Disconnections in US and EU Agricultural Trade Policy: A Transactions Cost Politics

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Policy disconnection is used to describe a lack of coherence between domestic agricultural policy legislation and in current and potential agreements on agricultural policy through the WTO. We argue that a greater degree of policy disconnection exists in the US than the EU. Transactions costs politics is used to explore the decision making processes and institutions in both countries and to explain why more policy disconnection exists in the United States.

Introduction

We investigate aspects of the institutions and decision making processes that affect the coordination of domestic farm policy and trade negotiations for agriculture in the United States (US) and the European Union (EU). Both entities have domestic agricultural policy as expressed in US national farm legislation and the EU Common Agricultural Policy (CAP). As the same time, both countries have undertaken commitments as signatories to of the Uruguay Round Agreement on Agriculture (URAA). These commitments have placed constraints on agricultural policies in terms of the nature of policies used and the extent of subsidization. Further constraints are being negotiated in the Doha Round under the World Trade Organization (WTO.)

We use the term policy disconnection to describe a lack of coherence in between domestic agricultural policy legislation and in current and potential agreements on agricultural policy through the WTO.

Objectives & Methods

We use transaction costs politics to address these questions:
1.To what extent does the structure of decision making in the United States contribute to this disconnection?
2.How does the structure of decision making differ in the EU, and to what extent does that account for different outcomes?

We use theory, historical accounts, and interviews in our analysis of the disconnection between domestic agricultural policy legislation and negotiations and agreements in the WTO.

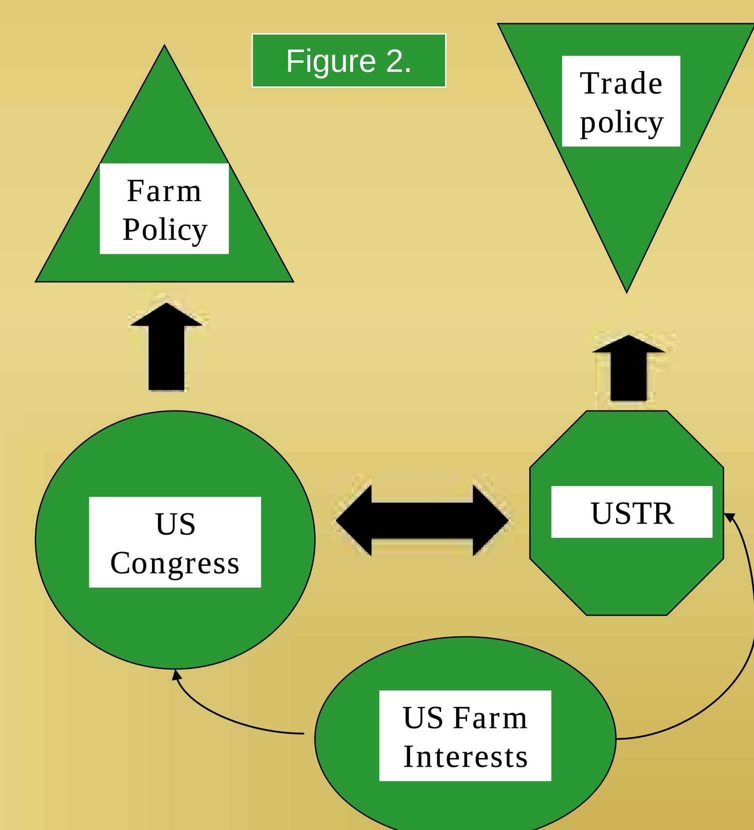
Transaction Cost Politics

Transaction costs are the forces that cause outcomes to diverge from optimal outcomes due to time inconsistencies, the nature of the principal agent relations and the costs of making, monitoring and enforcing agreements. Dixit notes that transactions costs are even more pronounced in politics than in other economic relationships (Dixit 1993 p.). A central theme of transactions costs politics (TCP) is to compare how the organization of the institution impacts political outcomes and policy decisions, and the evolution of the governance structure to minimize overall transactions costs (Dixit 1996). Transaction costs economics, and its offshoot TCP are not normative, but seek to provide explanatory constructs for understanding institutional behavior.

Ideas from TCP relevant to our questions:
1.TCP shares with theories of rent seeking the hypothesis that elected officials will vote according to their interest, defined as maximizing their chances of re-election.
2.Given that legislators are motivated by re-election, they apply a cost benefit calculation to whether or not they should make particular policy decisions or delegate them to the executive branch. This decision is similar to the decision of the firm when it evaluates whether or not to buy inputs. If the cost of making policy is larger than the benefits, Congress will delegate some amount of decision making authority to the executive branch (Epstein and O'Halloran 1999).
3) The delegation of decision making authority often involves the creation of a new agency to perform the delegated task.

