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# Overcoming trade distortions

A New Institutionalist Study of the Common Agricultural  
Policy of the European Union

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# Abstract

This bachelor thesis in political science focuses on the possibility to achieve reforms of the European Union's Common Agricultural Policy, making the policy less trade distorting. Sociological, Historical and Rational Choice Institutionalism are applied to explain both the persistence and the evolution of the CAP. Persistence is mainly attributed to the decision making level of the CAP in combination with the perception of agriculture as a unique sector that requires state assistance, which makes radical reforms or an abolishment of the policy close to inconceivable. A moderate approach thus appears more realistic. This thesis identifies external pressure from trade negotiations as the primary driver of reform. Modulation, shifting funds to the less trade-distorting Rural Development Pillar, is identified as the primary tool for making successful reforms while still preserving the legitimacy of the CAP. An assessment of the three institutionalisms concludes that they lack the ability to explain the drivers of reform, but are however highly instrumental in explaining inertia as well as the evolution of the tools necessary for reform to be successful.

*Key words:* CAP, New Institutionalism, EU, path-dependency, joint-decision trap.  
Words: 9 991

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# 1 Introduction

European integration has resulted in a level of economic cooperation not seen anywhere else in the world. With the establishment of the Common Market, goods, services, capital and labor can travel freely across the borders of the European Union. In addition, the EU is a customs union with a common external tariff and quota system, and a common commercial policy. Herein lies however the flipside of the coin, as customs unions generally divert more external trade than do ordinary free trade areas (Dinan, 2008, p.27).

This element of outside protectionism is expensive: Estimations show that discrimination against non-EU producers was costing the EU the equivalent of Spain's annual GDP every year, not accounting for the cost brought upon the rest of the world (Messerlin, 2001, p.40).

This thesis will consider what is probably the most well known of the Union's protectionist policies: The Common Agricultural Policy (CAP).

## 1.1 Problem Formulation

According to Oxfam International, the average EU-cow receives subsidies worth 2 dollars a day, which is more than what almost half of the world's population earns a day (Oxfam1). This rather tendentious criticism demonstrates the extent to which the CAP is "a favorite whipping boy of eurosceptics" (Peterson, 2004, p.130). Nevertheless, the policy remains in place, fifty years after its conception.

This bachelor thesis in political science will examine the persistence of the CAP, and furthermore, what can be done about it. The main purpose is to answer the following question:

*What is the most feasible manner to achieve future reforms of the CAP with the purpose to get rid of the trade-distorting elements of the policy?*

This question will be answered using three perspectives from the New Institutional School. This school has a good record of explaining institutional persistence. Indeed there is a debate whether New Institutionalism is equipped to explain changes in institutions (See for example Lowndes, 2002, p. 105 and Kay, 2003). This thesis will demonstrate that while there are limits to what this theoretical framework can incorporate, there are substantial possibilities as well.

## 1.2 Disposition

This thesis consists of five phases, bringing the conclusions from one phase to the next:

1. Introduction to New Institutionalism (Chapter 1).
2. Introduction to the CAP (Chapter 2)
3. Application of the theories to explain CAP persistence (Chapter 3).
4. Overview of previous CAP reforms (Chapter 4).
5. Application of the theories to explain and predict CAP reforms (Chapter 5).

Most emphasis will be put on the last of these sections, according for the bulk of the analysis. The previous sections form a necessary foundation for the insights and conclusions presented.

## 1.3 Methodology

This thesis takes the form of a theoretical case study, where the CAP is the object of studying and New Institutionalism is the applied theory (Teorell & Svensson, 2007, p.236). As the question implies, the investigation is restricted to examine the possibility of reforms making the CAP less trade distorting, not necessarily implying a reduction in the size of its budget.

A case study usually implies, a case of what? When moving up the ladder of abstraction, we cannot simply regard the CAP as any agricultural policy, as it is unique in this respect due to its location on a supranational and not a national level. Thus, it is beneficial to consider it as a case of a supranational EU-policy as well. Comparisons with other agricultural policies and other supranational policies will be made, underlining similarities and differences (Teorell & Svensson, 2007, p.42).

Relevant concepts will be properly defined. Central in any concept formation is accuracy in definitions, to avoid ambiguity and vagueness (Teorell & Svensson, 2007, p.37). "Trade-distorting elements", for example, has too wide a scope and must be pinned down (Badersten, 2006, p.86).

The thesis puts use of secondary sources of various kinds, three categories of academic literature being used simultaneously: theoretical literature regarding New Institutionalism, empirical literature regarding the CAP, and literature regarding the CAP where New Institutionalism is applied. To this we add web sites and news articles as well as some primary oral sources (Teorell & Svensson, 2007, p.89-91).

All sources are put to critical scrutiny, and, whenever there are diverging opinions, both sides of the situation are accounted for to avoid bias (Teorell & Svensson, 2007, p.104). The author is explicit with his own interpretations of issues when this is necessary (Gilljam *et al*, 2007, p.318-323), following the

demand for intersubjectivity; that the line of reasoning is available to others than the author (Badersten, 2006, p.73-75).

The conclusion will inevitably have an element of speculation to it. It will however be firmly grounded on theoretical and empirical underpinnings. Obviously, research on future developments can be hazardous. This is however not the stock market, but a field in which, as we shall see, history should provide valuable insight on future developments. The conclusion may not once and for all answer our question, but will still correspond properly to it, making it possible for others to evaluate the line of reasoning (Teorell & Svensson, 2007, p.278-280).

A considerable amount of the analysis will discuss the drivers and tools necessary for successful reforms. Drivers signify the events, external or internal, small or large, that have contributed to the build up of a demand or need for reform. For successful reforms to come about, one must also take into consideration the tools available for reform. Generally, these tools have been introduced in previous reform attempts, and greatly influence, and constrain, reform options. The theoretical underpinnings facilitate the understanding of this driver-tool interaction.

An assessment of the explanatory power of our theories is justifiable to further our understanding of which of them are the most relevant for future academic explorations in the same sphere. A brief account of the theories and their strengths and weaknesses in explaining inertia of and change to the CAP will be presented.

## 1.4 New Institutionalism

This thesis makes the claim that both persistence of and changes to the CAP are to a large part a function of the rules and procedures governing this policy. This points to the relevance of the New Institutional School for understanding our object of studying, as the school claims “the organization of political life makes a difference” (March & Olsen, 1984, p.747).

In the New Institutional view, organizations and individuals alike are actors in a game where institutions constitute the rules. Informal rules, such as norms and social conventions, are generally considered as important as formal rules in shaping the behavior of actors, and seemingly neutral procedures embody values, interests and identities. New Institutionalism insists that institutions are not isolated, but embedded in a context of other institutions, underlining for example the consequences of institutional choices made in the past, and the interaction between institutional rules at different hierarchical levels (Lowndes, 2002, p.97ff).

