Agricultural policy reform in the European Community: a three-level game analysis

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Since the beginning of the General Agreement on Tariffs and Trade (GATT) Uruguay Round the European Community (EC) has twice attempted to reform the Common Agricultural Policy (CAP), resulting in the February 1988 stabilizers reform package and the May 1992 MacSharry reform package. Curiously, these two attempts at reform resulted in vastly different outcomes. The 1988 reform was incremental in nature and functioned mainly as a stopgap measure. The 1992 reform, however, called for a shift from nontransparent consumer subsidies to transparent taxpayer subsidies. This shift represented a fundamental change in the philosophy underlying the CAP and laid the groundwork for an agreement in the Uruguay Round. This article examines the conditions under which this important policy shift occurred. It employs an interpretative case study method that demonstrates the empirical value of Robert Putnam's two-level game model when it is expanded to consider the simultaneous interaction of negotiations at three levels: the domestic level, the EC level, and the international level.[1] The study concludes that the power and heterogeneity of interest groups at various levels of the game matter, that the real and perceived costs of no agreement affect the degree of substantive reform, and, finally, that a three-level interactive strategy is important in achieving an acceptable agreement at each level of the game.

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1. For an explanation of how interpretative case studies use established theoretical propositions to explain specific events, see Lijphart 1971, 691–92; Przeworski and Teune 1970, 86–87; and Eckstein 1975, 93.

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The CAP has been the subject of much debate both domestically and internationally since its inception. It was established by the Treaty of Rome and incorporated a carefully crafted compromise between the French and the Germans, who both were determined to ensure that their domestic producers maintained the same advantages under the new Community-wide program that they had enjoyed under their respective national programs prior to the formation of the EC. As Hans von der Groeben summarizes them, the multiple and conflicting objectives of the CAP were to "increase agricultural productivity, to increase the individual earnings of persons working in agriculture, to stabilize markets, to safeguard supplies, and to ensure that supplies reach the consumer at reasonable prices."[2] Attempts to maintain all these objectives simultaneously resulted in a complicated system of border measures and subsidies that led to virtually uncontrollable overproduction. For example, between 1975 and 1986 the EC moved from being an overall net importer of agricultural produce to being a net exporter of cereals, sugar, wine, beef, and veal.[3]

This increase in production affected world agricultural markets in two ways. First, European overproduction caused agricultural supplies to increase faster than demand. This contributed to a precipitous drop in world prices and necessitated a rapid expansion in agricultural support programs. As *Agra Europe* reports, world wheat stocks rose by 70 percent in the early 1980s, and, as a result, world prices fell by over 44 percent between 1981 and 1986.[4] To maintain producer incomes, the aggregate level of support within the EC (that is, support from the Community, national government payments, and transfers from consumers) rose from an average of 30 billion European currency units (ECU) in 1979–81 to 59 billion ECU in 1986.[5]

Second, to reduce stocks, the EC had to increase export subsidies. In so doing, traditional, non-EC exporters of agricultural commodities lost world market share to the EC. As Alan Buckwell notes, "if these changes had come about because of the highly productive and competitive nature of European agriculture, citizens in Europe and abroad would have little to complain about. However, because the changes have been accompanied by a large and rapidly rising injection of public support, and because European Community agricultural prices are significantly (sometimes orders of magnitude) higher than those in competing countries, there has been a chorus of complaints against the European Community and the CAP."[6] As a result, agricultural exporting countries began to use more and more aggressive policies to maintain market share, and the number of agricultural trade disputes grew geometrically throughout the 1980s. The existing GATT rules were incapable of resolving many of these disputes. Consequently, in 1986 the United States and the Cairns group (composed of Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and

2. von der Groeben 1985, 71.
3. Buckwell 1991, 228.
4. *Agra Europe* 1991, 9.
5. Ibid., 12.
6. Buckwell 1991, 231.

Uruguay) led the GATT contracting parties to place agricultural reform prominently on the agenda of the Uruguay Round.[7]

Since 1986, the Commission of the EC has attempted two major reforms of the CAP to deal with the problem of overproduction: the February 1988 stabilizers package and the May 1992 MacSharry reform package (named for Agriculture Commissioner Ray MacSharry, who had initiated the reform package). Prior to the passage of the 1992 reform package, farm income levels were supported primarily through the maintenance of the variable levy system. Under this system agricultural imports were subjected to a levy equal to the difference between the world price and the EC price of the product. This levy system ensured that EC producers maintained a monopoly over the EC market and that consumers paid much of the burden of agricultural support through higher food prices.

The stabilizers reform package set production ceilings for all major crops. When production exceeded these ceilings, producers were forced to pay price penalties, called "coresponsibility levies." However, the production ceilings were set at a very high level, the penalties were low, and the fundamental nature of the CAP remained unchanged. The stabilizers package was, therefore, an incremental and largely unsuccessful reform package.

The 1992 MacSharry reform package, in contrast, initiated a shift from nontransparent consumer subsidies to more transparent taxpayer subsidies by introducing a direct compensation program much like agricultural support programs in the United States. Direct compensation programs are, for the most part, funded through the national budget (or in the case of the EC through the Community budget) and hence are open to scrutiny and reevaluation on a regular basis. This increase in transparency represents a fundamental shift in agricultural support programs in the EC. European farmers are justifiably worried that taxpayers will demand a reduction in agricultural support levels when they see how much of their tax money supports inefficient agricultural production. For this reason, the MacSharry reform package has the potential to lead to deeper and more far-reaching agricultural reforms in the future.

Why was the EC's Council of Agriculture Ministers able to adopt a radical new initiative in May 1992 when it failed to achieve anything more than an incremental change in February 1988? Many of the theoretical frameworks traditionally used to analyze the European Union (EU), such as supranationalism and intergovernmentalism, while necessary, are not sufficient to explain this change.[8] (It should be noted that the name European Union {EU} superseded the name European Community {EC} in popular usage after the Treaty of European Union was signed in 1992.)

