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New Political Economy Approach
to Agricultural Policy Formation
in the European Union

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in the European Union***



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ROBERT SCHUMAN CENTRE

**Applying the New Political Economy Approach
to Agricultural Policy Formation in the European Union**

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Abstract

During the 1980s the Common Agricultural Policy (CAP) displayed considerable resilience in resisting reform attempts. Faced with difficulties in seeing their policy recommendations accepted, agricultural economists began to question the traditional neoclassical model. If political feasibility was an obstacle to adopting the reforms proposed, perhaps it should explicitly be taken into account in policy models. The result was a growing literature applying political preference functions and the "new political economy" to agricultural decision-making in the European Union. The article here will review this literature and consider some of the main criticisms it has encountered. The approach is then applied to CAP decision-making in an attempt to explain not only the reform resistance of the CAP for so long, but also how it was possible to introduce the MacSharry Reform of 1992, which represents a fundamental transformation of the CAP. Likely future developments in the CAP and possible policy prescriptions are then indicated.

1. Introduction*

One of the paradoxes faced by policy analysts concerns how agriculture benefits from relatively high levels of government support in most industrialised countries, though, in general, not in developing countries. In the European Union, the Common Agricultural Policy (CAP) continues to impose a heavy burden on consumers and taxpayers even though it has long ceased to perform its function as "cornerstone" of the integration process. The aim here is to try and account for the reform resistance displayed by the CAP for so long, and to explain how the MacSharry Reform, which involved radical transformation of the CAP, was possible in 1992.

During the 1980s, the "binomial asymmetry" (De Benedictis, 1986) between need for CAP reform and inability to precipitate change led many agricultural economists to question the traditional neo-classical model. It was widely recognised that most agricultural policy was not decided simply on grounds of economic efficiency¹, so the effectiveness of basing policy advice just on traditional welfare analysis became increasingly doubtful. As political feasibility was an obstacle to adopting the reforms proposed, perhaps it should explicitly be taken into account in policy models. If agricultural economists extended their field of study to the political decision-making process, they might be able to identify sources of reform resistance and suggest ways in which this could be overcome.

The literature which emerged involved application of the so-called "new political economy" (NPE) approach to agricultural policy-making. The new political economy entails using the economic approach to analyse non-market decision-making². A central strand of this approach is public choice, or the application of economics to politics. The subject matter of public choice is that of political science (interest groups, voter behaviour, voting rules, party politics, the bureaucracy etc.), but the approach is that of neoclassical economics. This

*An earlier version of this paper was first presented at the 1996 School on European Integration, Siena, 30 October-12 November

¹Rausser (1982) makes the distinction between productive policies (PERT or political economic resource transfers) aimed at correcting market failure or providing public goods in order to increase welfare, and predatory PEST (political economic seeking transfers) policies aimed at redistributing wealth from one social group to another. The shift in emphasis of policy increasingly towards PEST objectives, could be taken as evidence of a "political failure" which is parallel to the traditional notion of market failure.

²For a survey of the literature see Mueller (1989). Burrell (1987) and De Benedictis, De Filippis and Salvatici (1991) provide overviews of how the new political economy fits into new directions in research in agricultural economics.

implies that the basic starting point is the self-interested individual who tries to maximize his utility subject to certain constraints.

The term "new political economy" is used in a wider sense to incorporate not only public choice, but also approaches such as regulation theory (Stigler 1971 and Peltzman 1976), the theory of rent-seeking (Tullock, 1967 and Krueger, 1974) and directly unproductive profit-seeking (DUP) activities (Bhagwati, 1982a)³, and the literature on transaction costs, property rights and contracts (Williamson, 1975, 1985)⁴.

The attempt to apply the NPE approach to agriculture here will first involve a brief description of the need for CAP reform and the main elements of the 1992 MacSharry package. Then follows a short survey of those aspects of the literature on political preference functions and the new political economy which appear useful in explaining agricultural policy-making. The NPE approach is generally criticised on two main counts, the difficulty of formulating empirically testable hypotheses, and the assumption of self-interested behaviour⁵, so before beginning the survey of the literature, sections 3 and 4 will attempt to address these criticisms.

The second half of this paper is concerned with the application of the NPE approach to EU agricultural policy-making⁶. On the demand side this entails the identification of the main actors and their preferences, and a discussion of factors such as information costs, the organisational costs of lobbying and the size of per capita transfer expected from the government, which help to explain why farm groups are more active than their consumer counterparts. A description of the EU decision-making process then illustrates how agricultural questions were generally decided in an "isolated political circuit" which appeared biased in favour of farm interests. However, when some external expediency such as a

³Rent seeking is considered a subset of the more general category of directly unproductive (DUP) activities (Bhagwati, 1982). These are defined as ways of making profit (i.e. income) which are not directly productive. They include activities such as tariff-seeking lobbying, tariff evasion, and premium seeking for given import licenses.

⁴ Though this research area appears promising, to date there have been few attempts (see Senior Nello, 1984) to apply the Williamson approach to the CAP.

⁵The concept of "rationality" as a behavioural assumption has also been the subject of much discussion, but with few exceptions (see, for instance, Lechi, 1993) this debate does not appear in the literature on the new political economy so has not been included here.

⁶Swinnen (1993 and 1996) has also applied this type of approach to the Central-East European countries. The survey articles by Zezza (1987) and Swinnen and van der Zee (1993) indicate some of the applications of the approach in other countries.

budgetary crisis or the need to conclude international trade negotiations reached sufficient urgency, other actors (such as finance ministers, heads of state, or third countries) entered the game, breaking down the isolation of agricultural policy-making and forcing change. In the final section conclusions will be drawn and some policy implications will be indicated.

2. The need for CAP reform

According to the OECD, in 1994 transfers associated with agricultural policies⁷ from EU households amounted to 113 billion ECU, or 325 ECU per capita. 51 billion of these transfers represent a direct burden paid by taxpayers in the EU, national and local budgets, while 63 billion is paid by consumers in the form of higher prices for food and agricultural products.

These transfers are higher than the EU agricultural value added (AVA) at market prices which amounted to 105 billion ECU in 1994. The agricultural value added computed at world prices amounted to only 42 billion ECU in 1994. Total transfers associated with agricultural policies were therefore more than twice the AVA at world prices, that is double the opportunity cost of EU society buying its agricultural production on world markets (Tarditi, 1996).

However, according to various estimates⁸, about 30% of this transfer to farmers is lost in inefficient allocation of resources. Up until 1992 the disposal of surpluses (which either went into public storage, or were sold on world markets with the assistance of export subsidies) accounted for a large share of these costs. The figure of 30% losses excludes the costs of administering policies, and the transaction costs⁹ of raising taxes to finance budgetary expenditure.

EU surpluses of foodstuffs were greatly reduced by the 1992 MacSharry reform of the CAP. A central element of this reform was a 29% reduction in the target

⁷These transfers estimate the total money value of transfers from consumers and taxpayers associated with agricultural and other related policies (e.g. rural, environment) for all agricultural commodities. Budget receipts from tariffs on agricultural imports (which amounted to 0.6 billion ECU in 1994) are deducted from this figure. Tax concessions granted specifically to farmers are included where data is available (OECD, 1996).

⁸EC Commission, DG II (1994).

⁹The allocation and transaction costs of raising taxes to finance budget outlays has been estimated at a further 15% (Brown, 1989).

price¹⁰ for cereals and the introduction of direct payments to compensate farmers for their loss of income. In the case of large farmers the compensatory payment was conditional on the set-aside of at least 15% of their land. The reform package also included measures for other product groups, such as a 15% reduction in intervention prices for beef, and the use of premiums per head of cattle to compensate farmers and to encourage less intensive means of beef production.

As a result of the MacSharry reform, budgetary expenditure and the administrative costs of implementing agricultural policies rose. Moreover, set-aside, which entails leaving land idle, represents a deadweight loss in terms of economic efficiency.

Despite the scale of transfers from consumers and taxpayers, the disparity of farm incomes in the EU remains a problem. This was largely because under a system of price support most of the benefit goes to the largest farmers, and, in particular, the large grain and livestock producers of Northern Europe. According to the much-quoted statistic of the EC Commission¹¹, 80% of support went to 20% of farmers, generally those which were better off.

As the supply of land is relatively rigid, the higher profits of farmers resulting from price support and quotas will also be reflected in land prices to the benefit of large land-holders. Higher land prices also increase the costs for those wanting to expand (generally the younger, more dynamic farmers) or to enter the market, so may hinder the adjustment process.

A further difficulty is that the transfers to farmers may be passed along the food chain. Agricultural policies are likely to have implications upstream for the producers of farm inputs (such as fertilizers, pesticides and farm machinery) and downstream for the processing industry, merchants, wholesalers and retailers. As a result, the ultimate beneficiaries of agricultural policies may be very different from those intended and, as will be shown below, this will also have implications for lobbying.