New Institutionalism has grown into three overlapping yet fairly distinctive branches: Rational Choice Institutionalism (RCI), Sociological Institutionalism (SI) and Historical Institutionalism (HI). The branches developed independently of one another in the 1960s and 1970s, as a response to the dominating perspectives in social sciences at the time (Hall & Taylor, 1996, p.5).

### 1.4.1 Rational Choice Institutionalism (RCI)

RCI attributes political outcomes to the combination of individual choices and institutions serving as the “rules of the game”. Institutions produce structure-induced equilibriums, ruling political alternatives as permissible or impermissible, structuring voting and veto power of actors, and providing for lower transaction costs. Legislators design political institutions in order to further their agendas. Institutions provide incentives to act, solve the collective action dilemma, and constrain the choices that actors can make (Pollack, 2004, p.138, Lowndes, 2002, p.95). They develop from voluntary agreement and survive because they provide more benefits to the concerned actors than do alternative institutional forms (Hall & Taylor, 1996, p.12).

The actor is considered to have fixed preferences and behave in a strategic manner to maximize his attainment after a calculation affected by how other actors within the institutional context are expected to act (Hall & Taylor, 1996, p.12, p.18). Institutions do not produce behavior or shape preferences; rather, they influence the actor’s behavior by affecting the “structure of a situation” in which strategies are chosen (Lowndes, 2002, p.95). For example, in the Council of Ministers, the ministers will apply different strategies if the voting rules are those of unanimity or those of Qualified Majority Voting (QMV). The interaction between institutions and actors thus shape the outcomes of negotiations (Lynggaard, 2007, p.37).

As this account suggests, RCI is related to certain branches in economics, and thus concepts like property rights, rent seeking and transaction costs form part of the vocabulary (Hall & Taylor, 1996, p.11).

RCI has been criticized for seeing the creation of institutions as a highly purposeful result of a contractual agreement between rather equal parties, and for explaining the origins of institutions largely in the effects that follow from their existence (Pierson, 2000, p.263, Hall & Taylor, 1996, p.19). The assumption that current institutions are the most efficient to perform a given task might be the case for private firms due to market constraints, say the critics, but less so in the political sphere (Pollack, 1996, p.433).

### 1.4.2 Sociological Institutionalism (SI)

Contrary to RCI, in the SI view institutions affect the underlying preferences and identities of actors, as even highly instrumental actors choose strategies from culturally specific repertoires. Institutions are defined broadly, besides formal and informal rules also referring to symbol systems, cognitive scripts and moral templates. No real divide exists between institutions and culture, or between cultural and institutional explanations. Institutions specify what an actor can or should do but also what he could imagine doing (Hall & Taylor, 1996, p.14ff).

When an actor behaves according to a social convention, he not only constitutes himself as a social actor, but also reinforces the convention. The concept of “rational action” is thus socially constructed. Institutions are created



because they enhance the social legitimacy of organizations or participants, even though they may be highly dysfunctional (Hall & Taylor, 1996, p.14ff). They are resistant to redesign because they structure the choices that an actor is likely to make (Hall & Taylor, 1996, p.6).

*Social appropriateness* is a central concept in understanding the development of institutions, implying that an actor's behavior is dependent of his conception of reality (Hall & Taylor, 1996, p.15).

As Scott (2001, p.57) claims: "Compliance occurs in many circumstances because other types of behavior are inconceivable; routines are followed because they are taken for granted as 'the way we do these things'." There is however room for actors to make conscious choices and interpret the values set by the institution, "since values are never unambiguous and all embracing" (Lynggaard, 2005, p.66).

Critics of SI claim that it puts too much focus on the macro-level, and that there is a risk that the actor disappears in the process (Hall & Taylor, 1996, p.21).

### 1.4.3 Historical Institutionalism (HI)

The emphasis of HI lies on the effects of institutions over time. By scouring the historical record for evidence, HI is said to add a realism and complexity that RCI analyses lack (Hall & Taylor, 1996, p.17), rejecting functionalist explanations for institutional design where institutions are established and maintained because they efficiently perform the functions for their creators in the present (Pollack, 2004, p.141).

Institutional persistence can be explained in both a rational calculus manner and a cultural manner, and thus either in accordance with RCI or with SI (Hall & Taylor, 1996, p.6). Creators are strong in an initial position, but the institutional reform they carry out transform their own and their successors' positions in unanticipated or undesired ways (Pierson, 1996, p.126-131). An institution can affect the behavior of the actors who established it. Institutional choices can become "locked-in", and are more or less resistant to change (Pollack, 2004, p.139)<sup>1</sup>.

Political institutions are characterized by *increasing returns*, where the benefits of a policy, and thereby the costs of exit, increase over time (Pierson, 2000, p.251). This creates incentives to stick with the *status quo* and only briefly adapt institutions to changing political conditions<sup>2</sup>.

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<sup>1</sup> The case of EU social policy is a telling example. Social policy is generally considered an area where the control of member states remains unchallenged since they jealously protect social policy prerogatives. But there are exceptions where member states have lost control of the evolution of aspects of this sector on the EU level. Gender equality, workplace health and safety, and the Maastricht social protocol are three compelling examples (Pierson, 1996, p.148-156).

<sup>2</sup> Just like RCI, HI draws on concepts from economic scholars, who apply the increasing returns arguments to technology. Four features of technology generate increasing returns: a) large set-up or fixed costs, b) learning effects, c) coordination effects (for example software together with hardware), and d) adaptive expectations (the

Herein lies the seed for *path-dependence*: early decisions provide incentives for actors to perpetuate institutional choices even when the outcomes are inefficient. Once you start down a path the cost of reversal is high, and the probability of future steps along the same path increases with each step, as “the branch on which a climber begins is the one she tends to follow” (Pierson, 2000, p.252).

A *critical juncture* is the decisive moment that provides the institutional context for events that occur later, ergo a moment that opens up a new path and changes the course of history. Small events can serve as critical junctures and may thus have large consequences, as early events are more important for shaping outcomes than latter. Courses of action can eventually become almost impossible to reverse. However, political developments can change once again, as a path is broken by a new critical juncture (Pierson, 2000, p.251).

HI is said to be less careful than other perspectives in specifying causal chains (Hall & Taylor, 1996, p.17). Pierson emphasizes the methodological problems originating from “many variables and few cases”, which makes hypotheses difficult to test (Pierson, 2000, p.264). Moravcsik claims that HI is often based on secondary sources with misleading claims about unintended consequences from governments who renounce responsibility by making the EU a scapegoat for unpopular results, for example in the case of large CAP surpluses (Moravcsik, 1998, p.491).

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self-fulfilling character of expectations) (Pierson, 2000, p.254). Nobel Price Laureate Douglas North claims that the same four features apply to institutions. In addition, several aspects of the political sphere make it particularly conducive to increasing returns. While flexibility in markets makes individual choices possible, in politics my actions are dependent on those of others, according to the “logic of collective action” by which political goods are public goods. There is often a winner-take-all-character to politics, which means that since there is rarely room for alternative “firms”, actors adjust their behavior after how others might act, which essentially results in organizational persistence from positive feedback. Once established, institutional constraints often apply to everyone and are often backed up by force. The exit option from a political institution is often unavailable or costly. Political institutions also increase power asymmetries and render power less visible, which further reinforces the path-dependence. A balanced conflict is transformed into an uneven power relationship where open political conflict is unnecessary (Pierson, 2000, p.257-260).