Intergovernmentalism was heavily influenced by Stanley Hoffman's observation that the individual member states of the EC retained a great deal of power over crucial policy decisions.[9] Consequently, intergovernmentalists argue that the adop-

7. For a detailed history of agriculture negotiations in the GATT prior to the Uruguay Round, see Paeman and Bensch 1995, chaps. 1 and 2.

8. For an excellent historical analysis of the development of several theoretical frameworks used to analyze treaty and policymaking in the EC, see Caporaso and Keeler 1995.

9. Hoffman 1966.

tion of treaties on which the EU is based can best be explained by interstate bargains between leading member states, lowest-common-denominator bargaining, and rigid issue-areas that are subject to change only through further interstate agreement.[10] Andrew Moravcsik, in his 1991 study, concludes that intergovernmental institutionalism resulted in the passage of the Single European Act (SEA), which grew out of national policy preferences primarily in France, Germany, and the United Kingdom. Geoffrey Garrett came to a similar conclusion in his study of the SEA. Garrett acknowledged the influence of EC institutions. However, in the final analysis he found that the economic rules and political institutions governing the agreement reflected the preferences of the most powerful countries in the EC.[11]

In 1993, Moravcsik built on his earlier analysis by refining his theoretical framework of interstate bargaining and institutional compliance and by adding an explicit theory of national preference formation drawn from liberal theories of state-society relations. Moravcsik called this revised theoretical framework "liberal intergovernmentalism." He concluded that major decisions in the history of the EC take place in a two-stage process. First, national preferences are determined by the constraints and opportunities imposed by economic interdependence. Second, "the outcomes of intergovernmental negotiations are determined by the relative bargaining power of governments and the functional incentives for institutionalization created by high transaction costs and the desire to control domestic agendas."[12] It should be noted that Moravcsik and Garrett both focus primarily on the influence of domestic politics on treaty formation rather than on policymaking.

Supranationalism was influenced by neofunctionalist theory, which grew out of the studies of regional integration done by Ernst Haas in 1958 and Leon Lindberg and Stuart Scheingold in 1970. Supranationalists focus on transnational interest groups, supranational officials, logrolling and linkages that upgrade the common interest of member states, and fluid issue-areas and spillover effects to describe the process of integration and the adoption of important treaties.[13] Wayne Sandholtz and David Cameron both have focused on the supranational impact of EC membership on Community decision making. For instance, Sandholtz argued that while domestic politics were important to countries in agreeing to the treaty on European Monetary Union, they were insufficient to explain the treaty. Rather, spillover from the 1992 initiative to create a single market, European Monetary System politics, and the search for credible commitments "demonstrated that EC institutions and policies can influence the formation of national preferences."[14] Cameron explored the United Kingdom's decision to exit the EC's exchange rate mechanism (ERM) and France's decision to stay in the ERM during the 1992–93 crisis by looking at domestic politics, modified structural realism, and international regime theory as possible explanations. He found that neither domestic politics nor modified structural

10. Moravcsik 1991.
11. Garrett 1992.
12. Moravcsik 1993b, 517 in particular.
13. Moravcsik 1991, 46.
14. Sandholtz 1993.

realism provided a complete explanation for the contrasting responses. Rather, the long history of cooperation between France and Germany and "the internationalization of norms and transformation and convergence in preferences" accounted for France's decision to remain loyal to the regime despite the apparent political and economic costs involved in doing so. The United Kingdom, lacking an equal commitment to this Community regime, exited the ERM during the crisis.[15]

Explaining treaty formation and membership in policy regimes in the EU is somewhat different, however, from explaining why policy shifts occur in well-established policy areas. Long before the most recent round of theoretical debate between supranationalists and intergovernmentalists, Carole Webb argued that "neo-functionalism and 'pure' intergovernmentalism were too static, narrow, and therefore, unconvincing in their institutional focus and their understanding of the political context for Community policy making." She argued that the policy analyst must take into account the complexities of the domestic environment both within and especially across member states.[16] This critique has been adopted as the foundation for two separate research programs.

The first program consists of work that is derived from but modifies either the traditional intergovernmental or supranational approach. For instance, Geoffrey Garrett and George Tsebelis, Gary Marks, and Thomas Risse-Kappen all have critiqued intergovernmentalism.[17] Garrett and Tsebelis have focused on the importance of day-to-day decision making in the Council of Ministers and have refined Madeleine Hosli's power index analysis of possible winning coalitions in the Council of Ministers by taking into account the effective influence of different countries and the institutional structure of the EU.[18] The shortcoming of Garrett and Tsebelis's approach, however, is that although they discuss the policy preferences of member states in the abstract they do not adequately address the domestic sources of these policy preferences. In other words, they focus their entire analysis on decision making at the EU level. Marks argues that analysis of EU policymaking should go beyond highly visible member state bargaining. In the area of structural policy, he finds a system of multilevel governance that involves continuous negotiation among several tiers, including the supranational, national, regional, and local.[19] Risse-Kappen takes yet a different approach. He states that it is more interesting "to ask how interstate relations (Council of Ministers and European Council), supranational bodies (Commission, European Parliament, European Court of Justice) and the transnational/transgovernmental (the 'comitology' as well as interest group lobbying) interact to form the particular institutional structure of the EU."[20] Risse-Kappen argues that although intergovernmental bargaining may still exist, many EU decisions are influenced by communicative action and discursive policy deliberation.

15. Cameron 1993, 74.
16. Webb 1983, 38.
17. See Garrett and Tsebelis 1996; Marks 1993; and Risse-Kappen 1996.
18. See Hosli 1993; and Garrett and Tsebelis 1996.
19. Marks 1993.
20. Risse-Kappen 1996, 58.

He states that deliberative processes tend to occur in those areas in which policy is formulated in highly institutionalized settings that are characterized by interlocking politics.[21] In this sense, he moves much closer to some of the arguments made by the institutionalists.