Upstream the effect of price support for a given agricultural product will be to raise the prices of the inputs used in its production and, depending on the elasticity of supply of those factors, the supply of inputs will increase. Many of

¹⁰The target prices are fixed each year by the Council of Ministers and act as a reference point to set other institutional CAP prices such as the intervention prices (or minimum support prices) and the threshold prices (minimum entry prices) for various agricultural products.

¹¹COM (91)100

the firms producing farm inputs are large multinationals, and these will experience increased profits, and/or market shares.

Higher agricultural prices represent a loss for food processors using those products as an input, but this loss may simply be passed further along the food processing chain in the form of higher prices to intermediate or final consumers. The extent to which this occurs will depend on the market structure of the processing and retailing industries and the elasticity of demand for the product at each stage. The food chain is composed of very diverse actors, with processing firms ranging from huge multinationals to small artisanal firms, while retailers vary from giant supermarket chains to tiny corner shops or market stalls. As a result, the extent to which a transfer is passed on down the food chain will vary considerably according to the product and firms involved. In practice this renders the process of identifying the ultimate beneficiaries of a policy difficult¹².

As shown in Table 1, the level of EU agricultural support is higher than that of most other agricultural exporters¹³. The measure used for international comparisons of support levels is the PSE, or producer subsidy equivalent. This is defined as the subsidy that would be necessary to replace all the agricultural policies used in a country and leave farm revenue unchanged¹⁴.

¹²For an interesting analysis of how the transfers may be passed along the food chain see the empirical analysis of the case of Bulgaria by Ivanova et al (1995).

¹³The EU is the second main exporter of agrifood products and the largest importer, while the US is the largest exporter and second importer.

¹⁴Estimates of PSEs are therefore usually lower than the transfer measures presented in Table 1 as they do not include the transfers of other related policies such as those for rural development and the environment.

Table 1: Agricultural support in selected countries as measured by the percentage¹⁵ producer subsidy equivalent

	1979-86 (average)	1992	1993
EU (12)	37	47	48
Austria	31	55	56
Sweden	44	58	52
Finland	56	67	67
USA	21	21	23
Australia	10	10	9
New Zealand	24	3	3
Canada	28	38	32
Japan	64	71	70
OECD total	34	41	42

Source: OECD

Given such a byzantine system, it seems legitimate to ask how the CAP managed to survive for so long and why was there so little resistance on the part of EU taxpayers and consumers to the burden imposed upon them by the farm sector.

3. The Role of Empirical Testing in Economics

At least initially one of the major objections to applying the NPE approach to the CAP was the difficulty in formulating testable hypotheses. Although a large literature empirically estimating the propositions of the approach has emerged, in the specific case of the CAP this is rendered difficult by the complex, multi-tiered process of EU agricultural decision-making. None the less, as will be shown below, formal models are gradually emerging for the EU experience.

Most economists occupy a middle position in the debate¹⁶ about the role of empirical testing in economics, between the extreme views of radical apriorism and ultra empiricism (Blaug, 1985). Radical apriorism argues that economic theory is simply a system of deductions from postulates or assumptions which cannot be empirically verified¹⁷. Against this, ultra empiricism refuses to admit

¹⁵The PSE may be expressed in aggregate money terms (total PSE), or, as here in percentage terms as a percentage of the value of production, valued at the farm gate.

¹⁶The debate dates back to Nassau Senior and John Stuart Mill. See for example the discussion of the distinction between inductive and deductive inference and the relative importance of each in in Mill's *System of Logic*. For a more extensive treatment of these questions see Lechi (1993).

¹⁷The modern Austrian School, Institutionalists and more ambiguously Marx are among those who reject the role of empiricism in economics. Von Mises, for example, attributes the apriori

any postulates which cannot be empirically tested¹⁸. The majority of economists accept the relevance of Popper's demarcation line that theories are scientific if they are falsifiable, but frequently do not attach enough importance to the role that "tautologies and identities" can play in economics¹⁹. Friedman (1953) who, like John Stuart Mill, comes down firmly on the side of inductive knowledge, describes this secondary, "tautological" role of a theory as:

"....a language designed to promote systematic and organised methods of reasoning.....Its function is to serve as a filing system for organising empirical material and facilitating our understanding of it....."

Even if to date the new political economy approach applied to the CAP has not scored particularly well in terms of empirical testability and forecasting ability, it has helped to identify issues, increase our understanding and present complex questions in a way that helps decisions to be made. As Blaug (1985, p.703) argues, a theory may be useful even if it is not yet testable

"provided it draws attention to a significant problem and provides a framework for its discussion from which a testable implication may someday emerge".

4. Benevolent welfare maximisers or egoistic individuals: How the behaviour of policy-makers is treated in the literature

Although the distinction is not always clearcut, it is useful to indicate the main differences in the way the state has been treated in the literature²⁰. A first difference is between approaches which treat the government as a single rational actor, and those which explicitly model the political process, taking as a starting point the behaviour of individuals (politicians, bureaucrats) in the decision-making process.

nature of economics to the impossibility not only of controlled experiment but also to the discovery of constant relations which are open to numerical determination.

¹⁸It is interesting to note that this extreme form of positivism, according to which only testable hypotheses have any meaning (apart from tautologies) is neither empirically testable nor is it a tautological proposition.

¹⁹For a criticism of the excess reliance of agricultural economists on positivism see Burrell (1987).

²⁰See, for example, Krueger, 1990, for a survey of this issue. Marxist theories of the state, according to which public intervention is seen as the outcome of a class struggle in a given economic and social structure, are excluded from the discussion here. For a survey article of this type of approach see Jessop (1977).

The traditional neoclassical approach falls firmly into the first category with the government being treated as an omniscient, benevolent actor attempting to maximize the welfare of society as a whole. As will be argued below, the mainstream literature on political preference functions also treats the state as a single welfare maximizer. In contrast, the new political economy approach is based on the assumption of the self-interested individual in the policy process (see Fig. 1).

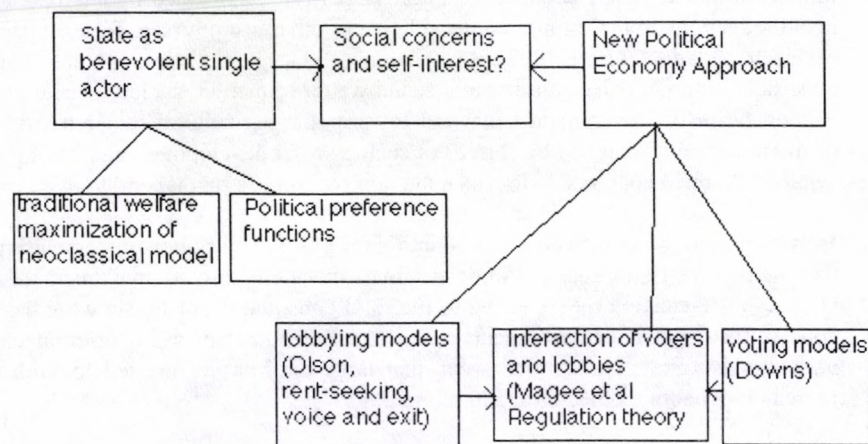


Figure 1

There has been considerable debate as to which is most appropriate assumption with regard to the behaviour of policy-makers: altruism, self-interest or some combination of the two. Baldwin (1989) has argued in favour of an explanation of government behaviour which incorporates both "self interest" and "social concerns".

According to the "social concerns" model "a government policy is explainable in terms of "concern for the welfare for certain social and economic groups and by its desire to promote various national and international goals" (Baldwin, 1989,

p.126). Political choices will therefore be influenced by considerations of equity and social justice, and by non-economic objectives. For example, Corden (1974) has attempted to explain trade policy with a conservative welfare function which entails avoiding any significant reductions in real incomes for any significant section of the community. As a result, decreases in income are given high welfare weights, and increases in income are given relatively low welfare weights.

According to this type of approach, the relatively high levels of support for farmers in industrialised countries can at least partly be explained by attempts to avoid reductions in real farm incomes relative to other sectors (see, for example, Swinnen and de Gorter, 1993). MacClaren (1993, p. 428) also argues that, consistent with Corden's conservative social welfare function, society appears to support altruistic government behaviour towards the agricultural sector because of the importance attached to objectives such as rural development and having a "well-maintained countryside in which the family farm is a pivotal entity".

However, there is no difficulty in accounting for this type of policy outcome using the "self-interest" approach. Politicians may be attempting to maximize their chances of re-election by appealing to the rural constituency or by showing their concern for social and environmental questions. Bureaucrats working on rural and agricultural policy are likely to argue that large budgets are needed to further these non-economic objectives, and so on.

Munk (1994) argues that the new political economy approach is not necessarily in contradiction with the view of policy-makers as welfare maximizers (which he calls the "public finance approach"). By providing an explanation of the behaviour of agents in the political process, according to Munk, the new political economy approach may potentially provide an explanation of why and under what circumstances the political system acts as if it were concerned with maximizing a social welfare function based on egalitarian value judgements.

