The Political Economy of the U.S.-Mexico Free Trade Agreement: Analysis of the Congressional Fast Track Vote

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Abstract

This paper presents an empirical analysis of the strategic forces shaping U.S.-Mexico trade relationships and the possibilities of extending the trade agreement to the rest of the Americas. The paper concludes that constituency interests, party loyalty, the proportion of a state's population of Hispanic origin, and the influence of textile-related employment in the state were significant explanatory factors in the Congressional Fast Track vote that occurred in May of 1991.

Key Words: free trade agreement, fast track, textiles, congressional voting

On May 23, 1991, the House of Representatives voted to reject House Resolution 101 to deny President Bush's request for a two-year renewal of "fast track" authority for negotiating trade agreements with foreign countries. The Senate assured an extension of fast track authority the next day by voting to reject Senate Resolution 78 to disapprove the extension. Fast track allows the President considerable latitude and flexibility during the negotiations without Congressional interference by preventing Congress from amending trade agreements submitted for its approval. Although the President may negotiate such agreements without fast track authority as provided for in the U.S. Constitution, the Congress must ratify any agreement reached. For that reason, fast track authority essentially empowers the Executive Branch of the U.S. government to negotiate agreements with foreign powers. Without such authority, foreign countries would have little incentive to seriously negotiate with the representatives of the Executive Branch, knowing that any agreement reached could and probably would be radically altered by the U.S. Congress.

The debates prior to and the final outcome of the House and Senate votes provide insights into future U.S. trade policy towards countries in Central and South America. There was considerable debate on the two resolutions to deny an extension of fast track authority to the President. Some experts have suggested that if fast track authority did not affect negotiations on other international arrangements such as the General Agreements on Tariffs and Trade (GATT), the President might have been denied the authority for negotiating with Mexico under that authority. Agriculture, organized labor, and environmental groups were generally against extension of fast track authority for negotiating with Mexico while manufacturing, service, and industrial groups were supportive. The diverse interests and issues raised during the fast track debate present an

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J. Agr. and Applied Econ. 25 (2), December, 1993: 27-35

opportunity to examine the interaction between political economic factors influencing U.S. international trade policy making, particularly with respect to the negotiation of a North American Free Trade Agreement (NAFTA). This paper attempts to empirically verify some of the competing explanations of Congressional voting behavior. Even though the methodology employed in the paper is not new, the results from the analysis should shed some light on the nature of the strategic forces shaping U.S.-Mexico trade relationships and the possibilities of extending the trade agreement to the rest of the Americas. The following section of the paper describes the variables and hypotheses tested in the model. Results of the statistical analysis and conclusions of the paper are then presented.

Model and Hypotheses

Several models and hypotheses have been suggested in the literature to explain the voting behavior of legislators. The unifying theme in the diverse literature is that a legislator is like any other utility maximizer who utilizes a set of exogenous social, economic, and political factors to maximize a well-defined utility function. It is generally assumed that the legislator's objective is to maximize tenure in office (re-election). The differences in voting models lie in the choice of the exogenous social, economic, and political factors that influence the legislator's endogenous decisions.

One strand of the literature makes a distinction between a "general bill" (i.e., one with no well-defined constituency) and a "specific bill" (i.e., one directly affecting the wealth of individuals in a constituency) (Nelson and Silberberg; Peltzman). In order to promote tenure in office, a legislator would more likely vote in favor of those bills that directly influence the wealth of voters in his or her own constituency. Higgs, on the other hand, has suggested that a legislator's own ideological preferences are important in explaining voting patterns. Zupan emphasized the political affiliation of the legislator and used a model to explain what he called "ticket-splitting". As he put it: "To the extent that democratic legislators, because of their ideology, are more willing to forgo national policymaking for local benefit-seeking than their Republican counterparts, rational voters have an investment incentive to lean (1) Democratic when casting ballots for individual representatives to Congress, thereby attempting to secure as large as possible a share of the total government spending pie, and (2) Republican when it comes to races for the Presidency" (p. 253). Along similar lines, Grier, Munger, and Torrent made a distinction among the voting patterns of members of the Senate and the House. They argued that committee membership is less important in the Senate than the House because individual Senators have what amounts to a power to veto a proposal through the use of the filibuster, a power denied Representatives under House rules.

The more popular analytical approach, however, has focused on the influence of political action committees (PACs) or interest groups on legislators' voting behavior (Coughlin; Tosini and Tower; Kau and Rubin). The interest group model has been applied to voting on agriculture bills and to the allocation of funding for agricultural research (Guttman; Abler; Gardner; Peters). These models treat the legislator as the supplier of legislation and the interest groups as demanders of legislation. The legislator's goal is to maximize votes in order to remain in office while the interest groups compete for funding on behalf of their group members. The empirical research in this area generally supports the basic hypotheses that legislators do indeed respond to interest group pressures. The study reported in this paper combines the basic ideas suggested in the interest group literature with several other alternative hypotheses to explain the voting patterns on the U.S.-Mexico free trade agreement.