## 2 The CAP - An introduction

### 2.1 Origin, Purpose and Consequences

The CAP incorporated the model of state intervention in agricultural markets with Article 39 in the Treaty of Rome from 1958 (Skogstad, 1998, p.469). Like most Agricultural Policies, it was designed to guarantee the attainment of three interrelated goals. First, to make it possible for agricultural producers to keep incomes close to the level of other social groups. Second, to protect consumers against large swings in world market food prices. Third, to achieve self-sufficiency in food production (Wickman, 2002, p.5).

Only vaguely sketched in the Treaty, the CAP became the major negotiation issue among the founding members of the EC during the 1960s, substituting their national agricultural policies for a common policy (Moravcsik, 1998, p.159, Elliot & Heath, 2000, p.42).

As all critical issues had to be resolved by unanimity, recalcitrant governments where in a strong position. Opposite of what the Commission had originally proposed, the outcome was a policy with high support prices and high external protection close to the level of the German agricultural policy, a broad coverage, few incentives for structural adjustment, and a decentralized control exercised by the Council of Agricultural Ministers (CoAM) (Moravcsik, 1998, p.208-210).

The Treaty of Rome stipulated that future decisions concerning the level of protection be taken on the basis of QMV, but after French insistence an informal agreement was reached in the Luxembourg Compromise to use unanimity. This insulated an institutional apparatus with loose budget constraints (Moravcsik, 1998, p.213-216).

France initially opposed British accession for fear of them blocking generous financing of the CAP. Germany's wish for high domestic prices as well as France's desire for large export subsidies created an incentive to "lock-in" or consolidate this cooperation through new institutions. Permanent financing of agriculture was written into the *acquis communautaire* in the early 1970s (Moravcsik, 1998, p.309). With the CAP "irreversibly established" the UK was

invited, under condition that the new member state refrain to call the policy into question (Moravcsik, 1998, p.191)<sup>3</sup>.

The size of the CAP budget has steadily grown and now hovers around €43 billion annually (“Q&A: Common Agricultural Policy”, 20/11/2008). The magnitude of the policy also manifests itself in the dominance of agricultural legislation over other EU domains (Fligstein & Stone Sweet, 2001, p.44).

The CAP uses three primary tools to achieve its targets (Borell & Hubbard, 2000, p.18):

1. Import tariffs, blocking the bulk of imports from outsiders, thus effectively raising EU food prices by removing competition. Food prices are 80-100% higher within the Union than they would have been under a free-market regime. This transformed the EU in less than 20 years from a food-importer to a food-exporter (Wickman, 2002, p.3).

2. Direct subsidies to farmers. Historically these subsidies have been tied to production, thus further encouraging the overproduction (Wickman, 2002, p.3).

3. Exports subsidies, making it possible for EU-producers to “dump” their surpluses on the world market at well below world market price, thus hurting non-EU-producers’ ability to compete (Borell & Hubbard, 2000, p.20ff). The EU stands for 90% of the export subsidies of OECD countries (WB1, p.125).

Studies confirm that EC protection generally favors vested private interests over public (Messerlin, 2001, p.53). The CAP is in essence a compensation mechanism for the agricultural sector, favoring small producer groups over larger consumer and foreign interests (Laffan et al, 2000, p.92, Borell & Hubbard, 2000, p.26).

The OECD estimates that EU agriculture absorbs a total value of €90 billion per year. Of these, the transfer of resources from consumers to producers amounts to €40 billion (OECD1). In a “conservative” estimate, the cost of EC protection for all farm products represents at least 12 percent of the total farm value added (Messerlin, 2001, p.51).

Nevertheless, farmers’ incomes have gradually fallen compared to those of other social groups - the policy has thus ironically succeeded in self-sufficiency and (high) price stability but failed in protecting the income of the majority of farmers (WB1, p.107-108).

Other countries are hurt from being shut out from the European market and from the dumping of agricultural products. In this respect, the CAP contradicts the Unions aim of promoting growth in developed countries, contributing to the view of EU as a major source of disruption and instability on global agricultural markets (Smith, 2008, p.65, Borell & Hubbard, 2000, p.26). The CAP is perceived as going against the interests of the Union’s consumers, of outsiders trying to

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<sup>3</sup> The goal of French president Charles de Gaulle was to seduce the other member governments to believe that he was pro-European long enough to “lock-in” in the agricultural integration, since he believed that France could not afford to subsidize its agricultural sector alone (Moravcsik, 1998, p.177-183).

export to the EU, and of the entire world trading community (Wickman, 2002, p.25).

## 2.2 Trade-distortion

There is an element of contagion to protectionist policies: Other countries may feel forced to take similar measures to protect their producers (Wickman, 2002, p.16f). Agriculture has been at the core of the problems in current and previous trade negotiation rounds, where a significant number of countries regard liberalization of food trade as one of the most important issues. The Uruguay Round Agreements Act (URAA) was held up for three years due to disagreement over agricultural trade (Josling, 1998, p.iiv). Negotiations in the Current Doha Development Round (DDR) broke down in July 2008 after failure to reach a compromise on agricultural imports (BBC1).

The reforms that this paper aims to suggest should remove the trade distorting elements of the CAP. We follow the World Trade Organization (WTO) in providing a definition of trade-distortion. In essence, reforms should make subsidies compatible with the so-called *Green box-criteria* of the negotiations in the WTO. According to the WTO, subsidies that comply with the Green box “are not targeted at particular products, and include direct income supports for farmers that are not related to (are ‘decoupled’ from) current production levels or prices. They also include environmental protection and regional development programmes” (WTO1). To this we add the dismantling of the trade distorting export subsidies and import tariffs accounted for above.

## 3 Explaining CAP inertia

### 3.1 Rules on different levels

New Institutionalism focuses on the interaction between institutional rules at different levels, like “operational” day-to-day rules and “constitutional rules”, the latter affecting how rules on lower hierarchical levels are made (Lowndes, 2002, p.101). Kay identifies three different institutional levels: the constitutional level, the collective choice/policy decision level, and the operational level of individual decisions. He criticizes institutional scholars to focus only on the highest level where the rate of institutional change is very low, thereby missing many institutional changes (Kay, 2003, p.407).

The concepts that New Institutionalism emphasizes manifest themselves in different ways depending on the institutional level. National constitutions for example, involving high start up costs and large adaptive effects, cannot easily change, thus being prone to increasing returns, inertia and path-dependence (Pollack, 2004, p.140).

