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New Lessons from the Old World: Side-Payments and Regional Development Funds

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ABSTRACT

A regional development fund (RDF) can be crucial to closing the social and economic gaps between countries engaged in economic integration. The purpose of this article is to explore how an RDF could come about in North America by drawing on neofunctionalist and intergovernmentalist theories. Applying these theories' explanations for why an RDF would come about to the creation of the European Union's RDF provides lessons for North America that scholars have previously overlooked. If North America is to benefit from a regional development policy, a new strategy that draws on intergovernmentalist and side-payments theory, in addition to neofunctionalist and cohesion theory, must be developed.

Key Words: side-payments, cohesion, intergovernmentalism, neofunctionalism, regional development fund, interests.

INTRODUCTION

The European Union's (EU) regional policy has been integral to closing the social and economic gaps between its rich and poor member states.[1] The creation of this policy provides valuable lessons for other regional trade areas, like the North American Free Trade Agreement (NAFTA) countries, which hope to achieve deeper levels of economic integration and regional development.

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[1] Although it has had many different names in the past, we will always refer to the European Union as such for consistency.

The purpose of this article is to explore how a regional development fund (RDF) could come about in North America by drawing on neofunctionalist and intergovernmentalist theories. When North America scholars propose creating an RDF, they tend to look at the European Union's application of its European Regional Development Fund (ERDF) and use cohesion theory to analyze its effects (Fiess and Fugazza, 2002; Pastor, 2002). They extract lessons learned from the creation and implementation of the ERDF to propose creating a North America RDF, or as they refer to it, a North American Investment Fund (NAIF). Pastor states, "From the beginning, European leaders set goals of solidarity and community [which] provided a benchmark from which they could measure progress….The lesson for North America is to draft a charter or simply a statement that enunciates a broader vision and set of goals." North America scholars' arguments for a NAIF stem from the principles of cohesion and community solidarity.

I argue that the current arguments for a NAIF are flawed. While cohesion and community solidarity are necessary for an RDF's foundation, they are not sufficient. Reexamining the ERDF from the competing theoretical perspective of side-payments and intergovernmentalism provides a different set of lessons for how a NAIF will come about. I use the theoretical arguments from both perspectives to explain the creation of an RDF, which is my independent variable and the actual formation of an RDF, which is my dependent variable. In the first section, I outline the theoretical debate between cohesion/neofunctionalism and side-payments/intergovernmentalism. In the second section, I apply these theoretical arguments to the Eropean Union's case to see which theory best explains the ERDF's formation. In the third section, I apply the same theoretical arguments to North America's case to explain how an RDF could possibly come about. I maintain that if North America is to benefit from a regional development policy like the European Union's, a new strategy that draws on intergovernmentalist theory, in addition to cohesion theory, must be developed.

THE EUROPEAN REGIONAL DEVELOPMENT FUND

As the second largest expenditure in the European Union's budget, to which all member states contribute, regional development represents a core policy area for the union. More than a third of its budget is dedicated to "the reduction of the gaps in development among the regions and disparities among the citizens in terms of well-being" (European Commission, 2006). The EU pursues this goal by dispersing aid through four main funds, the largest of which is the ERDF. Member states may apply for ERDF grants and loans to fund infrastructure, job creation, investment, and local development projects that fall under one of the regional policy's four objectives. The European Union regional policy's four objectives are "to help lagging regions to catch up, restructure declining industrial regions, diversify the economies of rural areas with declining agriculture, and revitalize declining neighborhoods in the cities."

Reports from the European Union's executive body, the European Commission,[2] conclude that a combination of economic integration, growth-oriented national policies, and the ERDF have reduced disparities among member states. Their reports state that the gross domestic product (GDP) per capita of Ireland, a recipient of ERDF funds since its accession to the European Union, grew to 118 percent of the European Union's average GDP per capita in 2001 from 56 percent in 1973 (European Commission, 2006). For the other three main fund recipients whose GDP per capita was 30-40 percent of the European Union's average GDP per capita when they entered the European Union, Spain, Greece, and Portugal, the growth rate of GDP per capita has been consistently above the European Union average since 1994. Except for Greece, the GDP per capita has also increased in these countries, as shown in Table 1. The ERDF also increased public investment in Spain by 3 percent and Greece and Portugal by around 8 percent (European Commission, 2006). Although some scholars are critical of the ERDF, most agree that the fund, along with other factors, contributed to the poorer countries' growth and increased public investment (Boldrin and Canova, 2001; Leonardi, 1995; Sapir, 2004).