Following Peltzman, the typical statistical model employed in empirical studies of voting can be represented as follows:

$$y = dM + cN \qquad (1)$$

where y is a dummy equal to one for a "yes", zero for a "no" vote; M is a vector of economic characteristics of a constituency and N is a vector of non-economic factors. The specific equation estimated in this paper can be represented as follows:

$$Vote_i = f(\text{Textile Employment}_i, \textit{Environmental Rank}_i, \textit{Labor Unions}_i, \textit{Party Affiliation}_i, \textit{Ideological Orientation}_i, \textit{Hispanic Population in the State}_i, PAC_i, Tenure_i, e_i) \quad (2)$$

where i is a subscript identifying individual legislators and e is a random disturbance term. The rest of the variables and hypotheses examined in this study are presented below.

Vote

The vote cast by a legislator on either the House or Senate fast track resolution is the dependent variable in the model. Vote is measured as a dichotomous variable. If a legislator voted in favor of one of the resolutions, a value of zero was assigned. A value of "1" was assigned if the legislator voted against one of the resolutions. In essence, a vote *for* one of the resolutions was a vote *against* the extension of fast track and, thus, a vote *against* negotiating an FTA with Mexico. The opposite is the case for a vote *against* one of the resolutions.

Textile Employment

The textile industry was one of the early opponents to a free trade agreement with Mexico. The major concern of textile industry representatives was the possibility of job losses as a result of increased imports from Mexico. As the textile industry representatives explained during the testimony before the House Ways and Means Committee: "U.S. imports of textile and apparel products during 1990 amounted to more than 16 billion square meters equivalent, triple the amount imported in 1980. This trebling of imports has forced the closing of hundreds of producing facilities in the United States and the loss of over 400,000 jobs since 1980" (American Textile Manufacturers Institute). An FTA which eliminates U.S. tariffs and quantitative restrictions on imports of textiles was, in effect, unacceptable to the industry. Legislators from states with high textile industry employment were hypothesized to be more likely to vote for disapproval of granting fast track authority to the President.

Environmental Rank

Environmental groups were opposed to the granting of fast track authority to the President. Their argument was that U.S. trade agreements have historically excluded environmental considerations. Citing the environmental problems at the U.S.-Mexico border and the failure of the U.S. Environmental Protection Agency (EPA) to supply information on their involvement with a U.S.-Mexico binational commission on the environment, environmental groups argued that granting fast track authority to the President would mean that "the door to public involvement and information" on the FTA would be closed (Ortman). Environmental group concerns were measured according to the Hazard Ranking System (HRS). The HRS ranks states according to the "relative risks posed by a hazardous waste site to human health or the environment" (North Carolina Office of the Governor). The underlying assumption in using this measure is that legislators from states with high environmental rankings are more likely to be concerned about the environment and, therefore, would vote in support of environmental group positions. Thus, legislators from states with high HRS rankings were hypothesized to be more likely to vote for disapproval of extending fast track authority to the President.

Labor Conditions

Labor unions were generally opposed to the granting of fast track authority to the President. The United Auto Workers (UAW) and the American Federation of Labor-Congress of Industrial Organization (AFL/CIO) argued that the proposed FTA would lead to a loss of American jobs. They argued that fast track would limit discussion and debate and was "an effort to circumscribe the role of the Congress in what will be a wholesale restructuring of the economy of North America" (Donahue). The overall unemployment level in each state was used as a proxy for the labor concerns. On the other hand, there were several groups who felt that the proposed FTA would increase employment and therefore supported the extension of fast track authority to the President. The percentage of export-related employment in the state was used to measure the

export versus import-competing interests. This second measure is more specific. Legislators from states with high general unemployment levels were hypothesized to be more likely to vote for disapproval of fast track authority. On the other hand, legislators from states with high export-related employment were hypothesized to be more likely to vote in favor of fast track.

Party Affiliation

The voting literature does not reveal any consistent patterns of the relationship between political affiliation and trade policy orientation of legislators (Baldwin). However, the literature on Presidential politics shows that Presidents influence both the legislative agenda (Rivers and Rose) and the outcome of voting in Congress (Edwards). The application for extension of fast track authority was submitted by the President and the Executive Branch lobbied intensively for its approval. Since the President is a member of the Republican Party, a Republican member of Congress was hypothesized to be more likely to vote for approval of granting fast track authority to the President than Democrats.

