

Introduction

I intend to study the development of the Common Agricultural Policy from a political economy perspective. From this analysis I argue that the CAP is inefficient and ultimately unsustainable. But, using Robert Putnam's "2-Level Game Metaphor," I conclude that reform of the CAP will prove difficult, and that possibly the only way to reform the policy is to simply wait for its collapse.

Let us begin with a discussion on the benefits of free trade. David Ricardo (Coughlin, 304ⁱ) provides the most quoted example, observing that if each state focuses on its comparative advantage and trades with its neighbors, the prices of goods are lower, the market is more varied, and everyone is made better off. Although Ricardo's theory has since been revised, the kernel of Ricardian theory is supported with empirical evidence. Trade can be considered as a "public good." Beginning with the Cobden-Chevalier Treaty of 1860 (Krasner, 25), the preferential treatment between England and France was extended to all states that participated. Cobden-Chevalier was also a non-rival good: England's consumption of free trade did not diminish the pool available to France.

Because trade is a public good, it is subject to free-riding problems. For if trade benefits *everyone*, which actor is willing to absorb the costs to maintain the program? Steven Krasner (36) maintains that a hegemon must be willing to guarantee the public good. Andrew Moravcsik believes (Moravcsik, 514) that international regimesⁱⁱ, while created by states, nevertheless can develop "agenda-enforceability" on its own. The debate between these two perspectives is somewhat tangential to my argument (both Krasner's and Moravcsik's evidence is disputed), but the point is that free trade is not endogenous to human society: it must borrow another's power for its continued existence.

While trade benefits individuals in the long term, it can pose serious challenges in the short term. A free trade regime alters the welfare of states, redistributing income (Alt and Gilligan, 327) and imposing asymmetric costs on actors within the trading state. Because there is a disparity between the long-term benefits from trade and the short-term costs for imposing a free trade regime, trade is fundamentally a political issue. And, because trade is a public good controlled by exogenous actors, it is subject to political manipulation.

The Development of the Common Agricultural Policy

This understanding of the international requirements for the imposition of a trade regime and the domestic constraints under which interested actors can pursue free trade allows us to contextualize the development of the CAP. Blanchet (6) describes CAP as a "bargain between German industrialists who wanted access to French markets and French farmers who needed support to remain competitive." These represent the main European actors interested in developing

CAP. In the evolving European political system, bargain translated into a “supra-home country bias” for goods produced in other European Community member states, and the imposition of higher transaction costs for non-EC exporters. How was this agreement formed?

Ronald Rogowski notes that an exogenous systemic change will affect the preferences of the relatively-abundant and relatively-scarce factors of production in a country. This effect, observed in the Stophor-Samuelson Theorem, holds that the scarce factors benefit less from free trade than abundant factors. But Alt and Gilligan argue that it is not factors, but industries (sectors) of the economy that will create trade coalitions based on free trade’s effect on that industry. Assuming that actors in a domestic economy are rational and utility maximizing (Rogowski, 319), these sectors will aggregate their preferences and petition the government in support of their interests. This model, the Ricardo-Viner-Jones model, assumes low factor mobility. That is, a factory cannot be instantly converted into a more in-demand resource.

Given the structure of the CAP and the economic organization of Europe, the Ricardo-Viner-Jones model seems to best explain CAP’s development. A coalition of German industrial sectors (the “capital” factor) allied with French farmers (the “land” or “labor” factor) in support of the CAP. What resulted was internal group bargaining and the eventual delivery of an optimal policy: free trade within the EC and barriers to trade from abroad.

While it is useful to articulate the preferences of the relevant actors, there is a wide gulf between the this interest and a group realizing its preferred policy. We know from the analysis above that factors at the time of the CAP’s formulation were relatively immobile and the collective action costs were high. Thus the most likely coalition, according to Alt and Gilligan, should be the one most described by the endogenous tariff literature (*ibid.*, 338). In this model, sectoral leaders unite under a shared purpose: to have “protection on one’s own terms.”ⁱⁱⁱ This coalition, according to Fiona McGillvray, does not need massive membership for success (McGillvray, 14). Rather, the electoral system, and marginality of the districts in which coalition partners are concentrated determine the effectiveness of the coalition’s political organization. Because the French and German actors were concentrated in marginal districts (indeed, in 1958 the center of the growing European Community was between Germany and France), they could effectively achieve a policy that best represented their interests.

Today’s CAP reflects the structural definitions and the preferences of the relevant actors present at the policy’s formation. Blanchet (24) describes the main features of CAP as an import tariff applied to goods entering the EU, subsidies paid to growers of particular crops,^{iv} and a guarantee to buy agriculture in the market should the price fall below a specified range^v.