The second research program grows out of the comparative politics literature. These scholars have essentially abandoned the intergovernmental–supranational debate in favor of focusing on how the institutional structure of the EU determines policy outcomes. For instance, Alberta Sbragia focuses on the federal-like characteristics of the EU. She states that

> Intergovernmentalism neither describes nor explains the context within which intergovernmental bargaining takes place. A focus on governmental bargaining cannot explain, for example the critical role often played by the Commission in setting the agenda and the European Court of Justice in shaping the legal framework so important to the policy process. Neofunctionalists with their focus on the Commission and transnational and functional elites find it easier to explain the context but not the process of decision making in the Council of Ministers in which national ministers bargain so as to protect their national interests.[22]

She argues that the EC balances territorial claims from regionally distinctive interests, such as governments, with nonterritorial claims made by functional interest groups, such as farmers, business, and laborers. Peter Ludlow focuses on the dual importance of the Council of Ministers and the EC Commission and argues that "the adversarial model of Commission-Council relations is seriously misleading" and that the two often work together to accomplish various policy initiatives.[23] Giandomenico Majone focuses on the type of policy made in the EU and has argued that the institutional structure of the EU itself has made it a regulatory state.[24] Whereas intergovernmentalists have erred by focusing almost exclusively on the adoption of treaties and placing too much emphasis on the role of domestic politics as they are translated through the Council of Ministers, institutionalists have erred by focusing too closely on the interactions of the various EU institutions, hence excluding the influence of domestic politics. Furthermore, neither of these research programs has adequately discussed the influence of the international economic system on EU policymaking.

Sandholtz and John Zysman did examine the influence of the structural change in the international economy on the revival of the European project and the launching of the 1992 initiative. They argue that "structural situations create the context of choice and cast up problems to be resolved, but they do not dictate the decisions and strategies. . . . The choices result from political processes and have political explanations."[25] International organizations such as the GATT have been developed

21. Ibid., 71–72.
22. Sbragia 1993, 26.
23. Ludlow 1991, 86.
24. Majone 1992.
25. Sandholtz and Zysman 1989, 127.

to deal specifically with some of the structurally induced policy problems in the area of world trade. Unfortunately, the influence of such international organizations on EU policymaking has been underexplored to date.

To sum up, many analysts have focused their attention on the importance of domestic concerns and politics and how these are translated through the Council of Ministers and thus come to affect EU policy. Others have rightfully argued that the Council of Ministers is only one part, albeit a powerful one, of the policy-setting framework of the EU. Still others argue that EU policymaking takes place in an international context and that analysts should therefore take into account international pressures on the EU. Unfortunately, few have attempted systematically to combine these three levels of analysis (domestic, EU institutional, and international) into a single framework for analyzing policy shifts in the EU. This article attempts to do so by expanding Putnam's two-level game model to three levels. As Putnam notes with respect to two-level games, "interpretations cast in terms either of domestic causes and international effects ('Second Image') or of international causes and domestic effects ('Second Image Reversed') would represent merely 'partial equilibrium' analyses and would miss an important part of the story, namely how the domestic politics of several countries became entangled via an international agreement."[26]

The framework for analysis

Putnam describes the players in a two-level game in the following way. At the national level of the game "domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians are seeking power by constructing coalitions among those groups." At the international level, Putnam argues that "national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments."[27] However, in the case of the EC, there is an additional level of play, the Community level, in which member states attempt to achieve domestic goals while simultaneously pursuing cooperative integration. Thus the unique structure of the EC requires that Putnam's two-level game be expanded to a three-level interactive game in which negotiations at the domestic, Community, and international levels affect policy options at each of the other levels.

To accommodate this additional level, it is necessary to reorder Putnam's categorical description of levels. Throughout the GATT negotiations, the EC presented a single negotiating position in the various negotiating groups and to third countries such as Japan and the United States.[28] Thus, the EC was acting as a federal-like polity seeking to maximize benefits and minimize costs.[29] Therefore I

26. Putnam 1988, 430.
27. Ibid., 434.
28. For an excellent analysis of the tensions between the Commission and the Council with respect to the EC's negotiating positions in the Uruguay Round, see Woolcock 1996.
29. For a more extensive discussion of the federal-like characteristics of the EC, see Sbragia 1992.

will refer to negotiations at the GATT level as "international negotiations" (Level I); negotiations at the EC level, as "Community negotiations" (Level II); and negotiations within member states, as "domestic negotiations" (Level III). Of course the EC does not always negotiate as a single polity in the international arena; however, it is doing so more and more in the areas of trade and the environment.[30] Consequently, Moyer uses a similar three-level framework in his study of the evolution of the EC's negotiating position in the Uruguay Round agricultural negotiations.[31] In some cases, global negotiations play no role in EC policy formation. Thus alternative case studies may find a different typology of negotiating levels to be appropriate. For instance, Dale Smith and James Lee Ray use a five-level framework to examine negotiations concerning the 1992 initiative to create a single market.[32]

The characteristic of Putnam's framework that renders it both fascinating and conceptually complex is the idea that negotiations do not proceed in a linear fashion from one level to the next but instead occur simultaneously at all three levels. What happens at one level of the negotiation "reverberates" at the others. This reverberation means that strategies and outcomes at different levels of the game simultaneously affect one another. As Putnam notes, "the political complexities for the players in this . . . game are staggering. Any player at the international table {or at the Community table} who is dissatisfied with the outcome may upset the game board {by failing to ratify the agreement}, and conversely any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat."[33] Putnam goes on to say that "if national preferences were exogenous from the point of view of international relations, then the domestic political game could be modeled separately, and the 'outputs' from that game could be used as the 'inputs' to the international game. . . . But if international pressures reverberate within domestic politics, or if issues can be linked synergistically, then domestic outcomes are not exogenous and the two levels {in this case three levels} cannot be modeled independently."[34] Because domestic coalitions affect the passage of Community agricultural policy and Community agricultural policy affects world markets, and because world market conditions affect domestic coalitions and Community agricultural policy, the policy shift that occurred in 1992 can be explained only by changes that occurred simultaneously at several levels of the game.