Table 1
POORER COUNTRIES' GROWTH OF GDP PER CAPITA AS A PERCENT OF THE EUROPEAN UNION AVERAGE GDP PER CAPITA

Country	GDP per capita upon entry to EU (percent of EU average)	GDP per capita in 2001 (percent of EU average)
Ireland	1973 – 56 %	118 %
Greece	1981 – 68 %	67.3 %
Portugal	1985 – 56 %	83.1 %
Spain	1985 – 74 %	75.3 %

Source: European Commission, 2006.

[2] Hereafter referred to as the Commission.

Due to ERDF's important contribution to closing the development gaps in Europe, many scholars incorporate lessons learned from the European Union's experience into their proposals for a NAIF. One lesson is that creating a fund in which wealthier countries are net contributors and poorer countries are net beneficiaries facilitates development in the poorer countries (Fiess and Fugazza, 2002; Pastor, 2002). Another lesson is that the European Union had to address its regional imbalances to prepare for deeper economic integration. Thus, some scholars, who support deeper North America integration, argue that the U.S., Canada and Mexico should create a NAIF in which the U.S. and Canada are net contributors and Mexico, the net beneficiary. Scholars hope that an RDF would close the development gap among the three countries. Reducing disparities among the countries, some scholars argue, would create the potential for the North American free trade area to evolve into a customs union or common market (Pastor, 2002).

By focusing on its implementation, scholars have overlooked another important lesson that the ERDF's experience provides: how the ERDF came into force. In their proposals for a NAIF, scholars have focused on its implementation: the use of institutions and conditionality and the identification of project areas, among other issues. Since their proposals have not yet gained enough political support to create a NAIF, retracing the ERDF's origins could provide a different approach on how a NAIF proposal might be framed. A review of the theoretical literature related to the ERDF sheds light on an alternative approach.

THE THEORETICAL DEBATE

Competing theoretical approaches of convergence/neofunctionalism and side-payments/intergovernmentalism attempt to explain why wealthier member states would agree to become net contributors to an RDF. These theories are rooted in the context of the European Union's integration process and the creation of the ERDF. While other theoretical explanations could explain economic integration and the creation of an RDF, scholars most commonly cite these particular theories (Fiess and Fugazza, 2002; Leonardi, 1995; Pastor, 2002).

Convergence and Neofunctionalist Theory

Convergence theory explains why a region could benefit from an RDF. Although this theory has carried many other connotations in the past, its core principle is that as countries reach similar levels of economic development, their societies also become more alike (Kerr et al., 1960; Robertson, 1992; Sorokin, 1960; Tinbergen, 1961). This principle is rooted in the neoclassical growth theory, which explains that "countries which are identical in terms of demographic development, saving habits and production technologies, but differ in terms of their initial factor endowments display a growth differential and meet the same level of output after convergence in factor inputs has been achieved" (Tumpel-Gugerell quoted in Noltie, 2003: 1).

Convergence theory uses comparative advantage and economies of scale to explain why capital, technology, and labor must move to where they will have the highest returns. In the context of regional integration, it argues that when total factor mobility causes a concentration of the factors of production in wealthier areas, the region should reallocate resources to favor disadvantaged areas. According to convergence theory, an RDF facilitates the transfer of goods and capital to poorer regions by building its infrastructure and growth potential. This transfer of resources promotes more evenly distributed economic development in the region (Fiess and Fugazza, 2002; Leonardi, 1995; Pastor, 2002).

Scholars use this premise to explain the ERDF's impact on economic development in the poorer countries. Leonardi explains the relationship between the ERDF and economic development in the poorer countries by running a regression analysis on numerous variables, which include the distance from the core countries, foreign investment, the industrialization level, the unemployment rate, and ERDF funding (Leonardi, 1995: 133, 170-76). His study concludes that the ERDF "made a substantial contribution to economic investment and overall GDP in the three nations. [It explains] in part the surge of these countries toward convergence." Additionally, De la Fuente and Vives find that the ERDF significantly contributed to regional convergence by improving public infrastructure (De la Fuente and Vives, 1995).

Despite these findings, convergence theory's ability to explain the ERDF's impact has its critics, who often point out that the single market, with its regulatory obligations, and not the ERDF, was a stronger influence over the poorer countries' economic growth. Separating the results of the ERDF from those of the single market is extremely difficult, however, because it is impossible to say what would have happened without the single market (Boldrin and Canova, 2001; Sapir, 2004). The general consensus is that the poorer countries' economic development resulted from a combination of the single market and the ERDF, among other factors, and that the single market would not have been possible without the ERDF.

