Abstract

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Is there a Race to the Bottom in Environmental Policies? The Effects of NAFTA
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Some authors argue that as a result of increased regional and global trade integration, local and national government will need to relax environmental policy standards. This could potentially lead to a "race to the bottom," where governments under political pressure continually undercut each other. Little empirical research has been devoted to this issue.

In this paper, we explore the effect of NAFTA on the determinants of environmental quality and policy in US states by differentiating interior states from those bordering Mexico and Canada. We seek to answer whether US states that border either of these countries act differently than interior states and if their behavior changed during times surrounding the ratification of NAFTA. The idea is to test the existence of strategic interaction among states in the determination of environmental policy and, in particular, determine if this interaction differs in border and interior states. In other words, to what extent do state policymakers maintain an eye on environmental policy in neighboring states? Policymakers in US border states may have a stronger concern with capital flight. If this fear plays a role, environmental policy in US border states should be less responsive to changes in neighboring US states. In addition, if NAFTA increased fears of capital flight, then states along the border should be even less responsive to its US neighbors immediately before and after its ratification.

Using three different measures of environmental quality and policy—per capita sulfur dioxide emissions, Levinson's (1999) index of relative state compliance costs, and per capita toxic chemical releases—we reach three important conclusions. First, all three measures indicate that environmental quality and protection improved for all US states leading up to the ratification of NAFTA and continued to improve beyond ratification for toxic releases as well. Second, we find some evidence that US states along the Mexican and Canadian borders respond differentially to environmental changes in neighboring US states in terms of sulfur dioxide emissions and environmental compliance costs, but not toxic releases. States bordering Mexico are less responsive to changes in neighboring sulfur dioxide levels, while states on the Canadian border are more responsive to changes in neighboring states.

In terms of compliance costs, states on either border are less responsive to changes in neighboring US states than interior states. This finding may indicate a fear by border states of capital flight to Canada or Mexico. However, around the time of the NAFTA negotiations, this concern may have actually declined. For toxic releases (the only measure of environmental quality available beyond 1994) there was no change in the determination of pollution levels

during the 1990s. Finally, we fail to find any evidence of a change in the manner in which environmental quality and protection was determined around the time of NAFTA's ratification. When this is combined with the fact that our three measures of environmental quality improved during the 1990s, we conclude from this analysis that NAFTA has not had a detrimental impact on the environment in the United States.