Persistence of institutions appears particularly prominent in the EU, especially for the most radical institutional design: a Treaty amendment, a difficult and unpredictable process. Institutions and policies on a lower hierarchical level can have lower fixed costs, fewer adaptive effects and lower institutional barriers to change. Nevertheless, since even modest changes in existing EU policies often require unanimity or QMV, the threshold for change can remain high (Pierson, 1996, p.143f).

### 3.2 The decision-making procedure

Discussing changes to the CAP requires understanding of the decision-making procedure in this branch of EU policy. Below follows a stylized account.

The agricultural commissioner makes a proposal together with his cabinet and the agricultural directorate-general of the Commission (DG-VI). The proposal is presented for the Commission, who either adopts or rejects it. If it is the former, it is forwarded to the Council of Agriculture Ministers (CoAM) who has to adopt the proposal by unanimity, even though it is stated in the treaty that agricultural decisions are to be taken by QMV. As mentioned, this manner of social appropriateness is a result of the Luxembourg Compromise from 1966, which

stated that if a policy is of vital national interest to a member state, unanimity applies (Ritson & Harvey, 1997, p.61-66).

Many blame the maintenance of unanimity on France alone, but Germany and the Benelux countries quietly opposed the use of QMV until the 1980s (Moravcsik, 1998, p.488). This informal veto opportunity makes agreements more difficult to reach, as the proposal must represent the lowest common denominator of the member states (Skogstad, 1998, p.479).

The constitutionalization of the CAP is an important feature that we can stress using the SI perspective. Ideas that are embedded in an institution and “surrounded by a protective belt of other policies, institutions and/or social groups are more resilient in the face of challenge than other ideas not similarly institutionally fortified” (Skogstad, 1998, p.464). A constitutional amendment would require unanimity in the Council of Ministers and afterwards ratification either by national parliaments or by referendums in each member country (Skogstad, 1998, p.479).

### 3.2.1 The Joint-Decision Trap

RCI scholars have launched the concept of a *Joint-Decision Trap* (JDT), a function of certain types of decision rules on the Community level, under which a given policy is likely to remain in place even in the face of a changing environment. Three conditions must apply within the decision-making rules in order for a JDT to occur (Pollack, 1996, p.440):

1. Intergovernmental decision-making, as opposed to federal or supranational decision-making. The CAP being in the first pillar, the role of the national interests in the CoAM is bigger than in supranational organizations such as the European Parliament or the Commission (Elliot & Heath, 2000, p.42ff).

2. Decision-making by a voting rule of unanimity, as opposed to a majoritarian voting rule. As mentioned, the Luxembourg compromise meant that unanimity became the norm for CAP decisions. This results in a pathological situation where a single member state can block reforms (Pollack, 1996, p.440). Of course, agreements on institutional reform are not impossible, as the required consensus may be achieved by compromise and issue-linkage (Grant, 2003, p.23).

3. A status quo “default condition”, where a policy or institution persists in the event of no agreement. If not for the default condition, unanimity would actually favor exit from policies<sup>4</sup>.

It is important to stress that the JDT applies not only to policies like the CAP but also to the institutions themselves since they require unanimity to amend (Pollack, 1996, p.441f). There is thus a JDT both at the constitutional level and at the policy level.

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<sup>4</sup> This is the case with the EU structural funds, which must be reauthorized at periodic intervals (Elliot & Heath, 2000, p.42ff).

Inertia is of course not always negative, and can also be intentional. Political institutions can be explicitly designed to be difficult to overturn because those who design them wish to bind their successors in order to protect themselves from “political uncertainty”, or to bind themselves, for reasons of “credible commitment”, to remove a certain option from the future menu (Pierson, 2000, p.262).

### 3.3 Other factors behind CAP persistence

#### 3.3.1 Rent-seekers

Institutions are fundamental in shaping the behavior of actors; if, for example, they create incentives for piracy, people will become pirates (Pierson, 2000, p.256). Less dramatically, if institutions create incentives for farming, people will become farmers.

HI and RCI stress the effect of CAP-specific micro-level-mechanisms on interest groups. Political moves create rents (gains) that encourage rent-seekers to mobilize for the maintenance of a program (Kay, 2003, p.412). Rent-seekers see the EU as a rational location for redistributive programmes since competition between redistributive regimes lead to their demise on the national level as national governments compete for investments by lowering taxes and scaling down redistribution. As such, the EU can be viewed as a cartel preventing institutional competition (Elliot & Heath, 2000, p.42). Centralization protects subsidies from electoral competition, since it moves spending to an unaccountable authority (Wickman, 2002, p.31).

The relative influence of the farm lobby is high mainly due to the logic of collective action: individuals will only contribute to a cause if their net gain of the preferred outcome is greater than the opportunity cost of taking part (Elliot & Heath, 2000, p.42). There are about 150 agricultural groups established in the EU, with COPA<sup>5</sup> serving as a powerful umbrella organization in Brussels, maintaining a close relation to the DG-IV. COPA has a constitutional right to consultation on CAP-decisions, in an arrangement once summed up by a Commission official: “the Commission only proposes and the Council will only agree what it knows COPA will accept” (Elliot & Heath, 2000, p.42).

Many scholars do not give COPA a significant role in reform processes. There is some evidence that the farm lobby’s influence is not exclusive anymore, perhaps because there is no longer a clearly circumscribed agricultural agenda without obvious external effects (Kay, 2003, p.409-410).

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<sup>5</sup> *Comité des Organisations Professionnelles Agricoles de la Communauté Européenne.*



But this could overlook that COPA enjoys the power to circumscribe the range of reform options by increasing the cost of adopting alternative policies (Kay, 2003, p.413). Some scholars insist that politicians dare not underestimate the power of the farmers, and that particularly the French position in favor of status quo can be explained by fear of the consequences in the next election (Wickman, 2002, p.25).

Policies transform future possibilities by shifting the overall state capacity in a specific direction (Kay, 2003, p.412). The CAP has led to the development of policy specific administrative skills, technological knowledge and management systems. The cost of switching policies favors a status quo in the Commission and among member states. Commitments and investments made by individual actors on basis of certain policies increase the costs of a new policy. The CAP has more or less forced farmers to make decisions with considerable sunk costs, like growing certain grains. There is a threat of political backlash and policy chaos if farmers do not agree with reform outcomes (Kay, 2003, p.413).

### 3.3.2 Norms

SI underscores the importance of cultural norms within the institutional context. One of these is the *principle of collegiality* nurtured by the commissioners, implying that all decisions taken in the Commission should be collegial. The Commission is collectively responsible for all decisions and every commissioner has to support the decision in public, which means that internal conflicts concerning sensitive issues need to be resolved beforehand. Of course, the bargaining is rarely of the same magnitude as in the Council, the main arena for defending national interests (Grant, 1997, p.160).

Another important concept that SI can help shed light on is that of *agricultural exceptionalism*. Historically, agriculture has in many countries been considered as an area where state intervention is justified. Farmers were perceived as having specific needs and interests, and farming seen as contributing to broader national goals. This perception was taken into consideration in the GATT agreement of 1947; agriculture was institutionalized as a specific sector, where a different set of rules applied in international trade (Daugbjerg & Swinbank, 2008, p.631f).