Like convergence theorists, neofunctionalist theorists support the idea that states in a regional integration scheme will experience economic, political, and social convergence. Neofunctionalism is based on three principles: a "spillover" process, the assignment of central institutions to "inherently expansive" tasks, and member states' willingness to "upgrade the common interest" (Haas, 1958; Lindberg, 1963). Spillover refers to the way that elites, institutions, and interest groups convince member states to adopt common policies that incrementally lead to deeper integration in new areas to maximize their benefits from regional integration. Allowing central institutions to manage inherently expansive tasks means that member states hand over their sovereignty in some areas to supranational institutions, understanding that some matters are best managed at the supranational level. Upgrading the common interest means that member states make decisions based on the region's interests, instead of national interests. These three principles, neofunctionalists argue, lead to a gradual economic, political, and social convergence among the member states.

Convergence theory's economic arguments support a neofunctionalist recipe for creating an RDF. The neofunctionalist's recipe is that economic integration creates the need for regional development through the spillover process; member states overlook losses to the RDF at the national level and focus on how it would benefit the community; and member states assign central institutions to manage an RDF. Convergence theory explains how countries reach similar levels of development with an RDF, while neofunctionalism provides an explanation for why member states would create an RDF. From a neofunctionalist's perspective, economic integration in regions with uneven development creates the need for an RDF, because, according to convergence theory, a redistribution of inputs would maximize each country's outputs and is thus in the community's interest. Convergence and neofunctionalist theory assume that countries are willing to put the community's interest before their own immediate interests, which can be a weakness when the region involves countries with strong national interests.

Intergovernmentalism and Side-Payments

Intergovernmentalist theory provides a different recipe for creating an RDF. Intergovernmentalism focuses solely on states' interests and argues that states are the dominant actors in the community decision-making process. It argues that states act as "gatekeepers" to block legislation that is not directly in their national interest (Sutcliffe, 2000: 292; Moravcsik, 1993). It also criticizes neofunctionalist logic, claiming that:

> The whole spillover process is a fiduciary operation: "you and I accept today a measure that gives us less than you and I have hoped for because each of us expects our conces-

sions of today to be repaid tomorrow on another issue." Now, a day must come when the reckoning has to be done and the credit is exhausted (Hoffmann, 1964: 89).

Intergovernmentalists reject the spillover process and support the idea that states cling to their national sovereignty and strike bargains with other states to maximize their gains. Hence, intergovernmentalism provides a recipe of side-payments to create an RDF.

Side-payment analysis explains that an RDF is a *quid pro quo* between states to prevent the recipient countries from blocking decisions in another area. This analysis argues that net-contributing member states will not create an RDF unless it allows them to advance their interests in another area. In the case of the ERDF, side-payment analysis argues that the fund was a pay-off from the wealthier countries that wanted deeper integration to the poorer countries that anticipated risks and losses and that could have vetoed steps toward such goals (Marks, 1992; Pollack, 1995). From this perspective, an RDF results from intergovernmental bargaining and states basing their decisions on national, rather than community interests. Applying side-payment analysis to the ERDF reveals new lessons from the European Union's case for North America.

APPLICATION TO THE ERDF

Which of these theories best explains how the ERDF came about in the European Union? In the European Union's case, the neofunctionalist hypothesis for how the ERDF would come about lacks evidence. According to cohesion/neofunctionalist theory, the ERDF would result from elites, businesses, and interest groups advocating its creation; central institutions needing jurisdiction in regional development to carry out their other duties; and European Union member states acting out of cohesion and solidarity and realizing that the ERDF would benefit the community as a whole. The European Union's formal commitment to cohesion and solidarity in 1961 seems to support this recipe, but the ERDF did not take effect until nearly 15 years later. The Commission drew up an Action Programme in 1962, recommending that states address regional imbalances that impede free trade in the common market. The Empty Chair Crisis, in which France boycotted the European Union for seven months, overshadowed this proposal. When the Commission made a second attempt to float the idea in the 1970s, it crafted its proposal for the ERDF around member states' interests (Cosgrove, 1970). European Union member states did not value the community's interest over their own immediate national interests, thus discrediting the neofunctionalist's hypothesis.

Ultimately, European Union member states' national interests dictated the ERDF's creation. According to side-payment/intergovernmentalist theory, the ERDF would result from bargains between member states that make decisions based on their own immediate national interests. The ERDF that resulted in 1975 did not reflect the European Union member states' commitment to regional development or solidarity and instead resembled "pork-barrel politics" (Wallace, 1977). The Commission catered to member states' interests and the ERDF became a side-payment from wealthier countries to the poorer and accession countries.