Putnam, in essence, calls for combining subsystemic and systemic levels of analysis. Ever since J. David Singer's seminal article on the pros and cons of using systemic or subsystemic analysis was published, international relations theorists have debated the benefits of each approach.[35] Both security studies scholars and international political economists, however, are beginning to recognize that combining levels of analysis can often provide more accurate, contingent explanations for

30. See, for example, Sbragia 1996; and Jupille and Caporsa 1996.
31. Moyer 1993.
32. Smith and Ray 1993.
33. Putnam 1988, 434.
34. Ibid., 456.
35. Singer 1961.

policy change.[36] This approach, however, by definition, limits the generalizability and parsimony of the resulting explanations. Evans, Jacobson, and Putnam edited an excellent volume, which contains a series of security and political economy cases that explore the role of two-level games in policy formation. The introduction written by Moravcsik provides an extensive discussion of the level of analysis problem and what happens when various assumptions are relaxed.[37]

In general, Putnam argues that conflicts are resolvable in a two-level game only when the win sets of those involved in the conflict overlap. Putnam defines a win set in a two-level game for a given Level II constituency as the set of all possible Level I agreements that would "win," that is, gain the necessary majority among the constituents when simply voted up or down.[38] We can adjust this definition slightly to account for three levels (using the above-noted typology of levels) by adding that the win set for a given Level III constituency is the set of all possible Level II agreements that would gain the necessary majority among constituents.

According to Putnam, the size of the win sets is affected by three main factors. First, the size "depends on the distribution of power, preferences, and possible coalitions among Level II constituents."[39] (When the analysis is expanded to three levels, power, preferences, and possible coalitions among both Level II and Level III constituents as previously defined must be considered.) Putnam argues that the more heterogeneous the conflict, the more likely it is that the government will be able to strike a deal internationally.[40] He defines heterogeneous conflict as factional conflict and argues that "a government that is internally divided is more likely to be able to strike a deal internationally than one that is firmly committed to a single policy."[41] Richard Walton and Robert McKersie define factional conflict as internal conflict that may develop quite apart from the particular position taken by the opponent. In other words, two elements of a negotiator's organization may send him or her incompatible demands or roles.[42]

All advanced industrial states have heterogeneous economies and consequently a variety of interest groups. However, certain interest groups may exert more policy power due to geographic constraints of election districts or their ability to organize in defense of certain issues. Consequently, politicians often must respond to and negotiate on behalf of a more homogeneous set of demands. Both H. Wayne Moyer and John Keeler have found that farmers in the member states (particularly in France and Germany) have political power disproportionate to their numbers.[43]

36. See Odell 1982, 17–78 and 344–76; Rosenau 1969; Checkel 1993; Mendelson 1993; and Haggard and Simmons 1987. For further examples of two-level games as they apply to agricultural negotiations in the Uruguay Round, see Paarlberg 1993; Rapkin and George 1993; Moyer 1993; and Cooper and Higgott 1993.
37. Evans, Jacobson, and Putnam 1993.
38. Putnam 1988, 437.
39. Ibid., 442.
40. Ibid., 445.
41. Ibid.
42. Walton and McKersie 1965, 288.
43. See Moyer 1993, 104; and Keeler 1996.

Putnam also states that the size of the win set depends on the cost of no agreement to constituents. The lower the cost of no agreement, the smaller the win set.[44] With respect to CAP reform, the real cost of no agreement will be discussed in budgetary terms to the EC as a whole and to the member states who are net contributors to the CAP. The cost to the world economy of a breakdown in the Uruguay Round will also be considered. Finally, there is another element of cost: namely, the perception of politicians of the political cost of no agreement. Perceived costs are by nature difficult, if not impossible, to quantify. They have an economic aspect that may reflect certain beliefs about whether estimated real costs are accurate, but they also involve a personal calculation about how reaching an agreement or the failure to do so will affect a politician's overall political standing.

Second, the size of the win set depends on Level II political institutions.[45] (When expanded to three levels one must consider both Level II and Level III institutions.) Of primary importance are ratification procedures and the autonomy of central decision makers from their constituents. In the area of agriculture, member states have traditionally taken decisions by unanimous vote even when a qualified majority would have been acceptable under the Treaty of Rome. As Keeler notes, "the mere possibility of a veto has normally assured that only incremental adjustments to the CAP be seriously considered."[46]

Third, the size of the win set depends on the strategies of the negotiators.[47] For instance, the larger the initial win set, the more likely it is that an agreement can be reached but also the more difficult it may be to ratify the agreement at the domestic level. The smaller the win set, the greater the chance that a country will get exactly what it wants because it has limited negotiating latitude but the greater the risk that the negotiation will break down altogether.

Thomas Schelling's definition of "strategy" is useful here. He argues that strategy "takes conflict for granted, but also assumes a common interest among adversaries; it assumes a 'rational' value-maximizing mode of behavior; and it focuses on the fact that each participant's 'best' choice of action depends on what he expects the others to do, and that 'strategic behavior' is concerned with influencing another's choice by working on his expectation of how one's own behavior is related to his."[48]

Putnam's framework builds upon several previous works on negotiating theory and strategy. For example, Howard Raiffa explores negotiations involving more than two parties, parties who are not monolithic, repetitive games, linkage effects, ratification requirements, and time constraints.[49] Walton and McKersie discuss how the chief negotiator is often the recipient of two sets of demands, one from across the table and one from the negotiator's own organization.[50] And, Fred Charles Iklé

44. Putnam 1988, 442.
45. Ibid., 448.
46. Keeler 1996, 137.
47. Putnam 1988, 450.
48. Schelling 1960, 15.
49. Raiffa 1982.
50. Walton and McKersie 1965.

discusses the influence of domestic politics on international negotiations.[51] Putnam combines and extends this work by creating a framework that explores how policy outcomes are affected by the entanglement of domestic factors and international affairs.