While in the United States the needs of farmers have been the most emphasized, the idea of agriculture contributing to a public good has been equally prominent in Europe. Skogstad sees this as the reason why agricultural exceptionalism has persisted in the EU, as the CAP has been able to take on additional goals to justify itself, such as promoting rural society and environmental protection, curbing depopulation of the countryside, and maintaining a preferred social order. On the contrary, in the US, where the public good was never emphasized, agricultural exceptionalism now has few adherents,

due to the perception that farmers have no special needs, and that payments go to millionaires (Skogstad, 1998, p.477).<sup>6</sup>

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<sup>6</sup> Edwards (2007) asserts that in 2005, the average income of U.S. farm households was 26 percent higher than the average for all U.S. households. “Farm subsidies are welfare for the well-to-do — even millionaire farmland owners such as David Rockefeller and Edgar Bronfman receive farm subsidies (...) the vast majority of farm subsidies go to the largest farms. In recent years, the biggest 10 percent of farm businesses have received 72 percent of farm subsidies, according to the Environmental Working Group.”

## 4 Reforms

Initially the CAP was seen as proof that cooperation at the supranational level was possible. Voices of criticism were nevertheless raised already in the 1960s, mainly over the costs of storing the surplus and the excess use of soil (Dinan, 1999, p.339).

Demands for reform became louder in the late 1970s and 1980s, in view of increasing costs, environmental effects, overproduction and the dumping of the excess supply (Delayen, 2007, p.1). However, early reform attempts failed - for example, pushing through the second Mansholdt plan in 1968 resulted in farmer riots and life threats against commissioner Mansholdt, and in the end the Council rejected the Commission's liberalization proposal (Moravcsik, 1998, p.217).

The CAP reached its budget ceiling in 1983, which led to the introduction of the milk quotas in 1984, in order to curb production and costs. 1988 saw an introduction of environmental and structural measures into the CAP structural policy. The priority of rural support was elevated and environmental sustainability introduced. At the same time, the *Stabilizers Package* imposed budgetary discipline limits on agricultural market support and penalties to producers for over-production (Skogstad, 1998, p.471).

At first glance, the CAP appears to be an ideal case study of path-dependence since the basic objectives were decided already in the Treaty of Rome and the changes in the policy amounted to moderate adjustments of the existing policy until the 1990s (Kay, 2003, p.408).

### 4.1 The MacSharry Reforms

*The MacSharry reforms* in 1992, named after the agricultural commissioner at the time, were different from previous attempts. The reforms consisted of cuts in support prices to farmers by a third, in order to curb the overproduction resulting from support being tied to production. Direct income payments to farmers based on acreage were introduced as a compensation for these cuts. This model, replacing production support with direct payments, is called *decoupling* (Skogstad, 1998, p.472, Kay, 2003, p.413f).

At the same time, a set-a-side scheme was created, under which farmers were compensated to take 15% of their land out of production. The MacSharry reforms succeeded where previous attempts to substantially cut the level of support prices to farmers had failed. However, as the decoupling was only partial, incentives for overproduction remained (Kay, 2003, p.413f).

## 4.2 The Agenda 2000 reforms

*The Agenda 2000 reforms* continued the decoupling. The reforms had a second element to them, the introduction of a new Rural Development Pillar of the CAP, which was given 10% of the CAP budget (Daugbjerg & Swinbank, 2006, p.53). This transfer of funds from Pillar I to Pillar II is called *modulation*. The result, an only partial compensation to farmers for price cuts, was important as it broke the link between specific price cuts and specific compensation in the form of direct payments.

That some felt disappointed in view of the modest progress of Agenda 2000 is understandable, as the initial grand-scale plan was to adjust EU-prices to the world market level, open up the EU market, abolish export subsidies and decouple subsidies from production (Rojas, 2004, p.8).

The German Chancellor Gerard Schröder also suggested a partial re-nationalization of the financing of agricultural subsidies in which the member states finance 25% themselves, as common financing essentially follows the same logic as visitors in a restaurant who eat more if they share the bill. Despite a majority of member states being in favor of Schröder's suggestion, the unanimity requirement for decisions resulted in a preservation of the status quo (Elliot & Heath, 2000, p.45f).

## 4.3 The Mid-Term Review

The Agenda 2000 opened up for the *Mid-term review* (MTR) of 2003, initiated by agricultural commissioner Fischler (Daugbjerg & Swinbank, 2006, p.53). The MTR continued the decoupling of direct payments to farmers so that they receive support independently of production. As before, farmers were compensated for these cuts, this time based on historical reference for the period 2000-2002 (Dinan, 1999, p.2).

This attempt, called the Single Farm Payments, meant that farmers could produce almost anything they wanted, provided they keep their land in good agricultural and environmental condition (so-called *cross-compliance*). However, the decoupling had a voluntary aspect to it, whereby countries could still keep some subsidies linked with limited production or decouple all payments (Delayen, 2007, p.2). The result was an element of "re-nationalization": a complex set of different decoupling scenarios (Daugbjerg & Swinbank, 2006, p.56).

Modulation also continued, however more modestly than Fischler had envisaged. The limited shift of funds to rural development still helped to legitimize the reforms to the EU public (Daugbjerg & Swinbank, 2006, p.58, p.61) and was also a measure to make subsidies more compatible with WTO-arrangements (Grant, 2003, p.21).

Small farmers were critical of the fact that payments were based on the period 2000-2002, as this still meant that large farms receive the bulk of funds (Delayen, 2007, p.3). Goodison claims "the new system will effectively freeze in place, under the new nominally less trade-distorting system, the trade distortions generated under the old system" (Goodison, 2003, p.5).

Also, like prior reforms, the EU only met the international demands when it came to reducing domestic support, while doing nothing to eliminate the "particularly disturbing" export subsidies nor significantly reduce the import tariffs (Grant, 2003, p.21). Thus reforms did little to appease international critics (Daugbjerg & Swinbank, 2006, p.59).

## 4.4 The Health Check

The *Health Check* in November 2008 essentially followed the spirit of previous reforms. Close to all payments were decoupled, with the exception of a few areas, where member states could still do as they liked. Direct payments were decreased to some extent, with the money being transferred to Pillar II; the rate of modulation would be raised from 5% at present to 10% by 2012. A timeline was also set for abolishing the milk quotas, one of the few areas where there were still limits to production, thus contributing to an artificially high price on dairy products (Delayen, 2007, p.3). The quotas are to be raised each year, to expire completely in 2015 (BBC2).

Interestingly enough, the agreement was made on the basis of QMV. Indeed, French Farm Minister Michel Barnier said the reforms were backed by 'virtual unanimity' (Farmpolicy1) but as a commentator closely following the hard all-night negotiations leading up to the compromise put it, "(u)nanimity, like pregnancy, has a binary quality. A decision can't be 'virtually unanimous'" (CHC1).