The Ideological Orientation

The ideological orientation of a legislator is important in explaining the votes cast in support of or against a trade bill. An ideological orientation variable was used to capture a legislator's attitude towards an open and competitive international trade environment. The Competitive Enterprise Institute (CEI) periodically ranks legislators based on their voting records in support of competitive trade policies. The ranking is on a scale of zero to 100. A high score for a legislator means that he or she votes more in favor of an open and competitive trade environment. Consequently, legislators with high CEI scores were hypothesized to be more likely to vote in favor of extending the fast track authority of the President.

Hispanic Population in the State

The percentage of a state's population of Hispanic origin may be justified as an additional explanatory variable on two grounds. First, a legislator's tenure in office may be directly influenced by the support of the Hispanic population in his or her state. Secondly, a large Hispanic population in a state acts to strengthen ties between the citizens of the state and those from Mexico. Citizens of the U.S. and Mexico become familiar with the culture and language of each other's country and become more accommodating to each other's concerns. Professor Hirschman refers to this phenomenon as the "civilizing influence of trade" (Hirschman). Thus, legislators from states with large Hispanic populations were hypothesized to be more likely to vote in support of extending fast track authority to the President.

Political Action Committees

Political Action Committees (PACs) play an important role in shaping the outcome of voting by legislators. The various groups (farm, labor, and the environment) all have PACs. PAC contributions to a legislator increase the "war chest" and the ability of the legislator to mount a strong campaign for votes. These contributions are important especially given the high cost of modern campaigns. It is common practice for legislators to receive campaign contributions from groups with differing positions on a bill. The common approach in the existing literature is to aggregate all the contributions to a legislator without distinguishing between those PACs in favor of a bill and those opposed. In the case of the fast track votes which had a significant number of both supporters and non-supporters, an aggregated PAC effect is theoretically indefensible. The PAC variable was split in two, aggregating those in favor of extending fast track (PACs for) and those against such extension (PACs against). A positive relationship was expected between "PACs for" and "Vote" and a negative relationship between "PACs against" and "Vote."

Tenure

Tenure refers to the number of years a legislator has been a member of the House or Senate. The length of a legislator's term in office represents "experience, tactical parliamentary skills, political contacts, and simple survival power" (Grier, Munger, and Torrent). These factors also enable legislators with long tenure to accumulate more funds to fight off challengers to their seats. A legislator with long tenure may be able to cast an unpopular vote and compensate for it with his or her record on previous votes. On the other hand,

where a vote is being taken near an election cycle, a legislator's decision may be influenced by his or her tenure in the Senate. A legislator with a few years in the House or Senate is more likely to vote in favor of protectionism since it has short-term benefits and to vote against free trade with long-term benefits (Tosini and Tower). Thus, it is hypothesized that there exists a positive relationship between tenure and the probability of a vote opposing fast track.

Results

Data from several secondary sources (table 3) were used to estimate equation 2. The results for the vote on fast track in both the House and Senate generally support the hypotheses posed in the study (table 1). The chi-square test (χ^2) shows that the selected variables reasonably explain the voting patterns in the House and Senate. The number of correct predictions was greater than 70 percent in

Table 1. Results of Probit Estimation

	HOUSE		SENATE	
Explanatory Variables	Coefficient	Derivative of Probability	Coefficient	Derivative of Probability
Environment	0.01** (1.82)[a]	0.005	-0.003 (-0.28)	-0.002
Export Employment	0.10* (2.40)	0.04	0.01 (0.21)	-0.001
Unemployment	0.01 (0.16)	0.006	-0.02 (-0.16)	0.015
Party Affiliation	1.01** (5.22)	0.38	1.32* (3.90)	0.48
Ideology	0.42** (2.35)	0.16	-0.36 (-0.59)	-0.18
Hispanic Population	0.01** (1.93)	0.004	0.09* (2.46)	0.05
PACs (Opposed)	-0.00008* (-4.23)	-0.00003	-0.00003 (1.05)	0.000009
PACs (In Favor)	0.0003* (3.63)	0.0001	-0.000006 (-0.13)	0.0000009
Tenure	-0.02** (-1.61)	-0.006	-0.02 (-1.09)	-0.007
Constant	-1.39** (-1.78)	0.52	-0.28 (-0.30)	-0.17
	Summary Statistics			
Sample Size	365		92	
McFadden R^2	0.28		0.22	
% Right Predictions	77		74	
	χ^2 143.28 (9 degrees of freedom)		27.06 (9 degrees of freedom)	

[a] Numbers in parentheses are t-values.

* = coefficient significant at .01 level (one-tail test).