The real difficulty is that we lack a theoretical framework in which to combine the assumptions of "self-interest" and "social concerns" in explaining the behaviour of policy-makers²¹. The social concerns approach runs into the problem of defining a social welfare function, in particular, because there are different views concerning the form that this should take and, by Arrow's impossibility theorem, no simple way of reconciling these differences. If this problem could be resolved, and if it were possible to define a social welfare function which pointed in a different direction from the self-interested approach, what would be the

²¹For this reason in Section 8 below no attempt is made to derive a formal model of the interaction of the demand for and supply of protection on the political market.

outcome? Given the "split personality" of policy-makers who waver between benevolent facelessness, and individual self-interest, under which circumstances, and why, would the Jekyll or Hyde aspect of our policy-makers prevail?

5. The Literature on Political Preference Functions (PPF),

According to the political preference function (PPF), or governing criterion approach, the government remains a single rational actor, but it takes into account the existence of different groups or interests in society such as producers, consumers and taxpayers. The relative political power of each of these groups in the determination of policies is measured by social welfare weights, and the task of the government is to maximize a weighted objective function²². The arguments appearing in the policy preference function are performance measures such as producer and consumer surplus, budgetary expenditure, or profits, net income and so on.

Rausser and Freebairn (1974) indicate three alternatives (the direct, the arbitrary and the indirect) when searching for the information to construct a set of political preference functions.

The direct alternative involves questioning policy makers about their preferences, but aside from involving costly interviews there is no guarantee that policy makers are able or willing to articulate their preferences.

The arbitrary alternative entails the investigator specifying some arbitrary weights which he believes the preference weights ought to be. Though questionable, this approach has at least the advantage of simplicity and transparency, and leaves later authors the option of altering the weights if their impressions or prejudices of what the weights should be are different.

The indirect alternative is that most widely used and involves inferring policy preference functions from past decisions. The approach is that of "revealed preference" in the sense that the weights assigned to different groups are observable or "revealed" by policy actions. The difficulty with this approach is that the weights are assumed constant. In practice it seems likely that the weights will vary over time and according to the policy instrument in question, and that they may also be influenced by the decision-making process itself. For instance, as Tyres (1990) points out, the Uruguay Round induced a huge number of studies

²²If equal weights are attached to each of the groups, the approach collapses into that of the traditional welfare maximization problem for government described above.

of the welfare incidence of the CAP, which may have increased the information of non-beneficiaries thereby reducing the political strength of EC farmers.

As might be expected, empirical estimates for industrialised countries using the indirect alternative generally yield weights for farmers greater than unity and weights for consumers and taxpayer of less than unity. For example, using 1980-82 data for the EC(10), Tyres (1990) finds weights of 0.60 for consumers, 0.84 for taxpayers, 1.11 for wheat producers, 1.34 for ruminant meat producers, and 1.30 for dairy farmers.

In the literature, once the weights for different groups are calculated, they are then generally used to assess the political feasibility of different policy options²³. This approach has been used by Tyres (1990) to analyse different reform scenarios of the CAP, and by Mahé et al (1991) to assess the political feasibility of different EC-US trade liberalisation scenarios. The aim of such studies is to identify the most likely outcome in view of the different political weight of the interests involved, but the term "political feasibility" is somehow misleading in this context and may run the risk of a blur in the normative/positive distinction. When we identify the option which is most politically feasible (i.e. acceptable to the strongest groups) are we simply saying that it is the most likely outcome, or are we implying in some sense that it is preferable?

For the most part²⁴ the literature on political preference functions takes the structure of government preferences into account, but does not address the question of why the government preference structure assumes that form. In this sense the government, which is treated as a rational single actor, remains essentially a "black box".

6. The New Political Economy Approach

The new political economy approach sees policy as the outcome of the way in which the preferences of rational egoistical individuals are combined in the decision-making process. Various authors (Brock and Magee, 1978, Frey, 1984, Magee et al, 1989) have argued that there is a political market similar to the economic market, with a demand and supply of protectionism, or government

²³For a more complete account of empirical PPF studies applied to the case of agriculture see Swinnen and Van der Zee (1993).

²⁴There are notable exceptions, such as Zusman (1976) and Zusman and Amiad (1977) who attempt to model the bargaining process between pressure groups and the policy maker.

support measures generally²⁵. The demand for protectionism comes from particular groups of voters, firms or interest groups, while the supply is provided by politicians and bureaucrats. The policy outcome will be the result of the way in which demand and supply interact in the political market. A growing literature is also emerging concerning the existence and stability of political equilibria²⁶.

Political economy models differ according to which, and how many of the different agents involved in the decision-making process are taken into account. Differences also arise in the assumptions made about the behaviour of the agents and the role of institutions. Swinnen and van der Zee (1993) distinguish between pressure group or lobbying models and voting models.

The literature on pressure groups and lobbying owes much to the work by Olson (1965, 1985, 1990) who explains the decision to join and participate in the activities of a pressure group in terms of costs and benefits. In particular, Olson argues that the problem of free riding by members of the group may be overcome by selective incentives, or, in the case of what he calls a "privileged group", by one or more members whose size or interest in having the goal of collective action is sufficient to induce them to take on the task of obtaining the public good.

Olson (1985) and Anderson (1978) have also argued that the problem of free riding may be reduced if there are other forms of organisation among producers, such as cooperatives for marketing and processing, or Marketing Boards. In such cases, however, possible conflicts of interest between farmers and the industries up- and downstream also have to be taken into account.

As will be argued below, there is a strong case for assuming that the main EC farm lobbies not only offer their members "selective incentives" to ensure their participation, but also fall into the category of privileged groups. In contrast, high organisational costs, and relatively low expected benefits dissuades consumers and taxpayers in the Community from undertaking collective action to influence agricultural policy.

Becker (1983) presents a model of competition among pressure groups for political influence in which political equilibrium depends on the efficiency of each

²⁵The concept of a political market is used here as it appears a useful device to organise material, but Corsi and Pagella eds. (1992) and Pagella ed. (1996) provide a detailed account of why the concept of an economic market proves inadequate to capture the complexity of agricultural policy-making, using the specific case of the Italian Regions.

²⁶See, for example, Young (1982) and Magee et al (1989).

group in producing pressure, the effect of additional pressure on their influence, the number of members in each group, and the deadweight cost of taxes and subsidies. The groups compete in a game setting and the outcome will be a redistribution of income, with real full income being taken as a measure of the utility of each group. Becker found that an increase in the deadweight costs of taxes and subsidies (i.e. distortions in the use of resources) discourages pressure by subsidized groups, and encourages pressure by taxpayers.

This concept of deadweight costs would seem important in the case of the CAP given the high allocative costs involved. However, as Brooks has argued (1996), in the case of agriculture inefficient instruments (such as import quotas, price support etc.) are often chosen because of their lack of transparency. Obfuscation with respect to the costs of a policy may enable the political support of policy losers to be retained.

A criticism of the lobbying approach as used by both Olson and Becker is that little importance is attached to the role of politicians, political parties and voting behaviour. An elected politician has to take into account not only only lobby power but also vote power, and at times the two may conflict. In practice group power may often override vote power, but this is not always the case. For example, much environmental and anti-trust legislation was introduced in the face of strong opposition from producer groups²⁷.

The literature on rent-seeking (Tullock, 1967, Krueger, 1974²⁸, Buchanan, Tollison and Tullock, 1980, and Tollison, 1982), and on Directly Unproductive Profit-seeking (DUP) activities (Bhagwati, 1982a) provides an alternative account of lobbying activities. In a system heavily based on price support and, for many products, quantity restrictions, farmers are frustrated in terms of economic profit seeking so turn to political rent seeking by trying to influence farm policy.

In the competitive rent-seeking model a farmer will expend resources in lobbying activities until the marginal cost is equal to the expected marginal return. The expected marginal return will depend on the increase in producer surplus as a result of a change in government policy induced by the lobbying activity. In the

²⁷Becker argues that voter preferences are frequently not a crucial independent force in political behaviour as they can be manipulated through the information and misinformation provided by pressure groups. This opinion probably lends itself better to the US political system where lobbies generally play a more important role than in Western Europe, but even in the US legislation such as the Sherman Anti-Trust Act of 1890 or the Clean Air Act Amendments of 1970 suggest that vote power may sometimes prevail (McClean, 1987).

²⁸The term "rent-seeking" was first coined by Krueger, 1974.

simplest form of the competitive model it is assumed that spending on lobbying activities is a deadweight loss, so spending on rent-seeking activities will exactly dissipate the transfer to producers.

However, the assumption of the perfectly competitive model that rents will be exactly dissipated has been increasingly challenged. Brennan²⁹ proposed a game analogous to rent-seeking in which students make a sealed bid for a given money prize under the conditions that there is no collusion among bidders, the bids are not refunded and the highest bidder wins. The results include both cases of overbidding and of underbidding. It also seems likely that the extent of lobbying activity will be influenced by the number of players involved, the shape of the marginal cost curves with respect to rent-seeking and the policy instrument in question. As a result a literature on non competitive rent-seeking³⁰ based on game theory has begun to emerge, but its main focus is on the variable that probably interests us less: spending on lobbying rather than the welfare incidence of policy on various groups.