This article will show that agricultural policy reform was possible in 1992 because Germany was more internally divided between competing interests in 1992 than in 1988. Consequently, Chancellor Helmut Kohl was able to act with a greater degree of autonomy vis-à-vis German agricultural lobbies in 1992 than in 1988. Furthermore, the cost of no agreement at all levels was greater in 1992 than in 1988. In addition, MacSharry was able to operate with some degree of autonomy in his role as commissioner of agriculture. This allowed him to utilize a strategy of playing off negotiations in Geneva and Brussels against each other, thus solidifying CAP reform and contributing to the conclusion of the GATT agricultural negotiations.

The 1988 stabilizers reform package

In late 1987, the EC was engaged in two negotiations to reform agricultural policy, the Uruguay Round agricultural negotiations at the international level (Level I) and the CAP reform negotiations at the EC level (Level II). Both sets of negotiations were initiated to deal with the production and expenditure explosions of the 1980s that had resulted from overexpansionist agricultural policies in the EC and the United States in the 1970s.

Level I negotiations in early 1988

The Uruguay Round of the GATT negotiations commenced in September 1986. The contracting parties to the GATT included agriculture in the negotiations in an attempt to create some rules for handling the ever-increasing number of agricultural trade disputes. EC decision makers, defending the highly protectionist CAP, only reluctantly agreed to this inclusion. Their renitency was overcome only when rapidly escalating farm subsidy costs in the mid-1980s threatened to break the EC budget.[52]

The United States believed that the agricultural system could be reformed in two or three years, thus providing an "early harvest" for the overall round. Progress in the Agriculture Negotiating Group was slow, however. By early 1988, countries were still formulating their initial negotiating positions. Steven Woolcock and Michael Hodges argue that the U.S. radical "zero 2000" proposal submitted to the Uruguay Round Agriculture Negotiating Group in July 1987, which would have eliminated all agricultural subsidies, "had the intended effect of raising the political stakes on agriculture but also the unintended effect of allowing the EC the luxury of avoiding serious discussion on a 'credible' level of subsidy reductions. The EC simply

51. Iklé 1962.
52. See Moyer 1993, 95; and Rieger 1996.

responded that the subsidies be frozen at existing levels."[53] Therefore little progress had been made by February 1988.

A midterm review had been scheduled for December 1988, but in reality it provided little pressure to accomplish CAP reform as early as February. At that time countries were still establishing their initial negotiating positions. In fact, the GATT parties did not reach a midterm agreement on agriculture until April 1989. The U.S. submitted the first comprehensive agricultural proposal, which included details of how international reform would be accomplished, only in October 1989. Furthermore, the GATT agriculture group was not the only negotiating group that failed to make substantial progress by the midterm review. As Hugo Paeman and Alexandra Bensch note, the consensus on six of the eleven subjects on which consensus was reached was a rather flimsy affair, and no consensus was reached in the textiles, intellectual property, or safeguards negotiating groups.[54] All in all, there was little pressure on the EC to reform substantively the CAP in the period leading to the midterm review. However, the EC did believe that any reform made at the Community level would indicate that it was serious about reforming the GATT, and most important, it believed that any reform would have to be taken into account in the final GATT agreement.

Level II negotiations in 1988

In contrast to the international level, in 1988 the need for CAP reform at the EC level was urgent. As mentioned above, in 1979–81, average agricultural expenditures were 30 billion ECU. By 1986 budget expenditures had reached 59 billion ECU.[55] The 1984 Fountainebleau agreement, in an attempt to stabilize agricultural expenditures, limited the increase in agricultural spending to 2 percent a year. Expenditures, however, continued to rise at more than 18 percent a year because the agreement provided no incentive for individual farmers to cut back production—nor did it force them to do so—and the Community continued to buy all of the excess supply.[56] This resulted in an illegal 4 to 5 billion ECU budget deficit in 1987, which was concealed through clever accounting. As Wayne Moyer and Tim Josling note, "the growth in agricultural spending had prevented other Community programs from developing and had exhausted all available revenues. . . . Unless something was done to lower CAP cost and/or increase revenues, funds would run out sometime in 1988 and the European Community would not be able to meet its obligations."[57] Continued accounting tricks could not resolve the underlying and ever-worsening structural problem with the CAP. Hampering the ability to come up with creative reform proposals was the fact that average farm income continued to decline despite

53. Woolcock and Hodges 1996, 310.
54. Paeman and Bensch 1995, 126–38.
55. U.S. Department of Agriculture 1992, 14.
56. Moyer and Josling 1990, 79.
57. Ibid.

increased CAP expenditures, the majority of which went to exporters and toward maintaining the ever-increasing government stocks.

Level III negotiations in 1988

The importance of domestic politics in determining the contours of the win set at the Community level cannot be overemphasized. Both Kohl of Germany and François Mitterrand of France were facing important elections in 1988. Political analysts expected agricultural lobby groups, which were fairly homogeneous in their support for the status quo, to play an important role in determining the outcome of these elections. Therefore, despite the fact that both France and Germany already were net contributors to the EC budget (in 1988 Germany's contribution to the EC budget was about 4 billion ECU; Britain's post rebate, was 1.4 billion; and France's was 1.1 billion), Mitterrand and Kohl were under extreme pressure to reach an agreement at the EC level that would not be deterimental to their domestic agricultural producers.

In 1988, Kohl's Christian Democratic Union (CDU) party was facing important Land elections in Baden-Württemburg and Schleswig-Holstein, two districts in which the agricultural vote was very important and in which the CDU had been wracked by political scandal.[58] Traditionally, the CDU/Christian Social Union (CSU) had enjoyed a strong relationship with the Deutscher Bauernverband (DBV, German Farmers' Union), with farmers delivering nearly 80 percent of their vote to the CDU/CSU.[59] The DBV had also enhanced its influence by taking advantage of delicate coalition balances in German politics.[60] Consequently, as Gisela Hendriks notes, "Christian Democrats have not been interested in forcing a more efficient farming sector; rather they have been more oriented towards the preservation of farmers as a solid voting reservoir."[61] The dependency of the CDU/CSU on the farm vote placed Kohl in a precarious position with respect to agricultural reform.