** = coefficient significant at .05 level (one-tail test).

Table 2. Results of Probit Estimation: Textile Industry Effect

	HOUSE		SENATE	
Explanatory Variables	Coefficient	Derivative of Probability	Coefficient	Derivative of Probability
Textile Employment	-0.00003** (-1.79)	-0.000009	-0.00002* (-3.71)	-0.000009
Party Affiliation	0.51 (0.93)	0.19	0.51** (1.68)	0.21
Ideology	0.02** (1.64)	0.007	0.22* (3.69)	0.009
Hispanic Population	0.06* (2.03)	0.02	0.01* (2.40)	0.005
Tenure	-0.01 (-0.89)	-0.005	-0.006 (-0.59)	-0.002
Constant	-0.57 (-1.31)	-0.22	-0.75* (-3.88)	-0.29
	Summary Statistics			
Sample Size	92		365	
McFadden R^2	0.29		0.26	
% Right Predictions	75		77	
	χ^2 = 34.69 (5 degrees of freedom)		128.73 (5 degrees of freedom)	

* = coefficient significant at .10 level (one-tail test).
** = coefficient significant at .05 level (one-tail test).

Table 3. Sources of Data

Variable	Source
Horticultural Production Cost	U.S. Dept. of Commerce, Bureau of the Census. *Census of Horticultural Specialties*, AC-87-HOR-1, Vol. 4, 1987.
Environmental Rank	*State Rankings, 1989: North Carolina Office of the Governor.*
Export Employment	State Rankings, 1989: *North Carolina Office of the Governor.*
Unemployment Rate	U.S. Dept. of Labor, *Monthly Labor Review*, April 1991.
Party Affiliation	*Congressional Quarterly*, May 25, 1991.
Ideology	Competitive Enterprise Institute Ranking. *The Almanac of American Politics.*
Hispanic Population	*The Almanac of American Politics*, 1992.
PAC Contributions	Federal Election Commission, Federal Candidate Disclosure Reports, 1989-90.
Tenure in House/Senate	*The Almanac of American Politics.*
Textile Employment	U.S. Dept. of Labor, Bureau of Labor Statistics, *Industry Wage Survey: Textile Plants, August 1990.* Bulletin 2386, September 1991.
Vote	*Congressional Quarterly*, May 25, 1991.

the two models. Collinearity diagnostic tests using the condition indexes and variance proportions for the variables in the equations did not reveal any degenerative multicollinearity problems (Belsley, Kuh, and Welsch).

The results for the House show that export-related employment in the state, political action committees, party affiliation, and a legislator's attitude towards a liberal trading environment (ideology) were statistically significant at the 1% level of confidence in explaining voting patterns. The percent of the state's population of hispanic origin, the environmental ranking of the state, and the number of years spent in the House (tenure) were statistically significant at the 5% confidence level in explaining voting patterns. A Representative from a state with high export-related employment was more likely to vote in support of the FTA even though the overall unemployment level in the state was not statistically significant in explaining voting patterns. The results also show that to the extent that trade agreements are seen as a means of expanding markets for U.S. exports, Representatives with a free market ideology were more likely to vote in support of the President. This last conclusion is further supported by the highly significant coefficient for party affiliation in the House model. Republican members of the House were more likely to vote in favor of the FTA than Democrats. House members with long tenure were less likely to vote in support of the FTA. Representatives from areas with large Hispanic populations were more likely to vote in favor of the FTA. According to the statistical results, environmental concerns may have negatively influenced the vote on the House resolution, contrary to the hypothesized effect.

The estimates for the Senate voting model followed the general pattern of the results of the House model. Unlike the House, however, voting patterns in the Senate were significantly explained by the percentage of the population of Hispanic origin and the tenure of a senator. Senators from states with high Hispanic populations or shorter tenure in the Senate were more likely to vote in favor of extending fast track authority. Republican Senators were also more likely to vote in favor of extending fast track authority.

In order to capture the effect of textile industry concerns, variables representing the influence of other PACs were eliminated from both the House and Senate models and a textile industry employment variable was included. Both the Export Employment and the Unemployment variables were also removed to avoid the confounding effects of those variables. Again, the number of correct predictions was greater than 70%. The chi-square test (χ^2) shows that the variables in the two modified models adequately explain the variation in voting patterns in both the House and the Senate (Table 2). Textile labor concerns were statistically significant in explaining the voting patterns in both the House (5% confidence level) and Senate (10% confidence level). The influence of the Hispanic population was also significant at the 5% level in both cases. A legislator's attitude towards a liberal trade regime was statistically significant at the 5% level in explaining voting patterns in the House and at the 10% level in explaining voting patterns in the Senate. Party affiliation was significant only in the case of the House. Since the fast track vote did not coincide with an election cycle, tenure in office did not statistically influence the voting patterns in either House in this model.

Conclusions

The results from this study show that constituency interests and party loyalty were significant in explaining the voting on the fast track legislation. The proportion of a state's population of Hispanic origin and the influence of textile-related employment in the state were also significant explanatory factors of the vote. Beyond these factors, no consistent pattern of the House and Senate vote was discernible. The study points to a need for a closer examination of the political economic factors influencing U.S. trade policy decisions aimed at countries in Central and South America.

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