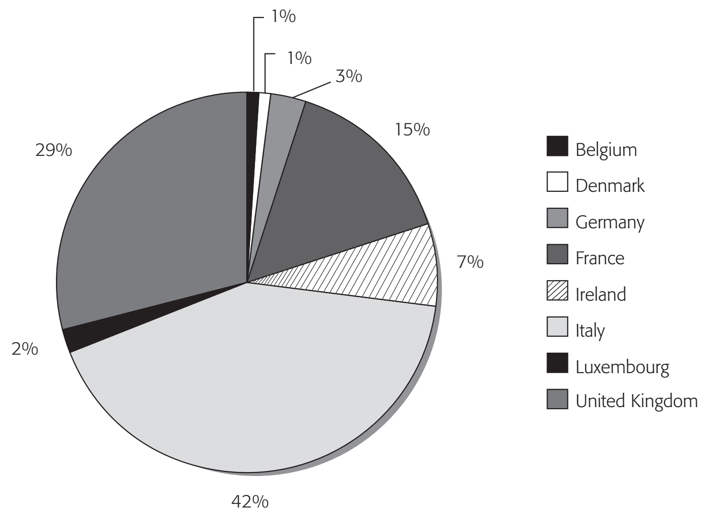
Contrary to the goal of convergence, the Commission arranged for the wealthiest member states to receive almost as much as the poorest member states in order for the ERDF to pass. The Council, which is composed of the member states' heads of state or government and ministers representing their national interests, had to approve of the ERDF for it to take effect, and any member state could veto the proposal. When the Commission's proposal for regional development did not receive a wide response in the 1960s, it re-designed its strategy in the 1970s to satisfy the interests of key member states. Its new proposal favored France, the United Kingdom (U.K.), Italy, and Ireland, as shown in Chart 1. Italy and Ireland were the poorest member states. France was a net-benefactor because it did not want to create the ERDF and preferred disbursing aid through the European Investment Bank (EIB). For the U.K., whose population was ambivalent about European Union membership, the ERDF was a payoff for joining. The logic was that the ERDF would be in these countries' national interests; thus, they would strike bargains with the other countries to see it come into force (Wallace, 1977: 146-48).

For the accession countries, the ERDF was a side-payment for joining the European Union. As net beneficiaries, the U.K. and Ireland were highly supportive of the ERDF. The ERDF's support for industrial regions in decline meant that the U.K. could nurse its faltering industries, which was one of its main goals in the 1970s. Also, the U.K. was eager to convince its citizens of the benefits of European Union membership and the ERDF provided tangible results (Wallace, 1977; Dinan, 1999). Ireland strongly favored the ERDF and used its presidency in the Council of Ministers to push for a final deal on the ERDF in 1975. The ERDF's role as a side-payment to the accession countries and the accession countries' support for the ERDF's adoption were important factors in its creation.

Other member states saw the ERDF as a rebate for their contributions to the European Union's budget. Member states gave the European Union its "own resources" in 1970, which consist of levies on agricultural goods, duties on industrial goods, and a 1 percent portion of national revenues from value-added tax (Dinan, 1999: 62). The funding method for the European Union's own resources was con-

Chart 1

THE 1975 DISTRIBUTION OF THE ERDF BY COUNTRY



Source: Commission to the European Parliament and Council, 1976.

tentious for the U.K., because it imported the most agricultural and industrial goods from outside the European Union, which would make it a net contributor to the union. Germany, which was also a net contributor, wanted to see "le juste retour" for its contributions to the European Union's own resources in the form of grants from the ERDF (Wallace, 1977: 141). In reaction to their obligatory payments to the European Union's own resources, the wealthier member states were more concerned with receiving their fair share of the ERDF as a rebate for their contributions than they were with regional development.

Additionally, wealthier member states, like Germany, that benefited less from the fund saw the ERDF as a side-payment to poorer member states which might try to block the European Monetary Union's (EMU) creation. EMU meant that member states would eventually peg their currencies to the same exchange rate, centralize their monetary policy at the European Union level, and share the same currency. Like the ERDF, EMU would also require unanimity. Wealthier member states, like Germany, anticipated benefiting from EMU, but realized that its creation would be unfeasible without first establishing a regional development policy. The Werner Committee's report found that unresolved regional imbalances would lead to unequal gains from EMU.[3] It suggested managing regional development policy at the community level to prepare for EMU. Germany understood the bargain it would have to make. Thus, Germany's finance minister argued that an effort to develop poorer regions in the European Union would only be possible if it were tied to EMU (Wallace, 1977: 141-50). Due to the Werner Committee's recommendation, the ERDF was Germany's side-payment to poorer member states for their support for EMU.

Retracing the origins of the ERDF shows that states' interests and intergovernmental bargains mainly drove its creation. Cohesion and neofunctionalist theories cannot account for the bargains struck between member states that ultimately resulted in the ERDF's creation. Although they were necessary factors, cohesion and solidarity were secondary to the member states' self-interests in the ERDF's creation. Thus, side-payment analysis and intergovernmentalist theory best explain the key factors that brought about the ERDF.