In practice it is also unlikely that lobbying is always a competitive activity. In many cases lobbying may entail unrecoverable, sunk costs (Baumal, Panzar and Willig, 1982, p.290) which pose a barrier to entry. Establishing a farm lobby is a specialised activity which involves setting up a network of contacts and influence. In the event of failure most networks of this type cannot simply be switched to lobbying in another sector.

Voting models date back to Downs (1957) who attempts to explain how, in a 'democratic system', a policy can serve the interests of a special group rather than those of the public as a whole. According to Downs, politicians are assumed to maximize their chances of re-election by competing for votes. They will adopt or reject a proposal on the basis of how many votes are expected to support or oppose it. However, voters will only reveal their preference if there is some advantage in doing so such as action by the politician in favour of the voter. Information and signalling costs are involved in forming and expressing a preference. The rational voter will only undertake these costs if there is some incentive to do so. The fundamental theoretical insight of Downs is to illustrate why taxpayers and consumers may be "rationally ignorant", and, as will be shown below, this concept appears of particular importance in the case of the CAP.

Subsequent developments in the literature on voting models take into account the possibility of outcomes varying according to the use of different voting rules,

²⁹As reported in Tollison (1982).

³⁰See, for instance, Tullock, 1980

such as majority or unanimity voting (Black, 1958, Buchanan, 1962), or of deterministic voting (one man, one vote in a 'for or against' choice) as opposed to proportional voting (Swinnen and van der Zee, 1993).

There have also been various attempts to combine voting and lobbying models (see, for example, Magee et al, 1989), including regulation theory, as developed by Stigler (1971), Posner (1974) and Peltzman (1976)

The model presented by Peltzman provides an elegant framework for identifying some of the main variables influencing the decision-making process: size of the per capita transfer, organisation costs, votes and information costs. However, in the model some of these variables are used in a rather narrow way, with, for example, expenditure on lobbying, and organisational costs, being considered only for the beneficiary group³¹, thereby implying either that the losing group did not undertake such expenditure, or, if so, the expenditure had no effect on the behaviour of the regulator. The concept of information is also limited to the effect of expenditure by the beneficiaries in mitigating opposition³². The real shortcoming of regulation theory as a key to interpreting the EU experience is that the models were developed for the US system and, as will be shown below, lend themselves badly to what is very much the *sui generis* nature of EU agricultural decision-making.

The difficulties of trying to model such a complex policy process are also evident in Fearn's (1989) application of the "satisficing" theory developed by Simon (1957) to CAP decision-making. The EC Commission and the Council are treated as separate parts of the decision-making body which is assumed to "satisfice" i.e. aim for an acceptable outcome, rather than optimize. Two target variables are considered, farm incomes and budgetary expenditure.

"Routine" decision-making such as the annual price review involves ensuring acceptable levels of goals; sequential consideration of alternatives (i.e. concentrating on one target variable at a time), conflict resolution (or compromise to reach satisfactory levels of targets), and flexible targets which may be adjusted in the light of performance. When both target variables are at unsatisfactory levels, "routine" decision-making proves inadequate and alternative policy

³¹In contrast with the model developed by Becker (1983)

³²Swinnen and van der Zee (1992) argue that models combining voting and lobbying models generally involve "split personality" treatment of the behaviour of citizens who are either "active informed lobbyists" or "passive uninformed voters". In the Peltzman model this is taken one step further with z , voter education expenditures per capita, depending only on K , lobbying to mitigate opposition.

instruments have to be found. The introduction of milk production quotas in 1984 is an example of this "non-routine" decision-making.

The model attempts to explain changes in the level of EC price support by variables that account for the difference between desired and actual values of the target variables. Some of the results were rather surprising, with, for instance, the analysis failing to reveal any significant relationship between changes in support prices and the level (or change in) real FEOGA³³ expenditure. Insofar as satisficing variables are used, difficulties (and a certain amount of subjectivity) arise in deciding on the boundary between satisfactory and unsatisfactory levels of target variables. The analysis is at a very simplified, aggregate level, but remains useful as a first attempt to model CAP decision-making.

7. The way in which demand and supply interact in the political market.

A number of factors explain how demand and supply interact in the political market³⁴, and these include:

- the influence of past policy
- the availability of policy alternatives
- whether the decision relates to choice of instrument or level of instrument
- the impact of long-term economic forces (Petit, 1985) or of economic shocks³⁵
- the commitment of policy makers to a long-term economic strategy, or what Pincus (1975) calls the "political invisible hand".
- the possible ideological commitment of policy makers
- the dynamics of policy-making
- the institutional structure of policy making (including the opportunities for obfuscation).

The interaction of demand and supply in the political market will therefore depend on processes and procedures. The introduction of reform requires inertia to be overcome, and this may entail a combination of random shocks, crisis management and a confluence of interests. Shocks or crisis may bring new players into the game. In such a process a tradition of past reform or the

³³European Agricultural Guarantee and Guidance Fund

³⁴For schematics of how this interaction takes place see Petit (1985), Moyer and Josling (1990) and Lechi (1993).

³⁵For instance a dramatic fall in world agricultural prices would *ceteris paribus*, raise EU spending on export subsidies thereby adding to reform pressures to ensure that Uruguay Round commitments were fulfilled.

commitment of an individual political leader, or party to change may play an important role. The interaction may take place both at the national level, and at the international level between states (Guerrieri and Padoan, 1988 and 1989).

Policies are decided as part of a dynamic process which takes place over time. The concessions granted (or extracted) in one particular deal or compromise may have implications for future agreements. There may also be a problem of credibility of policies, as private agents realise that political pressures may cause policy-makers to deviate from announced policies in the future.

A distinction also has to be made between choice of policy, which is generally a discrete choice, and decisions concerning the level of instruments, which is a continuous choice problem. As Swinnen and van der Zee (1992) point out, though the question of choice of instrument has been the subject of a growing literature on trade policies³⁶, it has largely been ignored by the literature on the political economy of agricultural economics.

8. The main actors involved in the EU agricultural decision-making process

Turning to analysis of the CAP experience, as a first step it is necessary to identify the economic agents involved in the agricultural decision-making process at both the EU and member state levels. These include: farmers, food manufacturers, the producers of farm inputs, merchants, middlemen (i.e. wholesalers and retailers), the general public in the roles of final consumer and taxpayer, environmental groups, and the members of national and Community parliaments and administrations who are involved in the formulation, adoption and implementation of agricultural policy. External actors such as the media, academics and experts may also play a role.

At the Community level the umbrella organisation representing the farm organisations is the COPA/COGECA (Comité des Organisations Professionnelles Agricoles/Comité Général pour la Coopération Agricole de la CE) which dates from 1958, when it was founded at the request of the EC Commission. The Commission envisaged a European umbrella organisation of farm groups as an ally in pushing forward the integration process, and overriding such national interests as might operate through the Council of Ministers.

³⁶Anderson (1988) and Baldwin (1989) provide a classification of the instruments generally preferred by those seeking protection: 1) quantitative restrictions, 2) tariffs, and 3) production subsidies. This is exactly the reverse order of the ranking of the three types of measure on grounds of economic efficiency.

The COPA/COGEA can claim to represent most of the farmers in the EU through its membership of at least 30 national farm organisations and associations³⁷. The general policy guidelines of the COPA are decided by a general assembly composed of representatives of the member organisations. There is also a presidium consisting of one member of each organisation whose function is to take all the necessary decisions within the guidelines of the assembly. In principle COPA seeks unanimity, but in 1973 the possibility of majority decision-making was introduced.

Before the 1992 MacSharry reform, the main objective of the farm organisations was to push for higher levels of support prices. At times there were conflicts between different types of farmer, and in particular between grain producers and livestock farmers using cereals as an input. However, in the absence of tight EC budget constraints, for many years the compromise generally reached in the COPA (and echoed in the Council of Ministers) was to ask for higher price increases all round. The farm organisations were initially hostile to supply control measures, such as the dairy quotas introduced from 1984, but farmers "learnt to live" with such policies when it became evident that these helped to avoid falls in income.

The farm associations were opposed to the MacSharry Reform on a number of counts. They objected to leaving land idle, and resented the high administrative costs that the system involved. The compensatory payments appeared like charity, and there was no commitment concerning how long they would apply. Moreover, the use of direct aid rendered the scale of transfers to farmers more transparent.

In recent years the farm groups have also become concerned with a wider set of issues such as the role farmers may play in furthering rural development, environmental issues, and food safety (in particular, after the BSE, or "mad cow" scare). These are frequently advanced as motives for continuing government support and, in particular, the direct payments to farmers.

The main consumer organisations at the EU level are the BEUC (Bureau Européen des Unions des Consommateurs), the Eurocoop (European Consumer Cooperatives) and the COFACE (European Committee of Family Organisations).

