

## Abstract

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Commission for Environmental Cooperation's  
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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.

We study empirically whether US state-level governments are competing in environmental regulations. Do state government policy makers take their neighboring states environmental policies into consideration? We are particularly interested in whether states located on the borders of Mexico and Canada behave differently from other states. Moreover, did NAFTA affect states' policy making?

We use data on sulfur dioxide emissions for the years 1929-1994, and an (industry composition adjusted) index of state stringency of environmental regulations for the years 1977-1994. We use OLS and instrumental variable econometric techniques.

We find a number of new results. First, we find evidence that states take their neighboring states into consideration. An American state reduces its sulfur emissions by around 8 percent when its neighboring states reduce their emissions by 10 percent. A state increases the stringency of its regulations by more than 15 percent when its neighbors raises theirs by 10 percent. Due to observed trends, we argue that the race has been to the top, rather than to the bottom.

Second, US states bordering Mexico or Canada are less affected by their neighboring states than the average state. This may suggest that their policy making is affected by their foreign neighbors. Third, over time it appears that the interaction between all states (i.e., also border states) and their neighbors is converging towards a one to one relationship, i.e. a 10 percent increase in the neighbors' regulations leads to a 10 percent increase in a state's own regulatory stringency, suggesting an ongoing harmonization among states. Finally, we detect no clear effect of NAFTA.