Kohl was well aware of the impact that farmers could have on election outcomes. For example, during the European Parliament election in 1984, two and a half months after the controversial decision to introduce a milk quota system, the CSU lost 708,000 votes. Later, during the 1987 general election, a period of financial restraint and institutional price freezes, the CDU lost 254,000 votes; 110,000 of these votes were lost in rural areas. As Hendriks notes, "It must, therefore, be concluded that *drastic* reform measures will, in fact, have a detrimental impact on the farm electorate. Also, it is probably true to say that the CDU/CSU *believed* that the party would lose farm votes if it were to ignore the interests of the agricultural sector."[62]

58. "Hopes for EC Budget Resolutions May Be Thwarted by Elections," *Financial Times,* 7 December 1987, 1.
59. Keeler 1996, 141.
60. von Cramon-Taubadel 1993, 395.
61. Hendriks 1991, 93.
62. Ibid., 94, emphasis original.

Although something had to be done quickly to bring the budget under control, large agricultural price cuts were simply unacceptable—especially since West German farm incomes had already suffered as a result of the strong deutsche mark. In the final analysis, the cost of a major agricultural reform in terms of loss of support from farm groups appeared to be too great, especially since the CDU/CSU believed it would receive no counterbalancing gain in support from other groups.[63]

Thus Kohl's primary concern in the stabilizers negotiations was to protect his party's interests in the upcoming elections.[64] His determination to protect German farmers from price cuts was well known by the other member states because he had strategically vetoed a decision by the Council of Ministers to lower institutional prices in the cereals sector in 1985. As Hendriks explains, at that time "the German veto was of exceptional gravity because it took place on the eve of the European Council meeting in Milan, which was to call an intergovernmental conference with a view to negotiating a draft treaty for European union. Bonn's role in this event was crucial, since the FRG {Federal Republic of Germany} is the strongest advocate of European Union and was a fervent promoter of institutional reform."[65] The 1985 veto indicated that Kohl placed German agricultural interests above other German interests—even those that stood to gain from a European union. There was little reason for the other member states to believe that Kohl's commitment to protect German agricultural producers had diminished.

The French situation in late 1987 was somewhat more complicated. On one hand, France is a more efficient producer of agricultural products, especially cereals, than Germany, and the high cereal prices established under the CAP have resulted in a loss of French market share within the EC to less efficient German producers. On the other hand, Mitterrand was facing a presidential election in five months and was anxious to forestall a strong challenge from Raymond Barre.[66] Mitterrand and Jacques Chirac believed that the agricultural vote would play a crucial role in the election outcome. As Moyer and Josling note, although "France had become a net contributor to the EC budget with a large component of efficient farmers and perhaps could absorb a price cut, even a conservative government could not overcome a strong French tradition that agricultural policy should serve social purposes."[67] Thus the French were reluctant to embark on a radical agricultural reform initiative.

In contrast, Margaret Thatcher had to answer to a more heterogeneous set of lobby groups. Agriculture in the United Kingdom underwent a vast structural change as a result of both the enclosure laws and the repeal of the corn laws. Consequently, agricultural producers in the United Kingdom tend to be among the most efficient in the Community.[68]

63. Moyer and Josling 1990, 87.
64. "Hopes for EC Budget Resolutions May Be Thwarted by Elections."
65. Hendriks 1991, 100.
66. "Plodding Barre Upstages Chirac in Presidency," *Financial Times,* 3 December 1987, 3.
67. Moyer and Josling 1990, 92.
68. Ibid.

Therefore, both the nature of the farm lobby and its relationship with the British government are somewhat different than in France and Germany. First, because of its farmers' relative efficiency, the British farm lobby has consistently argued for rationalizing the CAP in a manner that would allow Community producers to respond to world price signals. The United Kingdom tends to view its contributions to the EC budget as a mechanism by which it is forced to contribute to the support of its farmers' less-efficient competitors. At the same time, it should be noted that the CAP assures British farmers of a market for their produce. Second, as Moyer and Josling note, in the United Kingdom "the farm lobby is cohesive and the relationship with the ministry close, but the government attributes little importance to agriculture and the agriculture minister does not usually appear to be an important figure in the Cabinet."[69]

As *The Economist* reported, in the period immediately preceding the stabilizers negotiations, Thatcher took the position that "setting tough limits on farm spending had to be a condition for agreeing to any increase in the total budget, and . . . if the way the national contributions were calculated was to change, she insisted that Britain end up no worse off than under the existing rebate system."[70] Interestingly, this last condition can be viewed as a fallback position. Other member states understood from the way these two conditions were put forth that although the United Kingdom advocated agricultural price reform, if this failed, under no circumstances should the United Kingdom be made worse off by an agricultural agreement. The bottom line was that the United Kingdom wanted the budget crisis resolved. Only then could the EC move forward with the 1992 internal market program that would benefit so many British industrial producers and service industries. The heterogeneity of lobby groups in the United Kingdom meant that it had a wider win set and thus greater maneuverability.

Reaching agreement on the stabilizers package

The agriculture ministers in the member states who form the Council of Agriculture Ministers at the Community level are the link between Level III and Level II negotiations, because they represent national interests at the EC level and must approve any EC agricultural reform package.[71] The Agriculture Council traditionally has taken decisions by unanimous vote even though the Treaty of Rome allows qualified majority voting.