³⁷However, as Thomson (1996) points out, it is very difficult to estimate exactly how many farmers are indirectly represented as estimates range from 3-15 million, depending on the definition of "producer" used.

It is important to point out that food and agricultural questions represent just one of the fields of interest for these groups. If and when these groups deal with agri-food questions the main concern appears to be questions of quality, safety, hygiene and choice. Of the groups representing consumer interests, only the BEUC issues an opinion on the annual proposals for CAP price support.

The CIAA (Confédération des Industries Agro-Alimentaires de la CE) is the federation of national groups representing firms producing food and beverages. Large firms tend to figure strongly in the membership and activities of the CIAA. It was founded in 1959 as part of the UNICE (Union des Industries de la CE)³⁸, but became independent in 1981. Other EU umbrella organisations representing producers include the ASSILEC (for the dairy industry), COCERAL (the grain association), FEFAC (animal feed manufacturers) and the EFMA (European Fertilizer Manufacturers Association).

The diverse nature of food manufacturers and the producers of farm inputs means that at times their interests may conflict so rendering it difficult to reach common positions. This helps to explain why the lobbying activities of these producers is frequently organised on a sectoral basis, according to product group.

9. The historical importance of the CAP

Before applying the NPE approach to present agricultural policy-making, it is useful to provide a historical account of how the CAP initially acquired its central role in the Community³⁹. Various explanations have been offered:

- The initial deal is generally regarded as an exchange of interests between France who was seeking markets for her agricultural exports and Germany who was anxious to reduce tariffs in order to ensure market outlets for her industrial exports. Germany also had a tradition of substantial income support for farmers and welcomed the opportunity of transferring part of the financial burden for such policies to the EC budget. Italy and the Netherlands hoped that a common agricultural market would offer opportunities for developing their typical forms of production (Mediterranean and dairy products respectively), though Italy was rather less successful in realising this objective.

³⁸See Senior Nello (1986) for a comparison of the budget, membership and activities of these three umbrella organisations.

³⁹This could in turn be analysed using the NPE approach.

- At the time of the creation of the Community, agriculture was very important economically, socially and politically. In 1958 agriculture accounted for 20% of the labour force in the original EC (6), and the percentage was considerably higher in certain areas and member states.

- The harmonisation of agricultural policies was considered necessary in view of the very different policies existing in the EC 6 at the time. A common market in agriculture was also advocated as a step toward the harmonisation of wage levels, which was thought to be a pre-condition for the creation of a common market in industrial products and services.

- It was argued that the creation of a common market in agriculture would increase competition and specialisation according to the principle of comparative advantage, thereby increasing the productivity of the sector. It was also maintained that insofar as this resulted in lower prices, there might be less pressure for wage increases.

As a result of the early importance of the CAP, and of the Commission encouragement of COPA, the farm organisations were the first to take on the fixed costs of lobbying in Brussels, and were able to benefit from possible advantages of being the first-movers.

10. Application of the new political economy to the CAP: The demand side

The survey of the NPE literature helped to identify certain elements which may explain why farmers tend to be more active in lobbying activities than their consumer or taxpayer equivalents. This list includes the size of the per capita transfer, information costs, organisational costs, the importance of voters and the characteristics of the sector. Each of these will be discussed now for the specific case of the CAP.

10/i The size of the per capita transfer

In the case of lobbying, the benefits relate to the probability of a favourable policy outcome, and the size of the per capita transfer to the beneficiary group. A smaller number of members of the beneficiary group means a higher per capita benefit. At the same time, the more numerous the group of taxpayers and consumers paying for the transfer, the higher their incomes relative to farmers, and the lower the share of food in their total expenditure, the lower the resistance to paying for this kind of transfer.

In 1994, according to the OECD⁴⁰, total transfers to farmers amounted to 15643 ECU per full-time equivalent agricultural worker, compared with the 325 ECU per capita transferred from EU households as a result of agricultural policies.

10/ii Information costs

Turning to information costs, as seen above, Downs presented a case for the "rational ignorance" of consumers and taxpayers. The scale of information costs will depend on the technicality of the subject, and the CAP is notoriously complex. Interest groups of farmers and food manufacturers may also furnish their members with information, thereby lowering the costs.

In the more recent literature the term "asymmetrical information" is used to refer to a situation in which some economic agents have certain information which others do not (see, for instance, Philips, 1988). In other words, some economic agents have private information which they can exploit in their dealings with others. However, if information is no longer common, it can no longer be assumed exogenous (Saltari, 1990, p.25). The additional information possessed by some individuals will influence their decisions, and, in a market situation, will at least partially be reflected in prices. In this way prices become a vehicle for information, which can be observed by those who are less informed. As a result, asymmetric information implies endogenisation of information.

In the case of the CAP, it could be argued that the additional information possessed by farmers and policy-makers would be reflected in policy outcomes favourable to agriculture, and, in particular, in higher levels of support prices. These higher prices are a vehicle for information, but, insofar as consumers failed to react that information even when the policy persisted for a long time, was it possible that they were systematically fooled? In other words, were EC consumers not aware of the extent to which they were paying higher food prices as a result of the CAP for long periods of time⁴¹? Were the technicalities of the CAP and the complexities of EU decision-making such that consumers failed to notice the redistributive effects of the policy? Alternatively, if they were aware of such transfers, were they prepared to tolerate this type of redistribution, or did they simply not know what to do about it?

Tarditi (1996) reports the results of a Eurobarometer survey carried out in 1988 on a sample of 11651 EU citizens which reveals a surprising degree of ignorance about the CAP. For instance, UK membership of the CAP implied changing from

⁴⁰OECD (1995). *Agricultural Policies, Markets and Trade: Monitoring and Outlook*

⁴¹It seems likely that most EC consumers were aware that there was a transfer, but had no idea as to its scale.

a system of deficiency payments (low prices and direct subsidies to farmers) to price support. As a result, much of the burden for agricultural policy shifted from taxpayers to consumers, but over one quarter of consumers and most farmers interviewed in the UK thought that consumers had benefitted from the CAP.

At an EU level, a large majority of those interviewed felt that the EU should defend its position as second exporter in the world, but a slightly smaller majority felt they should not pay for the CAP as taxpayers and consumers, not realising the contradiction between these two statements.

10/iii The organisational costs of lobbying

According to Olson, one way of overcoming free riding is by offering selective incentives to ensure membership or participation in the activities of a group. Farm organisations offer their members a wide variety of "selective incentives" such as advice, courses, help with accounting and so on to ensure their participation. At the extreme lobbying may simply become a by-product of the other activities carried out by the group.

Perhaps one of the most spectacular uses of selective incentives was that of the Coldiretti (Coltivatori Diretti) in Italy for many years. The Coldiretti derived much of its support from small farmers and had had strong links, at times amounting to partial fusion with the Democrazia Cristiana. La Palombara (1965) wrote that in 1961 the influence of the Coldiretti extended over some 40 DC senators, and 66 deputies. In addition, for many years they generally monopolised the post of Minister of Agriculture. In the Italian system the various enti or state organisations were (and to a large extent still are) used as spoils for the majority, and the Coldiretti proved extremely successful in gaining control of enti such as the Casse Mutue di Malattia and the Mutue Contadine.

In the context of a large research project on agricultural policy-making in the Italian Regions⁴², Casieri and Marotta (1992,1996) and Marini (1992,1996) describe the activities of the Coldiretti in the late 1980s in Campania and Calabria respectively. The Coldiretti provided a wide range of services (help in applying for pensions, information etc.) which were also offered to non-members in exchange for support for Coldiretti candidates in local, regional and national elections. Lists of who to vote for were circulated, and it was hoped that by placing their candidates in positions of power the Coldiretti could influence the distribution of public resources to their own advantage⁴³.

⁴²Published in Corsi, A. and Pagella, M. eds; 1992 and Pagella, M. ed. (1996).

⁴³The research project also considered the other Italian farm associations, the Confcoltivatori (which later became the CIA (Confederazione Italiana Agricoltori) and the Confagricoltori. The

Olson also argues that the free riding problem may be overcome if the group falls into the privileged category which would seem to be the case for many farm organisations. For instance, until the late 1960s the French FNSEA (Fédération Nationale des Syndicats d'Exploitation Agricoles) was dominated by the larger grain and sugar beet producers, often at the expense of poorer livestock farmers⁴⁴. The Deutscher Bauernverband also appears to be run by and for, the relatively big farmers to the extent that part-time farmers claimed that their interests were not represented and broke away to form the DBLN (Deutscher Bundesverband der Landwirte in Nebenberuf) in 1972.

Not only are the national farm groups dominated by a few big members, but this tendency is reinforced by the way that national interest groups aggregate to form the COPA. The farmers dominating COPA therefore represent an elite of elites. They are drawn from large-scale agriculture, chiefly in product areas such as grain and highly capitalized livestock. According to Averty (1977), most members of the COPA Presidium owned more than 100 hectares of land at a time when the average EC farm was only 17 hectares.