APPLICATION OF COHESION/NEOFUNCTIONALISM TO THE NAIF

Which of these theories could best explain how a NAIF might come about in North America? According to cohesion/neofunctionalist theory, a NAIF would result from elites, businesses, and pressure groups advocating its creation; central institutions needing jurisdiction in regional development to fully carry out their other duties; and NAFTA countries acting out of cohesion and solidarity and realizing that a NAIF would benefit the community as a whole.

Thus far, the cohesion/neofunctionalist argument has not proved to be very strong in this case either. To no avail, elites and pressure groups have advocated creating a NAIF. Composed of cabinet-level ministers from the three countries and sponsored by prominent think tanks, the Independent Task Force on the Future of North America advocated creating a North American Investment Fund (NAIF). Their version of the NAIF would develop the poorest regions of Mexico through grants and supplemental funding from Mexico (Independent Task Force on the Future of North America, 2005).

The Independent Task Force on the Future of North America has not yet succeeded in steering the trilateral dialogue in the direction of regional development and deeper economic integration. Prior to the Waco Conference among the leaders of the three countries, the Independent Task Force on the Future of North America pre-

[3] In 1972, European Union member states put together a committee, chaired by Luxembourg's Prime Minister Pierre Werner, to explore how the community could implement EMU.

sented its case for the NAIF and other policies that would deepen North America's integration (Independent Task Force on the Future of North America, 2005). The U.S.'s reaction to the September 11 terrorist attacks eclipsed elites and interest groups' NAIF proposals and the leaders did not discuss the topic at the Waco Conference (Baker, 2005).

Pastor's policy proposals draw on the neofunctionalist logic that, once begun, the integration process creates the need for more integration. Pastor argued before the U.S. House of Representatives International Relations Committee that maintaining the status quo in North America is not sustainable. His focus was that a NAIF would allow the three countries to "develop a true trilateral partnership" and would resolve the issue of undocumented migration from Mexico to the U.S. (Pastor, 2003: 4). Pastor's discourse also argues that North America could fully benefit from integration by creating a North American Commission, North American Parliamentary Group, North American passport, North American Customs Union, North American Court on Trade and Investment, and North American monetary union that uses the "amero" (Pastor, 2001). His proposal relies on the wealthier North American countries putting the community's interests before their own immediate interests.

The U.S. and Canada are not yet dedicated enough to the principles of cohesion and solidarity to put the community's interests before their own immediate interests. Mexican President Vicente Fox approached President George W. Bush in 2001 to propose a North American convergence scheme "whereby the Mexican economy has to converge on fundamental variables with the U.S. and Canadian economy" carried out through a North American Development Fund (Fox, 2001). The U.S. was not fully receptive to Mexico's proposal for a NAIF. Instead, the two presidents made a general statement of principle "to consolidate a North American economic community whose benefits reach the lesser-developed areas of the region and extend to the most vulnerable social groups in [their] countries" (Bush and Fox, 2001).

Despite the two presidents' statement of principle, fast actions toward creating a NAIF did not follow. Consistent with President Bush and President Fox's joint statement, U.S. Senator John Cornyn proposed authorization for the president to negotiate a North American Investment Fund in 2004 (Cornyn, 2004). The bill has been referred to the Committee on Foreign Relations. Thus, it may still be too early to tell if the U.S. and Mexico's commitment to convergence is satisfactory for the creation of an RDF. Five years after the two presidents' joint statement, however, a NAIF has still not yet come into being. Examining states' interests in this case could explain why.

STATES' INTERESTS IN NAFTA

Given the U.S. and Canada's reluctance to become net contributors to a NAIF, state interests seem to play an important role in its creation. Like the European Union case, the wealthier countries in North America see a NAIF as a financial burden. As Weintraub points out, "The belief that some form of development fund is needed to help speed the development process in Mexico is now receiving widespread support –except from the U.S. government, which would have to supply most of the funds" (Weintraub, 2005).

A senior U.S. official commented to the *L.A. Times*, "This is not an administration that is in the realistic position of providing massive support to Mexico. We're no longer in the business of Marshall Plans in the United States. The political realities on the ground just are not in favor of this" (Schrader, 2003). Without clear U.S. support for the project, Canada has not considered becoming a net contributor either. Given its distance from the Mexican border, Canada has even less interest than the U.S. in developing a trilateral NAIF.

Beyond the financial reasons for their hesitations, the U.S. also has political motives for its lack of enthusiasm over the NAIF. It would rather work bilaterally with Mexico and reform the North American Development Bank (NadBank). NadBank funds infrastructure, environmental, and water projects within 62 miles north of and 186 miles south of the U.S.-Mexico border (NadBank.org, 2004). In support of NadBank reforms, Washington agreed to create a new U.S.$50 million fund for environmental infrastructure and water projects (Hutchinson, 2004). The U.S. sees working through NadBank or bilaterally with Mexico as more efficient than incorporating or creating new areas in North America.