The stabilizers debate in the Agriculture Council focused on the philosophical question of whether reform of the CAP should be based on budgetary considerations as supported by Denmark and the United Kingdom or on sociocultural ones as supported by Belgium, France, Germany, and the Mediterranean countries. In keeping with its philosophy, the United Kingdom proposed a 15 percent price cut for

69. Ibid., 46.
70. "A Suitable Rock to Founder On," *The Economist,* 28 November 1987, 49–50.
71. For more information on the EC Council of Ministers, see Wessels 1991.

cereals in years when production was in excess of an established ceiling level (referred to as the maximum guaranteed quantity; MGQ), and they argued that producers should pay a tax (called a coresponsibility levy) to help defer the cost of storage and export subsidies. The United Kingdom further proposed to set the MGQ at 155 million metric tons—the amount of total cereal production in the EC in 1987. This limit would essentially lock in support at the 1987 production level. The British position conflicted with German and French proposals, which stated that price cuts should reach a maximum of 3 percent and that the ceiling on grain production be set at 165 million metric tons. This ceiling would allow for a 6 percent increase in production over the already unsustainable 1987 levels before penalities would be applied. In essence, the French and German proposals suggested that price supports (and therefore consumer costs) be maintained at current levels and that producers suffer only marginal penalties for going over the MGQ.[72]

Denmark held the presidency of the Council of Ministers in late 1987 but the Danish minister of agriculture was unable to broker a deal between the competing coalitions, and no agreement was reached by the end of 1987. At that time, the British and Dutch governments made it clear that they would not consider giving any additional resources to the EC until agricultural spending was brought under control.[73] The Commission also increased the pressure on the Agriculture Council to reach an agreement on reform by taking the member states to the European Court of Justice for not producing a 1988 budget. In addition, the Commission threatened to cut off intervention payments if the Agriculture Council did not agree on budget stabilizers in February.[74] However, the Commission realized that future prospects were not promising for a meaningful agreement, because West Germany was scheduled to take over the presidency of the Council of Ministers in January 1988.

Given the norms of the Community, however, taking over the Council presidency often changes a country's priorities. As Moyer and Josling note, "Chancellor Kohl, as President of the European Council in a time of crisis for the European Community, had to produce an agreement to protect his leadership credibility both at home and abroad. He thus had the incentive to make compromises on agricultural and other questions which might have been politically unacceptable at any other time."[75]

When the final agreement was struck in February 1988, France and Germany were successful in achieving, among other things, a maximum 3 percent price cut for cereals and coresponsibility levies that took effect only when cereal production exceeded 160 million tons. Because the ceiling was set at such a high level, agricultural economists estimated that no savings would result from the agreement until 1990, if at all.[76] To pay for this continued high expenditure level, Germany agreed to contribute an extra 5 billion ECU ($6 billion) to the EC budget over a

72. U.S. Department of Agriculture 1989, 93.
73. Moyer and Josling 1990, 94.
74. Ibid.
75. Moyer and Josling 1990, 95.
76. *Agra Europe,* no. 1274, 19 February 1988, P/1.

five-year period, representing a 30 percent increase in their net annual budget contributions.[77] As Moyer and Josling summarize, in the end

> West Germany got credit for forging the agreement and could claim success for . . . minimizing the cuts in farmers' incomes. France could argue that the welfare of French farmers had been protected by the infusion of new funds into the CAP and that the potential damage of stabilizers had been limited. The UK and the Netherlands won limitations on agricultural spending plus price cuts for overproduction. The Mediterranean nations received large increases in regional, structural, and social funds. The Commission attained new revenues to keep the European Community solvent . . . {and} all the participants benefited in that the movement towards the single European market could proceed smoothly.[78]

Synergistic linkages and reverberation among negotiation levels

Both synergistic linkages and reverberation among negotiation levels affected the final stabilizers agreement. Putnam defines synergistic linkages as the type of issue linkage at the international level (and in this case, the Community level) that alters the feasible outcomes at the domestic level.[79] Reverberation implies that international pressure expands the domestic win set and facilitates agreement. (It should also be noted that reverberation can be negative in the sense that it can lead to a domestic backlash. This occurs most frequently if the source of the pressure is viewed as an adversary rather than an ally.)[80]

The stabilizers agreement, albeit a relatively incremental reform package, was achieved for the following reasons. First, from a domestic (Level III) perspective, even though France and Germany had relatively limited win sets, the contours of which were set by strong and vocal farm lobbies, their win sets overlapped. The United Kingdom had a larger win set as a result of a more heterogeneous set of domestic interest groups. This provided grounds for negotiation. As *Agra Europe* concluded, "The British government sold out its half-hearted objective of CAP improvement in return for more important gains to British industry, banking, insurance, and other service industries" that could then be assured of the continued smooth progress toward the completion of the internal market.[81] Thus, the United Kingdom agreed to the reform primarily because of its implications for resolving other issues at Level II.

Second, the Commission raised the cost of no agreement by taking the member states to the European Court of Justice for failing to produce a 1988 budget. By so doing, they raised the crisis level and placed increased pressure on the Council of Ministers to resolve the budget crisis.

77. "EEC Summit: The Lady Turned, *The Economist,* 20 February 1988, 50.
78. Moyer and Josling 1990, 97.
79. Putnam 1988, 447.
80. Putnam 1988, 456.
81. *Agra Europe,* no. 1274, 19 February 1988, P/1.

Third, despite domestic agricultural interests in Germany, taking over the presidency of the Council in January placed Germany under pressure to broker a deal that would resolve the budget crisis at the Community level (the Level II game). Thus the structure of Level II institutions forced Kohl into a position that he may not have taken otherwise. To meet objectives at both Level II and Level III of the game, Germany's strategy was to increase its budget contributions by ECU 5 billion. This allowed all the member states to ratify the Level II agreement, and it satisfied the Commission. The intensification of crisis at Level II reverberated to Level III and encouraged Germany to break the impasse.