The large farmers are prepared to accept the costs of lobbying, but are facilitated in their task in being backed by a political phalanx of electorally important small producers. The large farmers were able to use the higher production costs of their smaller counterparts as an argument in favour of higher levels of price support, and, insofar as they were successful, they were thereby able to ensure economic rents for themselves.

10/iv The importance of the farm vote

Although the share of agriculture in civil employment amounted to only 5.9% in 1992 for the EU as a whole, in some countries this percentage was far higher. For example, the equivalent percentage was 21.9% for Greece, 13.7% for Ireland,

Confcoltivatori, which represented smaller farmers and was traditionally linked to the Communist, Socialist and Republican Parties (PCI, PSI and PRI), was described as an instrument of the parties to which it was affiliated. It was found that the staff of the Confcoltivatori generally regarded their job as a step to a career in the party hierarchy.

The Confagricoltori, which represents the larger farmers, was described as playing a more "technical" role in acting as association of producers whose chief aim was to further the interests of its members. In the same research project Corsi (1992, 1996) found that in Piedmont, where most farms were medium-to-large and farm interests were better articulated, all three farm associations performed a more "technical" role.

⁴⁴Averty (1977)

11.5% for Portugal and 10.5% for Spain. Moreover these statistics exclude firms producing agricultural inputs, the food processing industry and so on, whose interests sometimes, though not always, coincide with those of farmers.

An argument sometimes advanced (but generally given short shrift by agricultural economists) is that there is a high level of tolerance for transfers to farmers because of the "historical role" played by agriculture. The rural exodus is a comparatively recent phenomenon in many EU countries, so a large share of the population has family, and/or historical links with farmers.

In practice it is difficult to assess the power of the farm vote, as elections are generally fought over a wide range of issues. In some cases the weight of the farm vote in a particular party or its pivotal role in party politics may increase its influence⁴⁵.

Hendriks (1987) has described how the coalition structure of the FRG governments, and the influence of farmers in the minor coalition parties of the CSU and FDP meant that the struggle for the farm vote dominated agricultural policies at the level of party politics. The electoral support of the non-farm population would change little as a result of a high price policy, but decisive farm votes might be lost if the party in power neglected the question of income support for farmers.

In the long run it seems likely that the importance of the farm vote will continue to shrink reflecting the declining share of the population in agriculture. According to the EC Commission⁴⁶, the use of labour in EU agriculture declined by an almost constant average of 3% between 1973 and 1979, but since 1990 this figure has reached 4.7%.

10/v The characteristics of the sector

Most traditional textbooks on agricultural economics explain the level and diffusion of agricultural support policies in terms of the special characteristics of agricultural product and factor markets.

⁴⁵The question of whether the effectiveness of the group is better served by affiliation to one or many parties will depend on the case in question. If the members of the interest group consistently vote for one party, there may be special benefits for that party when that party is in office, but if the party is sure of their votes, there may be an incentive to take the group for granted, or to ignore its demands. Alternatively, if the party is out of office, the interest group may have difficulty in dealing with rival parties.

⁴⁶European Commission, 1994 and 1996.

On the product market, food security issues, instability, and the link to climatic features are said to require special measures of intervention. The CAP has more than succeeded in realising its objective⁴⁷ of security of supply for EU members, though the question of adequate food supplies at a world level remains. However, it seems likely that the interests of developing countries are better met by measures to assist their own agriculture rather than by encouraging them to import more from the EU.

On the factor market, immobility of factors may result in low farm incomes relative to those in other sectors. The extent to which factors of production are fixed also appears to influence the level of lobbying in a sector. Hirschman's (1975) concepts of 'exit' and 'voice' are useful here. Because farmers are frequently unable or unwilling to 'exit' from the sector, they have to rely on 'voice' or political protest.

The net trading position of a country may also be important in accounting for the level of protection given to a particular commodity (Baldwin, 1985). As a rule net imports tend to receive more protection than net exports. This is largely to be explained by budgetary considerations as import levies and tariffs yield revenue, while production and export subsidies represent a budgetary outflow.

11. The EU agricultural decision-making process

Though a detailed description of the institutional structure of the EU is beyond the discussion here⁴⁸, the main institutions involved in the agricultural decision-making process at the Community level are the Commission, the Council of Ministers, the European Parliament and the Special Committee on Agriculture, and, to a lesser extent, the European Court of Justice, the Economic and Social Committee, the Committee of Regions and the Court of Auditors.

In this context the Economic and Social Committee (ESC) deserves special mention as it represents the various social and economic components of the Community, including farmers and "representatives of the general public". According to the Treaty of Rome, the ESC has to be consulted during the legislative process, though there is no obligation for the Council to take its opinion into account. The ESC can also prepare opinions, acting on its own

⁴⁷The objectives of the CAP are set out in Article 39 of the Treaty of Rome.

⁴⁸For a detailed description of EU decision-making institutions see Brainbridge and Teasdale (1995), Meester and van der Zee (1992), Wallace, Wallace and Webb (1983) and Westlake (1994 and 1995).

initiative. The weight of the ESC in the legislative process is far less than envisaged in the Treaty, but its expertise is valued in many circles including the Commission and EP. In practice where the ESC has been concerned with agricultural policy its main concern seems to be questions of quality and food safety.

Up until the Single European Act of 1987, the EC legislative procedure was based on what is known as the consultation procedure. This consists essentially of a proposal by the Commission being passed to the European Parliament and Economic and Social Committee for consultation, and then being decided on by the Council which generally used unanimity voting. For agricultural questions the Special Committee for Agriculture replaces the role of the COREPER (Committee of Permanent Representatives) in helping to prepare Council meetings.

The Single European Act introduced the cooperation procedure as a means of strengthening the role of the European Parliament, in particular, by allowing the EP to be consulted a second time during the legislative process. The Maastricht Treaty extended the use of the cooperation procedure, and introduced the co-decision procedure which was also aimed at reinforcing the powers of the European Parliament. The main innovations of the procedure were to allow the EP to veto legislation in certain cases; the possibility of a third reading of legislative proposals for the EP, and the creation of a conciliation committee to help the Council and Parliament to reach agreement.

According to Article 43 of the Treaty of Rome, agricultural proposals could be adopted by a qualified majority vote (QMV) of the Council. In the years following the 1966 Luxembourg Compromise⁴⁹ the unanimity rule was generally used on agricultural questions, but in recent years there has been increasing resort to QMV. Both the Single European Act and the Maastricht Treaty extended the number of policy areas subject to qualified majority voting in the Council.

12. Relations between the lobbies and EU institutions

The discussion here will concentrate mainly on the farm groups because the dealings of the food industry are less visible and therefore difficult to monitor, while consumer organisations complain that they lack the equivalent of the agricultural network of contacts with EU institutions.

⁴⁹According to the Luxembourg compromise any member state could insist on use of the unanimity rule if an issue was deemed to touch a "vital national interest".

12/i The COPA and the EU Institutions

According to the COPA, its most important EU links are those with the Directorate General for Agriculture (DG-VI) of the Commission. Though there is no formal institutional arrangement, contacts take place at all levels, with working groups, informal meetings, attendance of Commission officials at COPA/COGECA meetings, written proposals etc. The COPA presidium meets the Commissioner for agriculture regularly. The activities of the COPA seem to lend support to Alan Butt-Philip's view (1985) that the Commission and the Eurogroups "need and feed off one another".

One of the main aims of the COPA is to influence the Commission as it is drawing up proposals for agricultural legislation. In particular there is considerable collaboration over statistics underlying the Commission's proposals since COPA members are often responsible for collecting the national data on which Eurostat agricultural data is based. The COPA also participates actively in the advisory and management committees of the Commission.

As Moyer and Josling point out (1990, p.52-3), within the Commission the Agricultural Commissioner and the staff of DG VI have different incentives with regard to the CAP. The staff of DG-VI are concerned with the day-to-day running of the CAP and have a strong interest in maintaining the CAP unchanged. Reform might reduce their power, or render their task of administration even more complex. The Agricultural Commissioner may play a more innovative role but is subject to a number of constraints. These include the need to check agricultural spending to satisfy other Commissioners, to ensure that proposals are acceptable to the Council, avoiding excessive increases in the administrative burden, or reductions in the power of DG-VI and assuring the farm lobby that the farm interest will not be harmed.

The COPA also has close links with the European Parliament and, in particular, with its Agricultural Committee (whose members are generally farmers) and the secretariats of the various political groups. However, the position of the European Parliament on agriculture is ambivalent. The Agricultural Committee tends to be favourable towards the farm interest as most of its members depend on farmers for votes, or other forms of support.

In contrast the interests of other MEPs (in terms of power, prestige, income etc.) depend on establishing the Parliament as a force in EU decision-making, and one way of doing this is through exercise of budgetary powers. As the CAP still

accounts for almost 50% of the EU budget ⁵⁰it is the most frequent target of these attempts at financial austerity. In 1980 and again in 1985 the EP rejected the whole budget on the grounds that agricultural spending was excessive.