The UK was among the countries opposing the deal, feeling the new measures did not go far enough. "We see this as a lost opportunity for the EU to introduce further reforms to the CAP budget at a faster pace", a British spokesman said to AFP (AFP1).

# 5 Analysis: Explaining and predicting reforms

## 5.1 When do institutions change?

According to RCI, there are three main policy windows for institutional change (Pollack, 1996, p.438f):

1. A change in the policy environment posing clear new challenges to the existing institutional forms.
2. A change in the constitution of actors or the relative powers of actors since the design of an existing institution changes.
3. An improvement in the quality of information, and thus a decrease in uncertainty about the operation of institutions or about the environment within which they operate.

As we have seen, however, EC institutions are generally highly resistant to change due to high informational and institutional barriers. But environmental and other changes can still lead to the necessary preference convergence. We then face a *punctuated equilibrium*: A long period of stability when pressures mount is followed by sudden, infrequent institutional changes. The most typical and large-scale of these in the Union are the Treaty amendments - changes on the constitutional level (Pollack, 1996, p.438f).

These outcomes are likely to be lowest-common-denominator intergovernmental bargains. Any change is difficult, and it is equally difficult to roll integration back due to the accumulative structure of the treaties. The result of reforms will be different from the result if the bargain had been made from scratch. Institutional choices in the past shape both the day-to-day process and the subsequent choices of institutional and constitutional change (Pollack, 1996, p.438f).

There are inarguably moments in politics when path exits do occur and politics change directions. Pierson (2000, p.263f) stresses the need to focus on these *critical junctures*, triggering events that changed or may change the course of history. As mentioned, “large outcomes” do not necessarily spring from “large events” according to New Institutionalism. This said, Pierson himself states that junctures are often the result of “big events”, such as exogenous shocks.

Hall and Taylor claim that many HI scholars attribute critical junctures to economic crisis or military conflicts, which are instrumental in bringing about a rupture in the current path, inevitably changing directions. They add however that

many HI scholars do not have a well-developed answer to what precipitates such junctures (Hall & Taylor, 1996, p.10).

## 5.2 Radical reforms?

Could CAP reforms seek inspiration from other countries? New Zealand, previously highly protectionist in agriculture, chose to implement radical reforms in the 1980s, abolishing a large portion of its farm program. Prior to the reforms New Zealand had support systems similar to those of the EU with total support to farmers on 32,7% of the total value of farm production in the early 1980s. This figure had come down to 2,3% one decade later. In 2001, direct production support was only 0.5% in New Zealand, compared to 39.6% in the EU. Rather counterintuitively, the reforms were followed by an astounding productivity development in the farming sector. Farmers' share of GDP increased and only one percent left the industry, underscoring that there is "a life after subsidies" (Johnson, 2000 and WB1 p.132).

Based on this development, Scrimgeour and Pasour (1996) present a set of four interrelated policy recommendations to countries wishing to deregulate their agriculture. The recommendations are presented in italics, followed by the author's comments in regular font.

1) *The importance of ideas. Scientists play an important educational role in changing the political and intellectual climate in favor of reform.*

However, as Daugbjerg has asserted, the welfare gains of radical reforms of the CAP are well known, but this does not seem to be sufficient in order to initiate them (Daugbjerg, 1999, p.410).

2) *Simultaneous restructuring of other sectors. A deregulated sector will become more prone to accept the outcome if it can benefit from the economic gains of the deregulation of other sectors.*

Yet the EU-budget is small compared to national budgets, and the CAP accounts for a vast proportion of it. There simply are not that many other areas that could be deregulated simultaneously on the EU-level.

3) *An emphasis of transitionality. The effects of eliminating farm programs appear disastrous in the short run, however the New Zealand experience shows that in the long run the profitability of the farm sector remained intact.*

As Beghin *et al* (2003) show, this is true to a limited extent when it comes to a complete abolishment of the CAP. A transition to a free-market regime would be less seamless, and sugar, wheat, and beef production would particularly suffer. However, the total net decrease of agriculture in the EU following such a large-scale reform would not be more than around 13%, large farms being the primary losers.

4) *The political process is dependent on the institutional framework - thus, if the current "rules of the game" only permit fine tuning it may be necessary to put more emphasis on choices among alternative rules.*

This point is highly relevant concerning the CAP. Grant addresses the need for a change in the way policy is made as well as the content of that policy (Grant, 2003, p.26). The Joint-Decision Trap means that high order rules do not permit radical reforms. However, changing the constitutional rules would require a treaty amendment, which is a difficult and highly unpredictable process.

Folkpartiet, a liberal Swedish party, proposed a “Big bang” strategy of CAP-reform in 2004, under which the CAP should be abolished over a period of three years. The proposal drew on the New Zealand example as well as the idea of re-nationalization (Rojas, 2004).

*Re-nationalization* can be understood as a reinforcement of the power of the member states at the expense of the Community decision-making process. It is expected to reduce the effect of lobbying by agricultural interests, since they will be forced onto a level where voters and taxpayers have more control. If agricultural policy were to be decided at the national level, the bias in favor of agricultural interests could disappear (Niemi & Kola, 2005, p.35f).

Folkpartiet is not alone in suggesting this. A report ordered by the Barosso-commission suggested that agricultural spending at the EU level be reduced to one-tenth of its current level, while the redistributive functions of the CAP be delegated to member states (Sapir *et al*, 2003). Wickman has proposed that the export subsidies and import duties be removed immediately, with a five-year time-span during which the direct subsidies are phased out, something that should become a national policy issue. EU federal representatives would guard deregulation but no longer distribute subsidies (Wickman, 2002, p.27f).

In view of the lack of success of such “radical” reform proposals it appears that re-nationalization in combination with grand-scale deregulation is unrealistic. In fact, it could even be counter-productive if the goal is primarily to make the CAP less damaging to world trade, as other options are not explored. How to accomplish these reforms is rarely touched upon in the literature reviewed, probably because no one has been able to present a realistic solution to overcoming the problems with the JDT and an eventual Treaty Amendment. Scharpf has stated that the obvious remedy for the JDT would be majority voting. However the best the EU has achieved so far in this respect is the use of QMV in some areas (Scharpf, 2006, p.848f).

Drawing on HI, we will discuss lessons learned from previous reform attempts in order to increase our understanding of what we can hope to accomplish when it comes to reforms in the desirable direction. Two questions should be particularly explored. First, what have been the drivers of previous reforms? Second, which tools have been (or been made) available to make reforms successful?

### 5.3 Reform Drivers

Daugbjerg and Swinbank (2006, p.49-50) provide an overview of the debate between those claiming that mounting budget costs triggered the MacSharry reforms in 1992, and those who see the then ongoing GATT-negotiations as the



primary driver. Moyer (2004) appears as the firmest proponent of the first position, claiming that budget issues have been behind all reforms of agricultural policies in the EU and the US. He has even stated that a financial crisis would be the most potent impetus for future change of the CAP.

