finish up with some general observations.

Canada's march toward more liberal trade policies, culminating in NAFTA, can be traced most directly to external forces, namely, the Tokyo Round and US pressure to open its economic borders. Thus Canada, a classic middle power, faced imperatives toward trade liberalization as the twentieth century moved into its final decades. After CUFTA and NAFTA, politicians disposed toward protectionism regained power, but found a different set of forces when they arrived back in office. For a host of reasons they simply could not undo NAFTA. First, external forces still had the same liberal profile and taking on the US in particular would be a formidable task. Second, the natural allies of NAFTA's repeal had been weakened or destroyed, as expected, by the very policies they had opposed so vigorously in the past. In sum, the post-1993 Canadian government effectively institutionalized NAFTA by its failure to make efforts toward a renewed protectionism. At this point, either the Martin government or whatever replaces must deal with the same reality – a transformed economic landscape in which protectionism necessarily resides in a 'Jurassic Park' with other moribund economic policies from the past.

Interesting, by comparison, is the essentially internal set of forces that take precedence in the US and eventually produce NAFTA. The worlds' leading state becomes more liberal in economic terms as the century progresses, with the turning point reached in the Great Depression. The utter failure of protectionism became understood by the vast majority of the business and political elite by the time the grim events of the 1930s had played themselves out in World War II and the collapse of empires around the world.

Reinforcing the trend toward liberal trade policies was the imperial era of the presidency, the branch of government least prone to pressure from rent-seeking coalitions. Thus, after World War II, the US took the lead in various rounds of trade liberalization that ultimately pointed in the direction of bilateral, continental and perhaps even hemispheric integration. While the full story of the FTAA remains to be told, and protectionist undercurrents have stirred the waters of US trade policy from time to time, the US is a state in which relatively open trade relations reached the point of becoming institutionalized some time ago. NAFTA represents a continuation of this effect.

Mexico is the harshest test for the argument that institutionalization will ensue after a more liberal trade regime such as NAFTA is implemented. Unlike the US or Canada, Mexico is a weak state in economic terms and suffers from overpopulation, corruption and other factors that would tend to make one wary regarding highly specific predictions about its future policies. Furthermore, it remained dedicated to an economy of ISI for decades. In spite of such impediments, NAFTA and the mind set it represents now hold a firm position in Mexico and may be described as institutionalized. The primary reasons here are international; put simply, Mexico cannot afford to regress into protectionism when its future depends so directly on economic institutions such as the IMF and the US-led order within North America. Mexico lacks the power to confront either its elephantine neighbor or major world organizations directly. Furthermore, a 'learning curve' from the failure of ISI, along with an altered economic infrastructure, is present at least to some degree. In other words, if protectionism is associated by experience with certain failure, and institutionalization of liberal trade policies is linked to some possibility of success, then the latter virtually wins out by default. This might not be a bad way of describing how things stand in Mexico today.

Overall, NAFTA can be described as institutionalized across the board. It is interesting to consider that result in the context of variation among the three states, which differ from each other along very salient characteristics such as size of population, military power, political culture and a range of others. The institutionalization of NAFTA among its diverse members suggests that the model of rent seeking introduced earlier in this paper may have general relevance. No matter what situation exists in more specific politico-economic terms, trade liberalization, which weakens or destroys rent-seeking coalitions, is sustained even after its opponents regain power. In closing, it is fair to say that the opponents, once regaining office, are looking out the window at a world different than what they had known – a world effectively transformed by NAFTA.

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