Most agricultural support spending falls into the category of compulsory expenditure of the Community budget. This expenditure is defined as spending resulting from the Treaty and considered necessary for the EU to meet its internal and external obligations. In the case of agriculture the underlying logic is that once the level of support prices was decided in the Council, it became law and the necessary financing should be forthcoming. As a result, aside from the power to accept or reject the whole budget, the budgetary powers of the EP are limited to non-compulsory expenditure (i.e. that which does not emanate from the Treaties or the commitments and conventions signed by the EU). The largest component of non compulsory expenditure is spending on the structural funds.

The distinction between compulsory and non-compulsory expenditure dates from 1970, and was introduced at French insistence in order to ensure adequate financing for the CAP and to avoid any loss of national sovereignty which might result from reduction of the powers of the Council.

The COPA attempts to lobby the Council directly and indirectly through its members organisations. Direct lobbying involves sending copies of COPA positions, and meetings with individual members of the Council, or with the Council as a whole. However, according to the COPA, because the Council is composed of national agricultural ministers, the activities of national farm groups are more important at this stage.

The influence of national farm lobbies on their minister will depend on the structural features of farm groups, but also on the inter-institutional link between the farm organisations and the ministry, the importance attached to the agricultural sector by the government, and the status of the minister for agriculture within the government (Petit et al, 1987, p.111).

Aside from the requests of their agricultural lobbies, the agricultural ministers have to bear in mind national interests and the importance of the farm vote. National interests or attitudes to the CAP will depend on factors such as farm size and contributions to the EU Budget⁵¹. *Ceteris paribus* countries with small farm

⁵⁰In the past this percentage was much higher, for example, amounting to 73% of the overall Budget in 1985.

⁵¹According to Moyer and Josling, the attitudes of the member states towards the CAP will also be determined by the structure of agricultural trade, with, *ceteris paribus*, importing

size and low net budgetary contributions will tend to push for higher levels of support prices.

12/ii The CIAA and the EU Institutions

The activities of the main representative of the food industry, the CIAA, tend to take place mainly "over the telephone and behind closed doors"⁵². This would seem to lend support to Baldwin's view (1989, p120) that differences in market structure of industries will determine the method used in trying to influence the government. Industries with a large number of firms and employees will count mainly on voting pressure, while oligopolistically organised industries tend to rely more on lobbying⁵³.

In its dealings with the Commission, the CIAA attaches great importance to the participation of its members in the activities of the advisory and management committees concerned with the day-to-day running of the CAP. Most of these committees are organised on a sectoral basis so suit the style of lobbying of the food industry. According to Harris, Swinbank and Wilkenson (1983, p.25), whereas decisions having a direct impact on farmers tend to be taken by the Council, "decisions by management committees are of fundamental importance to food processors and traders".

12/iii The BEUC and the EU Institutions

The BEUC is also represented on the various management and advisory committees of the Commission, but complains that it has little influence there. In contrast with the CIAA, the consumer organisations find the sectoral nature of these committees a disadvantage and would prefer to work with one centralised body.

DG XXIV of the Commission, which is concerned with the protection of consumer interests, has recently begun to take greater interest in agricultural matters. However, the main emphasis remains on questions of food safety and

countries tending to push for higher prices. Exporting countries realise that this will reduce their export potential within the Community so, while they are opposed to price cuts, they have not always advocated price increases. The examples of Ireland or Britain (an exporting country pushing for higher prices and an importing country in favour of lower prices respectively) suggest that this argument is not always convincing and that in the EU context other factors such as net budget contributions also have to be taken into account.

⁵²This opinion emerged during a series of interviews with officials from the COPA, BEUC and CIAA, the results of which were published in Senior Nello (1989).

⁵³In the case of EU farmers this dichotomy does not seem to hold as farmers rely on both lobbying and voting pressure.

quality, and the new DG is small in comparison to the huge agricultural staff of DG VI. Relations between the BEUC and the agricultural committee of the EP have often been strained⁵⁴, while consumer groups maintain that generally they have little impact on the agricultural price marathons of the Council. However, in some countries (notably the FRG, GB, Denmark, the Netherlands) consumer groups are consulted on agricultural questions at a national level, and a number of national consumer groups produce reports and opinions on CAP issues⁵⁵.

13. The "isolated circuit" of CAP decision-making

Numerous authors⁵⁶ have analysed the EU decision-making process to search for a possible bias in favour of the farm lobby. Among the explanations offered are that CAP decision-making takes place in an "isolated political circuit" (Louwes, 1985) of farm lobbies, DG VI of the Commission and the Council of Agricultural Ministers. In national governments collective responsibility, generally operating through a cabinet system, ensures that finance ministers can check the spending requests of other ministers, but for many years a similar system of checks and balances failed to operate in the Community.

In the absence of effective financial constraint, up until the early 1980s agreement in the annual price-fixing sessions was reached through a process of log-rolling which entailed mutual consent for higher levels of price support all round⁵⁷. Because spending on agricultural support fell into the category of compulsory expenditure, the power of the EP to check this spending was limited to the rather blunt weapon of rejection of the whole budget. The Council would generally raise the levels of guaranteed prices proposed by the Commission knowing that the cost could be externalised, being borne largely by consumers and third countries⁵⁸.

⁵⁴See, for instance, Senior Nello, 1989.

⁵⁵See, for example, National Consumer Council (1995), London.

⁵⁶Haase (1983), Hagendorn (1983), Koester (1978), Louwes (1985), Moyer and Josling (1990), Petit et al (1987), Schmitt (1984), Senior Nello (1984,1986), Van der Zee (1992), Von Witzke (1986). Corsi and Pagella have produced an extensive research applying this type of approach to agricultural decision-making at the level of the Regions in Italy.

⁵⁷This was frequently achieved through manipulation of the agrimonetary system.

⁵⁸Koester, 1978, Senior Nello, 1984, Runge and von Witzke, 1987 provide more detailed accounts of this process.

14. How was the the 1992 MacSharry reform Possible?

Though a detailed analysis is not possible here, the MacSharry reform of 1992 presents itself as an interesting case study for the new NPE approach. Despite the opposition of farmers, a radical reform of the CAP was introduced and the continual growth in agricultural surpluses (with the expenditure on public storage and export subsidies that this implied) was checked.

The agricultural lobby did, however, succeed in obtaining some watering down of the initial proposals⁵⁹, and prevented any reduction in overall expenditure on farm support. Although the compensatory payments to farmers were supposed to be temporary, the question of when they would be phased out was left open. In addition, German farmers received compensation for the reductions in support prices from national authorities, leading to claims that the CAP was being renationalised⁶⁰. The acquiescence of the farm groups in the reform package was therefore not bought without a price.

The Agricultural Commissioner, Ray MacSharry, appears to have played an important personal role in gaining acceptance for the proposals. It is ironic that reform should be introduced by an Irish Commissioner given the weight of agriculture in the Irish economy and population. However, MacSharry was convinced that the CAP was on the verge of collapse and that reform was the best way of ensuring its continued existence (and also, somewhat mistakenly, of furthering his own personal political ambitions). Resistance to the reform from within DG VI of the Commission was undermined by the patent untenability of existing policy, though there were attempts to "limit the damage".

In the last resort the Council of Agricultural Ministers had to sacrifice national agricultural interests to the greater importance of the overall future of the EC. If the problems of agricultural surpluses and budget revenue exhaustion were not tackled, the EC would run out of funds and default on its commitments. Each of the member states had a stake in EC survival, and therefore an incentive to make the necessary sacrifices to reach agreement. Moreover, the crisis could be used to justify those sacrifices.

The tightening of EC budgetary constraints, and the need to conclude the GATT (General Agreement on Trade and Tariffs) Uruguay Round both played an

⁵⁹As is evident, for example, from a comparison of the Commission documents COM(100)91 of February 1991, COM (258)91 of July 1991 and the final version of the reform.

⁶⁰These payments were between 1500 and 1600 ECU per year for each farm, and were not linked either to levels of production or prices.

important role in rendering reform possible, so each of these will now be discussed in more detail. The eventual EU enlargement to certain Central East European countries was also mentioned as a further motive for CAP reform, but failed to carry much weight at that time.

14/i The tightening EU budget constraint

In the early 1980s the EC was characterised by repeated and chronic budgetary crises. On the expenditure side this was partly due to enlargement, and extension of EC responsibility to new policy areas, but the main culprit was excessive spending on agricultural price support.

On the revenue side, trade liberalisation meant less revenue from tariffs, while increased agricultural self-sufficiency entailed lower earnings from variable import levies on agricultural imports from third countries. The Community VAT ceiling was raised from 1% to 1.4% in 1984, but still failed to cover spending. Even the "fourth resource" linked to GDP which was introduced from 1988 proved inadequate. The sources of financing are fixed in advance (though there may be slight variations in actual amounts), and the Community cannot legally run a deficit. As a result, in the Community a budgetary crisis implies a "stark and immediate trade-off between competing use of funds" (Moyer and Josling, 1990, p.26).