However, Swedish EU-minister Cecilia Malmström stated that CAP-reform will most likely not be an issue during the Swedish EU-presidency this autumn, as the prospects of any far-reaching agreement appears small in view of other important issues such as the financial crisis and climate change. In her view, the current crisis was seen more as an obstacle of reform<sup>7</sup>.

In another article, Daugbjerg and Swinbank (2008, p.636-641) claim the MacSharry reforms were primarily undertaken due to increasing external pressure from the GATT negotiations. Grant (2003, p.21) asserts that at least partially successful CAP-reforms have been so due to exogenous pressure of various kinds that disturbed the current equilibrium, citing the pressure from the Uruguay round which led to the MacSharry reforms and the subsequent Agenda 2000 reforms.

Daugbjerg and Swinbank claim that the Uruguay Round Agreements Act curbed the agricultural exceptionalism in 1994, mainly for two reasons. First, the new “single undertaking” principle governing the URAA meant that it had to be accepted as a package deal. Second, while consensus previously prevailed in both negotiations and in implementation, the agreement made implementation quasi-judicial by the “dispute settlement system”, forcing countries to conform to the agreement or face sanctions. Thus, the URAA, albeit a deception for those hoping for rapid abolishment of agricultural barriers, was a remarkable shift in agricultural perception, as the trade negotiations stated that the long-term objective would be to establish a market-oriented agricultural system and to reduce protection (Daugbjerg & Swinbank, 2008, p.631f).

While some are more important the others, several factors contribute to the build up of a punctuated equilibrium and demand for reforms. Prior to the agreement on the MTR in 2003, Grant listed some of the pressures for reform: internal public criticism concerning costs, food safety, environment, the treatment of developing countries, and external pressure from the DDR. The 2004 enlargement, he predicted, meant that the political window to reform was now - once the new member countries had joined it would mean more resistance to reforms (Grant 2003, p.19). Indeed, Michalski *et al* (2009) conclude that new member states, notably Poland, have given France allies in further reducing the attempts to reform the CAP.

In our assessment it appears that external pressure from the World Trade Negotiations is and has been the most important driver of reforms.

## 5.4 Reform Tools

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<sup>7</sup> When asked by the author during an address held in Lund at Utrikespolitiska Föreningen, 22/4/2009.

Kay (2003, p.411-417) claims that the view of reforms as a result of exogenous shocks is too static. Path-dependence can explain the cumulative effects of small internal policy changes. He asserts that when a critical juncture occurs, the policy legacy reinforces policy adaptation in a particular existing direction. He addresses the need to answer questions such as how the policy legacy of the CAP is weakened, the feedback mechanisms disrupted, and a new path introduced.

How, he asks, was the nature of the external shocks leading up to the MacSharry reforms, the first substantial reforms, different to earlier shocks? And secondly, why did the CAP decision-making system adapt differently in 1992 compared to earlier? In Kay's view, the introduction of new, seemingly moderate policy instruments or tools can have significant cumulative consequences and result in positive feedback loops. Reinforcement mechanisms of a policy can in themselves have unintended external effects which produce pressure for change of the existing policy path.

Kay identifies the Stabilizers Reforms in 1988 as a critical juncture whose effects became visible with the MacSharry reforms. The stabilizers system "for the first time set a five-year budget including a guideline allocation for the CAP", essentially a fiscal constraint combined with automatic penalties for overproduction (the so-called *co-responsibility levy*). The consequences of this, in face of particularly good harvests in the coming years, were pressure within the CoAM for reform. Thus, the limitation of political options before 1992 was an important factor behind the reforms in addition to external shocks such as the GATT negotiations. Furthermore, the introduction of direct income payments in 1992 opened for a reduction over time of direct income payments in a controlled manner, as well as for modulation. The MacSharry reforms thus made new tools available to future CAP policy-makers, opening up a new path (Kay, 2003, p.416f).

Buckwell asserts that decoupling is a major step in moving domestic EU support to the WTO non-trade distorting category of the Green Box (Buckwell, 2007, p.14). Whether you agree with Kay's emphasis on the importance of the Stabilizers reforms or not, his last point appears relevant; decoupling was perceived by a CAP-critic like Rojas to be the key to everything else, as it would lead to lower costs for agricultural support, rid the EU of a lot of criticism, and open the possibility to push for a firmer free-trade position in the WTO, as an entirely decoupled support is in accordance with the non-trade-distorting guidelines of the WTO Green box (Rojas, 2004, p.16).

What then about the transfer of funds to rural development (modulation) - can it be seen as another tool available to reduce trade-distortion? With the Agenda 2000 reforms, this option was institutionalized in the creation of the second Rural Development Pillar, and in subsequent reforms further resources have been transferred in this direction. Could the creation of Pillar II mean the opening of another path?

The MacSharry Reforms opened the door for support decoupled from production, compensated by direct support. The modulation tool furthermore broke the link between cuts in production support and compensation. This gradual transfer has done little to decrease the CAP budget, but nevertheless funds have

moved from trade-distorting areas to areas that are also more easily justifiable in face of domestic and external criticism.

Skogstad claims that while agricultural exceptionalism has gradually disappeared in the US, it persists in the EU. This is because in the US protecting the farmers has always been the main priority, while in the EU the public benefits of agriculture is also emphasized. Thus, when the concern for food security declined, the CAP was able to justify its existence by taking on new policy goals, such as rural employment and environmental protection (Skogstad, 1998, p.470). In this sense, modulation can be seen as a tool to guarantee the survival of the CAP.

Analyzing the MTR, Daugbjerg and Swinbank predicted that the pressure to switch funds to Rural Development would continue (Daugbjerg & Swinbank, 2006, p.62). Indeed, direct payments have decreased since 2003 and will continue to decrease until 2013, the money instead being earmarked for Pillar II (Delayen, 2007, p.2).

Far-reaching reform attempts would indeed have meant a fundamental shift in the history of the CAP, had they been successful. The partial re-nationalization proposed by Schröder for Agenda 2000 would most likely have formed a critical juncture, a prerogative for more of the same in the future (Elliot & Heath, 2000, p.45f).

In this, however, lay also the reason why this was never a realistic option. In the SI view, current institutions affect the actors' perceptions of what is possible, and re-nationalization is too much at odds with the actors' (the Commission, DG-IV, the CoAM) belief of what the CAP should be, and that is a common, not a national policy. Agricultural exceptionalism and the constitutionalization of the CAP both favor the perception of agriculture as an area that must be supported financially by the EU.

The Commission has always opposed a re-nationalization of the CAP for fear of the consequences on the overall project of European integration (Swinbank & Tranter, 2004, p.101). Together with the institutional barriers this makes the progress of far-reaching reform proposals close to inconceivable. As we have seen, supporters of the status quo are powerful in their recalcitrant positions, and have invested so much in the idea of the CAP that they would never agree to proposals that in the long run might lead to its abolishment. History has by contrast shown them willing to reallocate resources from one agricultural sector to another.