Canada also prefers a bilateral approach to deepening the North American Free trade area. Despite its NAFTA membership, Canada tends to think of North America primarily in terms of its relationship with the U.S. As Robert Keyes, the vice-president of the International Division of the Canadian Chamber of Commerce stated before the Canadian Parliament, "As we look at this issue of Canada-U.S.-Mexico...Canada-Mexico is a long way behind where the Canada-U.S. relationship is, and that has to be our primary focus" (Keyes, 2002).

Although the Canadian government is supportive of further North American integration, Canadian elites and interest groups favor deepening the bilateral economic relationship with the U.S., rather than building on the trilateral relationship. Some scholars are even hesitant about pursuing this course of action for fear of being dominated by the U.S. (Campbell, 2003). Other scholars propose deepening bilateral economic integration with the U.S. to develop a customs union or a common market and including Mexico later (Canadian Council of Chief Executives, 2003; Dobson, 2002: 7-9; Gotlieb, 2003: 25-30). In both cases, elites and interest groups focus on the U.S.-Canadian relationship in North America, rather than building a strong trilateral relationship.

Canada and the U.S.'s resistance to cohesion and solidarity arguments and their preferences for a bilateral approach to addressing the challenges posed by economic integration contradict the cohesion/neofunctionalist hypothesis for the creation of an RDF. Contrary to the neofunctionalist logic that more regional integration can solve the challenges created by regional integration, elites and interest groups in Canada and the U.S. government argue that these challenges are best handled bilaterally. Like the European Union case, cohesion and solidarity arguments have not been sufficient factors to motivate wealthier countries to become net contributors. North America's regional politics and the U.S. and Canada's stances on deepening North American integration suggest that an intergovernmentalist approach to creating a NAIF is more informative.

KEY DIFFERENCES IN AN INTERGOVERNMENTALIST APPROACH

Based on the intergovernmentalist hypothesis for the creation of an RDF, a NAIF will result from bargains and side-payments between the countries of North America, which will be different from those that occurred in the European Union case. The decision to create the ERDF in Europe largely depended upon the Commission's activism, the incorporation of the U.K. and Ireland, the creation of the European Union's own resources, and wealthier member states' interest in creating the EMU. North America may face inexact but similar circumstances, such as elites and interest groups' activism, extending an agreement to Central and South America, funding for the NAFTA secretariats, and a country that supports deeper integration. But these circumstances are not likely to lead to the creation of a NAIF. Examining how these factors affect the regional dynamics in North America's case provides insight on how one can create an intergovernmentalist-informed proposal for a NAIF.

In North America, there is no central institution that can craft regional legislation for NAFTA, but elites and interest groups could be an alternative. The Commission played a key role in the European Union's evolution, because its main role was to advocate for Europe's interest above national interests. An agent able to lobby for the community's interest is necessary for an RDF to occur, because it can set goals and propose bargains that balance the interests of member states to reach those goals. In North America, North American community-minded elites and interest groups are the closest alternative to having a supranational body that can propose legislation, because some of them base their policy suggestions on North America's interests rather than national interests.

They must explore more ways to influence member states' interests to gain support for a NAIF. Thus far, their influence has been limited, however, as the outcome of the Waco Conference demonstrated. But even the Commission faced similar limitations in the 1960s, when the Empty Chair Crisis overshadowed its first ERDF proposal. The European Union and North America's cases show that timing and having a community-oriented body that can tailor a strategy to meet the interests of member states are important.

Enlargement was another important ingredient for the ERDF in the European Union's case, which is not entirely applicable to North America. In Europe's case, the incorporation of the U.K. and Ireland added two countries with an intense interest in seeing the ERDF take shape and the bargaining power to sway other member states' interests. In North America, all three NAFTA countries' bilateral negotiation of free trade agreements (FTAS) with certain Central and South American countries is the closest equivalent to enlargement. The U.S., Canada, and Mexico have concluded bilateral FTAS with the Central American Free Trade Area (CAFTA), which creates a de facto enlargement of NAFTA. These agreements are not likely to create the same dynamics, however, because they are bilaterally based and not a trilateral extension of NAFTA.

Similarly, the Free Trade Area of the Americas (FTAA), which would constitute a trilateral extension of NAFTA, is also not likely to stimulate interest in a NAIF. In fact, the FTAA would likely draw attention away from North America's regional development. As Weintraub asserts, "widening" NAFTA by concluding the FTAA would result in a weaker form of regional integration than "deepening" NAFTA with more harmonized regulations and central policies (Weintraub, 1994: 56-104). If regional development does become part of the FTAA negotiations, it will likely be channeled through the existing Organization for American States (OAS) and the Inter-American Development Bank (IDB), rather than through a NAIF.