In 1984 for the first time the Fontainebleau Agreement fixed a limit on the growth of EC agricultural spending (which could not increase more rapidly than the growth in own resources) and milk quotas were introduced⁶¹.

The use of rules to limit spending is in line with the model of constitutional constraints to check the bureaucratic Leviathan proposed by Brennan and Buchanan (1977). According to this model, government bureaucracies try to maximize their expenditures and citizens seek to impose constraints on the government bureaucracy by limiting its revenues to a given amount. These constraints take the form of long-run constitutional rules or laws.

With the Single Market Programme which was announced in 1985 and the consequent spillover into a strengthening of EC structural policies, spending requests for agriculture increasingly had to compete with the budgetary needs of other policy areas. In 1988 the First Delors Package tightened the "constitutional constraints" on agricultural spending, with the introduction of the 'automatic'

⁶¹See Petit et al (1987) for a detailed account.

stabilisers⁶² and a new limit on the increase in FEOGA Guarantee spending (of not more than 74% of the growth of GDP of the Community).

Again in 1992, with the second Delors package or "bill for Maastricht" which set out the financial perspective of the Community until 1999, the development of other policy areas led to further redimensioning of agriculture. The limit on growth of agricultural spending was maintained, and the share of agriculture in the total EU budget was projected to fall from just under 50% in 1993 to 45% in 1999. In absolute terms, however, CAP spending was to increase from 35 billion ECU in 1993 to 38 billion in 1999.

14/ii The Uruguay Round negotiations

Despite the denials of the Commission at the time, both the timing and the form of the MacSharry measures suggest that the exigencies of the GATT negotiations were also taken into account. The Uruguay Round began in 1986 and risked collapse on a number of occasions because of the positions of two of its main protagonists, the EC and the US, on agriculture.

The initial US position (subsequently modified) in the negotiations was the "zero option" which involved phasing out over a ten-year period all import restrictions and agricultural subsidies that directly or indirectly affect trade. In particular, the US accused the EC system of export subsidies of acting as a form of dumping. The US proposal for trade liberalisation was based on a belief that US agriculture, with its large farms, favourable climate, and superior technology and management skills would be competitive in a free trade situation. It appears that this view had the tacit support of the US farm groups (Moyer and Josling, 1990, p.189).

Attention was drawn to the cost of allowing the GATT negotiations to flounder by a World Bank/OECD study of 1992 which suggested that the gains from a successful conclusion of the Uruguay Round could amount to some \$213 billion. Though the exact figure can be questioned, it was evident that a great deal was at stake. The MacSharry reform was introduced in May 1992, and helped to pave the way for a preliminary agreement at Blair House of November 1992.

The final GATT agreement of December 1993 entails a reduction of 20% in the domestic support for agriculture in terms of a Aggregate Measure of Support (AMS). Border protection (including the EC levies on agricultural imports) would be transformed into tariffs, and tariffs would be reduced by 36% over six years

⁶²The stabilisers were intended to operate as an automatic mechanism for reducing support prices when production exceeded a certain level.

for the developed countries. The volume of subsidized exports would be reduced by 21% and spending on export subsidies by 36% for all agricultural products.

The GATT agreement contains a "green box" whereby agricultural policies which are "decoupled" from production are excluded from the requirement to reduce domestic support. There has been much debate about what "decoupling" means, and policies vary according to the extent to which they are "decoupled". At one extreme price support is completely coupled to the level of production. At the other extreme, an income bond compensating farmers for a price cut, and also paid to those leaving agriculture would be decoupled, providing no incentive to produce. The MacSharry compensatory payments would be about half way along this spectrum. For cereals they are based on average yield in each region during a historical reference period.

During the GATT negotiations the EU argued that because these payments were linked to historical production they did not provide an incentive to raise current production, i.e. they were 'decoupled'. According to a "peace clause" included in the final agreement, the other GATT negotiating parties only accepted this interpretation up until 2003, and the EU's compensatory payments did not appear on the list of policies which fell into the green box. Instead (like the US deficiency payments) the compensatory measures were placed into the "blue box" which contains measures specifically excluded from the calculation of the Aggregate Measure of Support. None the less, the attempt by the EU to introduce "decoupled" measures would seem evidence of a link between the GATT negotiation and the MacSharry reform.

For many years the EC was able to externalise part of the cost of the CAP forcing third countries to bear a share of the burden. The Uruguay Round can be interpreted as an endogenisation of this effect, with interaction taking place at an international level between states. Foreign policy and trade officials with an interest in a successful GATT outcome enter the game, and enabled the interests of the EC farm lobbies to be overruled. It would be interesting, though beyond the present scope, to carry out a detailed analysis of the history of the negotiations to see what insights the NPE approach could yield concerning the preferences and strategies of the various actors.

15. Outlook and Policy Implications

During the next few years a number of developments are likely to influence the role of the EU farm groups, and the future of the CAP itself. These include:

- enlargement of the EU to certain Central-East European countries

- the continuing decline in the farm population of existing EU members (which fell by 4.7% per year after 1990)
- the new World Trade Organisation (WTO) negotiations which are due to begin in 1999/2000
- the institutional changes in the EU which are likely to result from the Intergovernmental Conference (IGC)
- the process of EU Economic and Monetary Union
- the new EU financial perspective due to be introduced from 1999

The Central-East European countries generally have larger agricultural sectors and lower prices and levels of agricultural price support than the EU. Extending present CAP arrangements to these countries would imply a heavy additional burden for the EU budget⁶³, and is likely to stimulate agricultural production in those countries. The farm associations in the existing EU (15) are likely to oppose any attempt to reduce their share of the FEOGA spending in order to accommodate the new EU members, but they could benefit from reinforced weight for the farm interest in an enlarged Community.

The European Parliament has tended to exercise its budgetary powers as a means of establishing its weight in EU decision-making. It seems probable that the strengthening of the EP with the Single European Act, the Maastricht Treaty, and (as seems likely) the IGC will lead to a further tightening of the financial constraints on agricultural spending.

A second likely consequence of the IGC is to encourage wider use of the qualified majority vote in the Council, or to introduce alternative mechanisms aimed at reducing the risk of unanimity in an enlarged Community blocking the decision-making process. According to the concept of "social interdependence costs" developed by Buchanan and Tullock (1962), this should reduce decision-making costs (i.e. the time, efforts, concessions etc. necessary to arrive at collective decisions), but raise external costs. Member states having to bear these external costs may attempt to seek compensation (or retaliation) elsewhere, leading to greater interconnections between policy areas and further undermining the "isolated political circuit" of agriculture.

It was argued above that the MacSharry reform was possible in the face of opposition of EU farm associations because of budgetary constraints, the emergence of new EU policy areas competing for funds, and pressure from third countries, in particular, through the GATT/WTO framework. It seems likely that

⁶³By some 10-12 billion ECU according to official Commission estimates, though many agricultural economists place the estimate far higher.

this combination of these features will again repeat itself, reinforced this time by the pressures of Eastward enlargement leading to further CAP reform⁶⁴. In order to analyse these developments with the NPE approach, it will therefore be necessary to look at processes such as the determination of expenditures within the EU budgetary process, and the negotiation between states in the new WTO round.

Aside from this call for new areas of research, the NPE approach appears useful in providing insights into EU agricultural policy formation. Rational ignorance appears a convincing explanation of the behaviour of consumers and taxpayers *vis à vis* the CAP. The approach introduces concepts such as privileged groups, and the use of selective incentives to provide plausible reasons for why the EC farm lobby has traditionally been so powerful. A further strength of the approach is in stressing the importance of the institutional structure and the role that can be played by institutional reform.

The policy prescription for correcting bias in the decision-making process would therefore seem to lie in rendering information more readily available and in increasing the transparency of policy instruments and processes. Developing an appropriate institutional structure to ensure that the competing demands of different interests, countries and policy areas are balanced is likely to represent one of the main concerns of the IGC.

Attempts to increase information and transparency could involve efforts to improve coverage of agricultural issues by the media. In addition, the formation and activities of consumer groups could be encouraged in order to create a countervailing power to balance the strength of the agricultural lobby. It is increasingly being argued that farmers should continue to benefit from relatively high levels of support because of the role they play in furthering objectives such as social justice, the environment and rural development. Those footing the bill for support to farmers should be well aware of the choices involved, and should be informed of the relative efficiency of different policy instruments (price support, direct income payments etc.) in attempting to reach such objectives.

The commitment of policy-makers to an economic strategy may also enable biases in decision-making to be corrected. If there were widespread commitment to clear long-term objectives for the CAP, this might enable some of the obstacles to reform arising from the sectoral interests of economic agents to be overcome. In offering policy advice on this long-term strategy, agricultural economists

⁶⁴This could take the form of completion of the MacSharry Reform, bringing EU prices more in line with world levels, and extending MacSharry-type measures to other product groups.

should bear in mind the political feasibility of their recommendations, and it is in this context that the new political economy may continue to play an important role.

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