The Swedish government took an offensive position in 2007, demanding that all farm and export subsidies be abolished (Local1). According to Sofia Carlsson, special adviser at the Swedish agricultural ministry, forwarding this radical position is fruitless. In her belief, the CAP will never "disappear". Instead of radical but vain attempts, the aim should be to shift the targets of the policy step-wise in accordance with the Green box criteria, by reallocation to fields such as rural and environmental development<sup>8</sup>.

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<sup>8</sup> In a telephone interview made with the author on 06/04/2009.

Prior to the Health Check reforms, Buckwell (2007, p.14-16) predicted that harmonizing the Single Payment Scheme created in the MTR would be a priority, as ever since a variety of different Single Farm Payments were in operation. There was thus a concern among the member states that CAP was becoming re-nationalized. The Commission pushed for further harmonization of the SPS, a goal that was to a large degree achieved in the Health Check.

Indeed there appears to be a fear of any kind of re-nationalization, and thus a delicate balance between moving further resources to Pillar II and the fear of what this could amount to if the modulation is in part voluntary. Buckwell believes that the balance between pillars I and II will be at the heart of the debate of the future purpose of the CAP. The Commission's vision is that the general path of the CAP should be to move even more resources in direction of Pillar II, and that this is to be achieved by further compulsory modulation. This is not to say that this is an easy task. The Commission has tried to shift more money from market support to rural development in both 1999, 2003 and 2008, but with limited success. Delaen asserts that 40 billion of the CAP budget of 54,7 billion euros goes to the pillar I (Delaen, 2007, p.3).

Buckwell asks if there is a lack of belief that the correct reform direction is towards pillar II, as the consensus appears to crumble when it comes to pushing real resources from pillar I (Buckwell, 2007, p.16).

As is often the case when it comes to EU decision-making, things take time. As the following account suggests, modulation could be a necessary instrument for achieving successful reforms.

## 5.5 Future reform

The size of the CAP budget is fixed until 2013, when new negotiations will begin. UK and the Scandinavian countries have stated that they will strive for a substantial reduction of the overall farm subsidy package (AFP1).

Below, the case will be made that modulation may be a highly instrumental tool for furthering reforms of the kind we wish to accomplish. In fact, without this tool it is difficult to see how the EU could commit to far-reaching goals in the Doha Development Round.

Our overview of the drivers of CAP-reform concluded that the pressure from trade negotiations is among the most prominent. Daugbjerg and Swinbank (2006, p.62) predicted that a successful conclusion to the DDR would probably involve commitment to eliminate export subsidies and reduce import protection. Indeed, the EU has made far-reaching commitments for the event of a successful conclusion of the round: "As part of the Doha Round, the EU has offered to cut farm tariffs by 60%, reduce trade distorting farm subsidies by 80% and eliminate farm export subsidies altogether" (EC1). As the implementation of the agreement would be quasi-judicial, the EU would probably have to comply once the agreement is signed off.

The DDR was stalled in 2008 and there is thus far no news as to when the negotiations will recommence. A successful conclusion to the round would serve to overcome many of the obstacles for CAP reform and a means to go about reforming the export subsidies and the import tariffs, which up until now have been left in relative peace in the reform process.

At the same time, these reforms have to be justified, particularly in the face of the agricultural exceptionalism within the CAP policy community and among farmers and other citizens who feel that agriculture should be guarded from market forces and subject to political support and supervision. Modulation provides a means to agree on large-scale reforms of the trade distorting elements of the policy while still preserving the legitimacy in the eyes of the concerned groups and neutralizing the criticism from vested interests.

Reform resistance could be appeased by transferring the funds freed from an abolishment of the export subsidies to the Rural Development Pillar, were they would do less harm from a trade distorting perspective. The share of the EU budget devoted to the CAP could thus remain more or less intact.

Granted, this would still mean a subsidized agricultural sector. But even to proponents of a free market it should be evident that this is the lesser of two evils. The size of the CAP budget is in fact rather modest when divided over the population in the EU. It is the disturbing consequences stemming out from such small means that need first and foremost to be remedied.

## 6 Conclusion

In the beginning of this essay, we posed the following question:

*What is the most feasible manner to achieve future reforms of the CAP with the purpose to get rid of the trade-distorting elements of the policy?*

In essence, reforms remedying the trade-distorting mechanisms can be achieved on two levels. Either by completely changing the rules of the game, or by changing the cultural obstacles perceived by some member states to reform, by handing them an exit strategy. In the author's view, the second option appears as the most feasible, as the historical reform process has in fact provided us with such a strategy.

This paper has suggested that the main driver of past and future reform attempts is trade negotiations, although other factors can also contribute to the build up of a punctuated equilibrium. Pressures to reform are however not enough.

This is were the path-dependent process stemming from past reforms have provided a tool in form of modulation to the Rural Development Pillar, which can help justify reforms. A transfer of the funds released by the reforms to areas where they are less trade distorting and perceived as more legitimate, would accommodate the need for continued agricultural exceptionalism.

A combination of pressure from trade negotiations and the use of the internal policy tool modulation would thus serve as feasible recipe to accomplish a less trade-distorting CAP. In sum, pressure for reform will come from the outside, while the instruments guaranteeing their success will come from within the EU institutional system.

As for our theoretical underpinnings, they can be criticized for failing to internalize this external pressure to reform, which is still given exogenously. The theories have however served us well in explaining how this external pressure must be combined with policy internal processes (the creation of the modulation tool) in order for reforms to be successful.

RCI has been beneficial in helping us understand why the CAP is resistant to change (the JDT) and essentially made it possible to dismiss any "Big-bang" reform attempt as unrealistic. The functionalist and voluntary aspects of the theory in its purest form, with the assumption that institutions persist because they are the most efficient in performing their tasks, are however less helpful in explaining how change of the CAP can come about.

SI has provided us with insight into how the CAP is perceived culturally, both in the eyes of EU-citizens and their governments. Notably, agricultural exceptionalism in its European sense where the public good is emphasized, has contributed to both the persistence and evolution of the CAP since the early

1990s, by adding new policy goals more justifiable in the eyes of the European citizens.

HI has helped shed light on the tools emanating from the path dependent reforms, notably the modulation tools and the limiting of political options, which can serve as a means to curb cultural obstacles to reform, and even make SI aspects conducive to reform.

In all, it is the author's belief that the question posed in the beginning of this thesis has been answered in an elaborate and critical manner, taking many considerations and diverging opinions into account, while also the New Institutionalism perspective to good use. Time will tell if our prediction holds in face of future developments.

## 6.1 Further Research

Further research concerning reforms of the CAP would benefit much from combining HI and SI, even though the picture might become fragmented without a proper understanding of the obstacles to reform stressed by RCI.

An assessment of the accuracy of our predictions following a successful conclusion to the DDR would most likely be highly beneficial to this line of studying. Similar theoretical underpinnings could apply to such a study.

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