Figure 1.

Figure 2.



In the EU, the same actors and processes are used to make domestic agricultural policy and trade policy (Figure 1). In the US, Congress makes farm policy and delegates substantial authority for trade policy, resulting in a disconnection at times between the two (Figure 2).

The US: Contrasting Delegation Decisions for Trade and Agricultural Policy

Congress has been responsible for domestic farm policy throughout its history. However, the passage of the 1933 Agricultural Adjustment Act was a significant policy act and the farm bill has, and continues to have, momentum that has withstood substantial challenges. Congress continues pass farm bills at regular intervals. In sharp contrast, Congress has delegated the executive branch increasing authority over trade policy since the 1930s. In 1934 Congress gave the power to set tariffs to the Executive Branch. In 1962 Congress created an agency the Office of the Special Trade Representative (STR) to advise the President and to serves the chief representative for trade negotiations. In the 1970s Congress expanded the powers of the STR and in 1979 elevated it to a Cabinet position with expanded functions. TCP theorizes that Congress will decide on whether or not to delegate the some decision making to the executive branch based on the impact of delegation on the reelection of its members, and also based on the expertise and demands required to pass legislation. Congress delegated significant authority for negotiating and implementing trade policy. However, Congress has not delegated power to pass farm legislation and likely will not, due to their belief and some evidence that the coalition of interests supporting the farm bill is essential to their reelection.

Congress has delegated trade authority to the Executive Branch because the cost of negotiating overall trade policy was high. **However, Congress delegated trade authority before agricultural policy became a part of trade negotiations and Congress has closely guarded its authority over domestic agricultural policy. We propose that this mismatch of delegation decisions is a key explanatory variable of the disconnection evident in US domestic and trade agricultural policy.**

This disconnection is explored in our paper in our case study of the negotiations of the blue box. In both the Uruguay and the Doha rounds of negotiation the USTR spent US negotiating capital on creating and revising a blue box for agricultural subsidies accompanied by supply controls, hoping this would ease pressure off of restricted red box expenditures. However, in both cases Congress subsequently passed new provisions in the 2002 and 2007 farms bills that made the blue box irrelevant. We argue this is just one example of the disconnection between US agricultural and trade policy.

The EU: How Institutional Design Reduces Policy Disconnection

The same EU decision-making bodies direct both domestic and trade policy for agriculture, and so face fewer problems from transaction cost politics than the U.S. The policy making process for international trade negotiations is shown in Figure 1. Initially the European Commission proposes a trade negotiating position (Meunier, 34). This position is debated to consensus by a special advisory committee of senior civil servants called the Committee 133. The proposal is transmitted for technical feedback from member states' representatives on the Committee of Permanent Representatives (COREPER). COREPER transmits the negotiating proposal to the Council of Ministers; delegates are member states' agricultural or trade ministers. The Council of Ministers agrees on a common external bargaining position, based on the Commission's proposal, for international trade negotiations. The mandate outlines the objectives for trade negotiations which are conducted by the Commission.

A similar process is followed for CAP reform, outlined in Article 43(2) EEC. The key point is that changes to domestic agricultural policy are proposed by the same body, the Commission, which proposed and negotiates trade agreements (Swinbank, 47). CAP discussions occur between member states' ministers of agriculture and the appropriate commissioner. As the commissioner both proposes domestic agricultural reform measures and negotiates international trade policies domestic and international policies are more aligned and yield fewer transaction costs.

The EU policy making process is characterized specifically by increased coordination, more effective delegation, and more credible commitments. The founding members delegated authority to the supranational level to ensure international trade and agricultural agreements were insulated from protectionist and national reelection pressures. The pooling of international representations forced the EU to accountably entrust various decision making bodies to initiate, carry out, and enforce the process steps of policy making and international negotiations.

In our paper, we explore the interaction between the negotiation of the Uruguay Round Agreement on Agriculture and the CAP reform of 1992 to illustrate how the EU policy process coordinates the two.

Relevance

Both US and the EU remain committed to further agricultural trade liberalization through the WTO and regional trade agreements. As future agreements impinge more severely on the ability of the US Congress to enact the agricultural policy they prefer, the disconnection that we have explored will become more pressing.

References

A complete list of references are available from the authors upon request lmyoung@montana.edu.

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