Helen Milner argues that the structure of the government and the nature of political discourse are essential in understanding the development of protectionism. During CAP negotiations in 1958, the institutional structure of the European Community was undeveloped, and policymaking took place on the ministerial level. This structure prioritized quid-pro-quo negotiations and made the development of welfare-maximizing policies (like free trade) difficult. Thus, Milner's general finding (103) is that highly fragmented party systems make protectionism more likely. This finding holds true when considering the development of CAP.

Thus it appears that the "demand side" of trade policy formation best explains the development of CAP. Although Edward Mansfield finds that the pluralist (or "demand side") and statist (supply side) explanations should be combined for the best analysis, an examination of the development of CAP indicates that pluralist explanations best explain the Common Agricultural Policy's development.

The Effects of the Common Agricultural Policy

Now that we understand the conditions under which CAP was developed, we can evaluate its effects. CAP opponents argue that subsidies "hurt the poor" in developing countries. Because the European government so heavily subsidizes agriculture, they gain an unfair competitive advantage, depressing domestic industry and making EU market penetration difficult.

Certainly, this argument holds some truth. But one should first note that CAP only prohibits *some* states from exporting agriculture to Europe. European law (1997, EC, 7) allows for free trade between Europe and countries where "a significant relationship exists" – a phrase meant to denote former colonies^{vi}. For these countries, CAP provides them market access that they would not otherwise have, and the benefits of free trade are clear. Joseph Stiglitz has found that free trading states see higher per-capita income (Stiglitz, 383) and a decline in poverty when compared to states that do not trade freely. Additionally, the Kuznets Hypothesis – which argues that GDP growth would actually increase income inequality – has been proven incorrect. Bhagwati observes significant spillover effects resulting from free trade and FDI, arguing that wages do not decline as a result of free trade and that they may actually increase.

Critics respond that CAP, and globalization in general, exploits the power asymmetry between multinational corporations and developing states. But Shah Tarzi observes that while the negotiating positions of MNCs and developing states are asymmetric, developing states gain power when there is MNC competition (Tarzi, 159) for investment opportunities. As liberalization takes hold, states reap the spillover effects from economic development and gain even more power vis-à-vis MNCs. Realists (and particularly hegemonic stability theorists) do not see this power asymmetry as

necessarily undesirable. Recall their view that because the international system is fundamentally anarchic, a hegemon must guarantee international public goods (namely, peace and trade). If the cost for such a guarantee were less freedom for the less powerful states, realists would argue that it is nevertheless welfare-maximizing for the entire world.

One consequence of the subsidy is that it reduces the world price of agriculture. This has the effect of making more food affordable for a larger population, including the poor in developing countries. Without European imports, the price of food on the world market would unquestionably rise, and more people teetering on the edge of subsistence would be thrown into the abyss of extreme poverty and hunger.

CAP, and particularly the subsidy, distorts the Heckscher-Ohlin Framework, prompting European farmers to invest resources in a factor (agriculture) that is relatively-scarce on the world market (Europe, as a center for global commerce, is relatively-abundant in capital factors). In the long term, all factors are mobile, but CAP seeks to “immobilize” these factors by resisting convergence around the abundant factor. But this is to the world’s benefit: the European Community reports that European farmers are the most productive in the world (2005, EU, 32) and as a result of the productivity gains Europe has exported more food to the rest of the world.

But despite these benefits, CAP has very serious flaws. An appropriate metaphor for CAP’s effects is a “beggar-thy-neighbor” policy; by devaluing its goods on the world market so as to make them more competitive while simultaneously increasing the barriers to home markets, European policymakers have made the establishment of a competitive agriculture industry very difficult. Supporters of the CAP program may claim that world prices in foreign markets are lower because CAP’s subsidies but they fail to note why this is the case: because of the subsidy, European farmers prevent the growth of local industry while its high entry tariff also prevents exports.

Claims that European farmers are more productive than farmers in poor, land and labor abundant countries misunderstand the Stoper-Samuelson Model. For the gains from trade do not come from countries that specialize in what is their absolute most abundant factor, but by their relative-abundant factor. Investment – 44% of the European Union budget went to CAP in 1997 (1997, EC, 12) – could be better spent on increasing the mobility of factors towards capital intensive industries.

Similarly, the argument that CAP reduces food prices in developing state markets is spurious. For one must understand *why* the price of food is so low. The artificial support brings down the world price, crashing the local market for domestic production while hobbling these same firms the chance to export to Europe. A fundamental disequilibrium in prices exists: developing state prices are too low, and European prices are too high. CAP’s distortion of markets makes all parties worse off.