The fact that the European Union created resources of its own was also a key ingredient for the ERDF, and the absence of a NAFTA community budget adds to the lack of incentive for the wealthier states to create a NAIF. NAFTA does not have any community-funded, central institutions. The U.S., Canada, and Mexico are responsible for funding the secretariat representations in each country. They are free to determine the amount of funding themselves, since the treaty sets no minimum requirements (NAFTA, 1994). The North American countries' interests are different from the European Union countries' interests of the 1970s, because they have full control over the funds that they give to NAFTA. Since their contributions to NAFTA are in self-determined amounts, they have less incentive to look for rebates through a NAIF.

North America does not have the same regional dynamics that Europe did in the 1970s. In contrast to the European Union case in which the wealthier countries anticipated large gains from deeper economic integration, the poorer country in North America favors deeper trilateral integration and the wealthier countries favor deeper bilateral integration. This dynamic creates a key contrast between the two cases. In the European Union's case, the wealthier countries' interest in creating deeper economic integration led them to offer the ERDF as a side-payment to the poorer countries in exchange for their cooperation on EMU. In North America's case, Mexico has been asking the U.S. and Canada for deeper trilateral integration, or "NAFTA -plus," and the wealthier countries are the ones that are hesitant about the implications of deeper integration (Pickard, 2005).

One of the key incentives that motivated wealthier European Union member states to create the ERDF does not exist in North America's case. Proponents of a NAIF must embrace the financial and political differences that exist between the European Union and NAFTA and explore other possible side-payments among the countries of North America.

POSSIBLE SIDE-PAYMENTS FOR NORTH AMERICA

This reversed dynamic, in which the poorer country favors regional integration while the wealthier countries do not, means that Mexico will have to satisfy the U.S. and Canada's interests in another area in order to receive a NAIF as a side-payment. If member states' interests are to dictate the creation of an RDF in NAFTA's case, Mexico might need to make concessions on its labor standards, environmental policies, and border cooperation to receive an RDF as a side-payment.

Mexico has already had to satisfy the U.S. and Canada's interests before integration could take place. U.S. labor unions, environmentalists, and free-trade critics were concerned that Mexico's comparative lack of labor and environmental regulations would give it an unfair comparative advantage and lead to trade distortion. Thus, the U.S. tied its agreement to the NAFTA treaty to two side agreements, which created the North American Commission on Environmental Cooperation (CEC) and the North American Agreement on Labor Cooperation (NAALC) (National Association of Manufacturers, 1998). According to intergovernmentalist theory, Mexico may again have to make trade-offs to the U.S. in these two areas, and likely in border cooperation.

Mexico might have to meet Canada and the U.S.'s demands to enforce higher labor standards. Mexico has currently agreed to the 11 common labor principles of the NAALC, which include equal pay for men and women and limitations on child labor, and the Singapore World Trade Organization (WTO) Ministerial Declaration on workers' rights. The problem is that Mexico was quick to incorporate the principles into its Constitution and laws, but slow to put them in practice. For example, its Constitution and laws respect trade union rights and the freedom of association, but the right to strike and the right to organize are not always recognized in practice, which weakens the labor unions' power to bargain for workers' rights (International Confederation of Free Trade Unions, 1997). Canada and the U.S. could ask that Mexico reinforce its efforts to respect the rights of unions in practice. Greater assurance that Mexican industries adhere to the NAALC and the WTO's labor principles would guarantee improved working conditions and labor standards in Mexico and fairer competition for Canadian and U.S. laborers.

The U.S. and Canada could ask Mexico to put its respect for environmental regulations into practice. Mexico and the U.S. currently work together to address border environmental issues and they have made some improvements in enforcing environmental regulations, but population expansion and economic transformation have outpaced the U.S. and Mexico's efforts. Residents along the U.S.-Mexican border complain about poor air quality from vehicle emissions and brick-kiln burnings in Tecate, untreated sewage that affects the water quality, and waste pollution in the Conchos and Rio Grande basins (Environmental Protection Agency, 2006). In March 2004, President Fox announced a one-year moratorium on environmental regulations to increase investment and employment. As a result, many laws and regulations on environmental protection that would have improved the health and welfare of border towns were delayed (Jacott, Carlsen and Nauman, 2004). Given the adverse environmental effects on its border towns, the U.S. could demand that Mexico adopt and enforce stricter environmental laws and regulations in exchange for agreement on a NAIF. This policy change would guarantee improved environmental conditions along the U.S.-Mexican border.