Recall that Ricardo-Viner-Jones best explains the preference aggregation of the Common Agricultural Policy. One implication of this model is that factors are immobile. Hiscox notes that if all factors are mobile, a society is more likely to support a free trade regime than if factors are immobile. Since we have found that free trade is a public good that depends on public support, by locking in sector immobility, CAP increases the probability of future protectionism. Indeed, increasing factor mobility thus reduces the cost to provide free trade, while continuing the Common Agricultural Policy makes that guarantee more expensive.

The Historical Legacy of the Common Agricultural Policy

CAP inherits a peculiar and somewhat tarnished historical legacy. For while its policy is aimed at achieving different ends, CAP is not unlike the Import Substitution Industrialization policies prevalent in Latin America during the 1970s. Both policies seek laudable goals. Import Substitution Policies (ISI) sought the development of infant industries and a diversified, competitive global economy (Wade, 303). To achieve this goal, Import Substitution policies intervened in the market, delivering subsidies to key sectors of the economy in hopes that the increased investment would spur rapid growth. Resulting from a deteriorating terms of trade with respect mainly to the United States, ISI would, in two stages, reopen a country's economy to free trade on more equal terms.

The problem with ISI is that it proved to be financially unstable. Firms who received the subsidy failed to modernize and instead scarce capital was wasted on industries where the development of a competitive advantage was nearly impossible (Pinto, 26). Worse, once the system became empirically unsustainable, the mere knowledge of the fact could not change the policy. Because of domestic political constraints, it became difficult to end the subsidy program, and it was not until entire economies collapsed (*ibid*) that change became possible.

The Common Agricultural Policy is on a similar track. Like Import Substitution, the genesis of the policy was laudable: to sustain the "rural European way of life" in an age of competitive pressures. But by intervening in the market such that only a few interest groups would benefit, CAP created a system that makes the achievement of its original goal more difficult (farmers still exit the market, albeit more slowly).

The Common Agricultural Policy is structurally unable to achieve its legislative goals – intervention in the market will not prevent the slow erosion of the family farm, and the resulting subsidies (the costs of which will continue to increase dramatically) will more and more "support" agribusiness rather than Europe's pastoral legacy. Before its eventual demise, it will have eaten up resources that could have been better used on other projects. And most importantly, the CAP distorts

the gains from trade and inefficiently distributes resources: the market is distorted in poor countries and prices are too high in Europe.

The Prospects for the Common Agricultural Policy's Reform

In explaining the rise of free trade in England Charles Kindleberger (79) notes: "none of these [interest-group based] explanations seems free of difficulties as compared with an ideological explanation based on the intellectual triumph of political economists." We now know that CAP is empirically inefficient. Could successful reform of CAP be achieved in a similar way?

Recall that the end of ISI was preceded a period after the relevant actors concluded that the policy was no longer supportable. Simple knowledge of the policy's failure is not enough to end it. Indeed, Robert Putnam's two-level game metaphor argues that international agreements must be "ratified" twice: an agreement must be negotiated among the international-level negotiators and then supported by domestic constituents (Putnam, 434). This challenge reduces the win-set of policymakers, who must face off against powerful political institutions (*ibid.*, 448). Indeed, Putnam is pessimistic of the likelihood of agricultural policy change given the complexity of European "domestic" politics (*ibid.*, 436).

An effective strategy for poor countries seeking access to European markets, Putnam argues, is to propose a viable agreement at both the domestic and the international level. Given Europe's structural constraints, and the ferocity with which pluralist actors will guard their preferences, finding such a win set will be difficult.

The Ricardo-Viner-Jones model above (and the implied factor immobility) makes achieving a welfare-maximizing policy difficult. Recall that the creation of the Common Agricultural Policy was due to the successful manipulation of the European policymaking system by a marginally concentrated, well organized coalition. This coalition was able to negotiate an advantageous policy before the institutional, "democratic" decision-making structure of the European Union had evolved.

While it is possible that a more democratic structure could result in a broader factoral coalition, Eurostat, the European Union Statistics Office, reports that 57% of Europeans support the program. And because the benefits of collective action (lower food prices and a more equal distribution of wealth) are diffused and the costs are high, Alt predicts that organizing a successful coalition to change policy will be difficult (Alt, 329).