Mexico may have to increase its cooperation with the U.S. to discourage illegal emigration across their shared border. Illegal immigration from Mexico is a core issue for the U.S. It would probably support a NAIF if it were tied to some assurance that doing so would produce an immediate decrease in the flow of illegal immigration from Mexico. The U.S. and Mexico already cooperate on regulating their border, but they could strengthen this effort by spreading awareness of the risks of illegal migration. Mexico has filmed four short videos on the risks of illegal migration that show in the Estrella Blanca buses heading toward the border. In conjunction with the U.S.'s effort in its border towns, Mexico should spread its effort to communicate the risks of illegal migration to the general public. A marketing campaign fully informing Mexican citizens of the risks of illegal migration could change some potential migrants' calculations of the expected risks and their decisions to go.

To justify receiving a NAIF as a side-payment for its cooperation on migration, Mexico could adopt the stance that cooperation with the U.S. is not in its interest because it could result in a loss of worker remittances. Mexico would have to project what its losses in worker remittances might be from the U.S.'s new immigration policy, once it is finalized. Mexico benefits greatly from people who have emigrated to the U.S. and who send money back. In 2005, Mexico received more than U.S. 20 billion dollars in workers' remittances, making it Mexico's second source of foreign currency income after oil exports (Banco de Mexico, 2006). This is equivalent to 28 times more than the amount of grants and loans that NadBank distributed in 2004 and two-thirds of the U.S.'s entire budget for international affairs, excluding funding for Iraq and Afghanistan, in the 2005 fiscal year (NadBank, 2004; Executive Office of the President, 2005). Mexico could argue that it risks losing worker remittances, a key source of its income, if it helps the U.S. tighten border controls. The U.S. might then have an incentive to offer Mexico a NAIF as a side-payment.

If member states' interests are to determine whether a NAIF takes effect, elites and interest groups that support its creation must conduct a deeper investigation to determine how these and other trade-offs might take place. Satisfying the interests of the wealthier member states is a necessary condition for establishing a NAIF. Since the wealthier countries' interest in deeper economic integration does not apply to North America's case, North America will have to identify other ways to satisfy the wealthier countries' interests.

CONCLUSION

The lesson that scholars often overlook when they apply lessons from the ERDF to North America is that its creation depended on the poorer member states satisfying wealthier member states' interests in another area and receiving the ERDF as a side-payment. Retracing the ERDF's origins shows that cohesion and solidarity were necessary, but not sufficient, factors in its creation. Pastor acknowledges this when he states, "[A] clear statement of goals is necessary but not sufficient to construct a community of nations" (Pastor, 2002). Like the European Union's case, declaring their commitment to cohesion and solidarity will not be enough to persuade North American countries to adopt a NAIF. Elites and interest groups that support the creation of a NAIF should explore the possible bargains that could take place between the three countries that would balance their interests. A NAIF does not necessarily need to come about as a side-payment, but given the regional dynamics in North America, this method seems the most likely.

Applying integration theories to the ERDF and using them to hypothesize how a NAIF might come about in North America provides guidance for NAIF proponents. Neofunctionalism and cohesion theory had a limited ability to explain why the ERDF came into force, and their hypothesis for how a NAIF might take shape in North America seems unlikely, given the current regional dynamics. Intergovernmentalism and side-payments theory has more explanatory power in both cases.

As an integral element to the ERDF's creation, North America scholars must take into account intergovernmentalist and side-payment theory's implications when basing their proposals for a NAIF on the ERDF. Enhanced environmental, labor, and border cooperation are three possible intergovernmentalist trade-offs that could take place in North America. These bargains and others deserve further exploration, because, as the European Union's case has shown, an RDF has the potential to significantly reduce wealth disparities among countries.

Appendix 1

REVIEW OF THEORIES AND THEIR APPLICATION TO THE EU AND NAFTA

	Convergence/ Neofunctionalism	**Side-Payments/ Intergovernmentalism**
General Hypothesis	RDFs come about from elites, interest groups, central institutions, upgrading the common interest, spillovers	Countries act in their own interests when creating an RDF RDFs serve as a side-payment when countries' interests are not directly satisfied from its creation
Hypothesis in EU	Elites, business and interest groups advocate the creation of RDF Central institutions need more jurisdiction Cohesion and solidarity influence countries to act in the community's interest	Countries bargain and make side-payments to satisfy their own immediate interests
Hypothesis in North America	Elites, business and interest groups advocate creation of RDF Cohesion and solidarity are guiding principles	Countries bargain and make side-payments and trade-offs to satisfy their interests
Evidence in EU	1961 EU member states made a commitment to cohesion and solidarity; nearly 15 years later the ERDF came about	Wealthiest countries received large proportion of funds Side-payment to accession countries Seen as rebate from the EU budget Tied to EMU
Evidence in North America	Independent Task Force on the Future of North America lobbied governments before the Waco Conference Bush and Fox's joint statement on cohesion in 2001, no NAIF yet	Mexico made trade-offs to the U.S. and Canada for NAFTA to come into force Regional dynamics suggest that trade-offs may be necessary for a NAIF

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