National governments are not likely to be any more helpful in seeking change. They, more so than European policymakers, depend on the median voter for continued support. Locked in Downsian competition, these actors' options are structurally inhibited from developing the collective good free trade. Both the Stopher-Samuelson Theorem and the

Ricardo-Viner-Jones Model predicate their models of actor interest aggregation on that group's size, organization, and level of interest. Since consumers in Europe and the poor around the world are hurt by CAP, would they not be able to overwhelm the narrow business coalition that created the policy? This is unlikely. Governments tend not to value the interests of world welfare in trade policy, nor do they respond positively to outside actors. Only a consumerist coalition within a state has the ability to deliver a policy change. But such a coalition has a large collective action problem: weak benefits, high free-riding incentives, and high collective action costs.

Après Moi, Le Deluge

In this essay I sought to understand the development of the European Common Agricultural Policy using the tools of positive political economy. I found that a pluralistic theory of preference formation, and particularly the Ricardo-Jones-Viner model can best explain the development of the policy. This policy inefficiently distributes resources, and is fundamentally unstable. However, prospects for reform are dim – for any international agreement must be ratified by domestic actors who are likely to oppose welfare-maximizing reform.

That said, all hope for agricultural reform is not lost. Implicit in Kindleberger's (82) history of the development of capitalism is the structural adjustments that preceded trade liberalization. The Reform Act of 1832 and the Cobden-Chevalier Agreements were immediately preceded by the Napoleonic Wars. The Bretton Woods Agreement was preceded by the Second World War. And most recent globalization was preceded by the end of the cold war. Given Europe's demographic crisis and its inability to sustain replacement fertility, eventual changes to the Common Agricultural Policy are certain. What is less certain is the system that will take CAP's place. Positive political economy theory suggests that unless an effective coalition of affected actors can be mustered to oppose the industry-agriculture sectoral coalition, any change will likely be inconsequential.

What is really needed is for the Ricardo-Viner-Jones model to no longer most effectively explain European agricultural policy. In the long term, there are no specific factors. Factories can be sold and converted to capital, farmers can learn new trades, and urban labor can develop new skills. A mobile factor society is more likely to support free trade and more likely to oppose the "bargain" that created the Common Agricultural Policy in the first place. When a factorial model of trade policy formation becomes more appropriate, more actors will be involved in the development of trade policy. Perhaps then the gains from free trade will be realized.

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About the Cover

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Notes

- ⁱ Because of the high dependence on Freidan and Lake's *International Political Economy*, I will shorten the standard citation of these articles to the contributing author only and the page that their article appears in Freidan and Lake.
- ⁱⁱ I use the term "regime" throughout the paper to describe the ideas, norms, structures, rules and actions that actors take in the international system. This definition draws on Moravcsik's formulation of the term.
- ⁱⁱⁱ I use this term here to indicate the preference for protection of one's own inefficient sector but free trade for the system as a whole such that the trade regime optimally benefits an actor.
- ^{iv} The Common Agricultural Policy was recently reformed to pay farmers for the amount of land they cultivate rather than for the amount of crops they deliver to market in an effort to reduce agricultural surpluses but this does not change the essential effect of the subsidy – to compensate economically inefficient farmers.
- ^v Daron Acemoglu (649) has found that the price supports and subsidy programs provide the maximum benefit to the pressure groups that advocated for protectionism in the first place. Price supports and subsidies encourage entry into the industry (or rather, in the case of European agriculture, slows the exit costs). While established firms in general would prefer a smaller sector (since a smaller sector allows firms more control over the market price), in an uncertain political system where the size of interest groups has an effect on its political strength, the utility gained by growing the sector outweighs the cost of increased price competition. And let us not forget that under the CAP the government has pledged to enter the market should the price fall outside a given range.

^{vi} An interesting digression from this analysis asks *why* the former colony states enjoy preferential trade agreements. Vladimir Lenin describes imperialism as the “highest stage of capitalism” in Frieden and Lake (Lenin, 14, Frieden and Lake 2nd Edition). Yet imperialism has ended and capitalism remains. An imperialist analysis of this relationship between the former colony and the former center would perhaps argue that Lenin’s statement still holds, albeit in a modified form. If Lenin’s analysis is correct, then the power relationship between these actors will eventually lead to the system’s collapse. While I find later in the essay that the current CAP system is verging on collapse, it is because of the fundamental instability of the policy rather than the imperialist relationship with client states.

More useful explanations for the center’s differential treatment can be found in Constructivist analysis. One interpretation of the difference in trade policy between former-colonial states and other states comes from the historical and contemporary identity-construction of the center state and the structural need to atone for the imperialist era. An alternative interpretation of the phenomena (also using constructivist analysis) would argue that the policy difference can be attributed to the construction of the center state as a “guardian” for its former colonies.

Patrick Peterson