Negotiations at the international level played a small role in this compromise. However, both Level II and Level III negotiations indeed occurred because of the same systemic factors that had resulted in agriculture being placed on the Uruguay Round agenda in the first place. These included increasing world supplies, the rapid diffusion of technology, and the dramatic drop in agricultural prices. Given these systemic factors, a great deal of linkage and reverberation thus occurred between Level II and Level III negotiations in this case.

The 1992 MacSharry reform proposal

The stabilizers package did not succeed in providing the necessary reform that EC agriculture needed because the price adjustments under the MGQ system were not directly related to world price developments and thus did not permit world market conditions to influence producer decisions. Furthermore, the stabilizers package did not explicitly confront the problem of growing productivity and static demand. Consequently, EC production and expenditures continued to increase. For example, agricultural price and income supports in 1992 were 13 percent higher than those in 1991 and 33 percent higher than those 1989 and 1990.[82] In February 1991, the Commission of the EC published a "Reflections" paper that outlined underlying principles, objectives, and guidelines for a reform program and would later serve as the basis for the MacSharry reform proposal. The British House of Lords study characterized this paper as the "most serious attempt at fundamental reform of the CAP since its inception."[83]

Level I negotiations in 1992

Whereas the link between the Uruguay Round and EC reform in 1988 was only minimal, by 1992 it had strengthened considerably. Throughout the Uruguay Round, the EC and the United States were at loggerheads about how agricultural reforms should be formulated and implemented. From the beginning, the United States called for full elimination of all trade-distorting agricultural policies and for reliance on the

82. *Agra Europe,* no. 1429, 1 May 1992, P/1.
83. U.K. House of Lords 1991.

market to determine prices and therefore export and import flows. The EC claimed that it was interested in reducing levels of support over the long term, but most of its proposals focused on establishing a system of "managed" agricultural trade. In other words, rather than allowing the market to work freely, governments would decide on production and trade allocations. Despite the many fits and starts, breakdowns and resumptions in the negotiations, and even agreement in the Uruguay Round, this philosophical difference has not yet been adequately resolved.

Nevertheless, three developments occurred between 1988 and 1992 that increased the pressure for CAP reform. First, the EC and the rest of the world realized that the stabilizer program, as predicted, had done nothing to mitigate the stress that the CAP was placing on the EC budget or on world trade relations.

Second, countries were becoming aware that unless some compromise could be made in the agriculture negotiations, the entire Uruguay Round would collapse, resulting in the elimination of an estimated $270 billion in increased world welfare that would result from trade liberalization.[84] From the EC's perspective, if the round collapsed, few significant improvements would be made in the EC's other areas of concern, such as trade in services and intellectual property rights. The EC was thus under increasing pressure to respond not to the relatively homogeneous agricultural lobby but to a more heterogeneous set of lobby groups composed of agricultural, industrial, and service interests.

Third, whereas participants felt little pressure to reach an agreement in the Uruguay Round in 1988, time was running out in the spring of 1992. In the United States, the Bush administration was pushing for an agreement by the November elections. There was a strong possibility that Bill Clinton would be elected President, and it was unclear what this would mean for the Uruguay Round negotiations. In fact, as Paemen and Bensch note, "Even as a presidential candidate, Bill Clinton had already made clear his intention to take a fresh look at the US stance in general. Indeed his bid for the White House had been motivated by a firm conviction that George Bush's policies were wrong."[85] In addition, the U.S. "fast-track" authority was scheduled to expire in June 1993. Fast-track authority is granted by Congress for a limited period of time and means that Congress agrees to accept or reject an international agreement in its entirety in a short period of time, and that it will not change the substance of the agreement. In the absence of the fast-track procedure, Congress can always attach reservations to its ratification of an international agreement. Doing so would have proved disastrous for the carefully crafted Uruguay Round agreement. Since the fast-track authority had been extended for only two years in June 1991, there was some concern that Clinton, if elected, would allow this authority to expire and then blame Congress for any "unpopular" changes that it made.[86] Hence, pressure for agreement was strong, and many negotiators felt that if

84. "Trade Rows Need to Be Tackled," *Financial Times,* 21 December 1993.
85. Paeman and Bensch 1995, 223–24.
86. For a detailed study of the pressures leading up to agreement in the Agriculture Negotiating Group specifically and the Uruguay Round in general, see ibid., chaps. 11, 12, and 13.

the Uruguay Round was to be saved, some progress had to be made in the agriculture negotiations.

Level II negotiations in 1992

By 1990 two major developments resulted in the need for agricultural reform at the Community level. First, as mentioned above, the budget crisis had worsened despite the stabilizer program. As Brian Gardner wrote, "the inadequacies of the policy modifications in the 1980s . . . have been obscured by the happenstance of the 1988 North American drought. The climatic aberration cut United States wheat production by over 30%, diminished world grain stocks to below their bin bursting surplus levels of each of the previous ten years and shot up the world price of wheat by more than 60%. The bill for export subsidies to dump the annual 30 million tons of excess grain production on world markets was cut by more than 60% in 1988 and 1989."[87] As world markets returned to normal, EC expenditures increased. Gardner goes on to say that "the Community's agricultural market support spending is likely to increase by over 31% {of 1990 levels} to 33 billion ECU in 1991, according to the EC Commission's latest estimates. The increase arises solely from increased support costs for major commodities and is separate from a further 1 billion ECU of extra spending likely to arise from the recent 11% fall in the value of the US dollar against the ECU."[88] Furthermore, as *Agra Europe* reported, despite these increased expenditures "the income gap between the highly productive minority and the economically less efficient, but socially important majority of farmers, continued to widen."[89]

Second, the Community had moved forward with several initiatives under the 1992 program and plans were being laid for a monetary union. For instance, environmental policy regulations were being developed as part of the SEA. EC agricultural protection is highly intensive, and complying with new environmental standards would force farmers to decrease the quantity of fertilizers, pesticides, and herbicides they used.[90] In addition, the EC's plans to move toward an economic and monetary union meant that the system of monetary compensatory amounts (MCAs) would no longer be needed to adjust for fluctuating currency values.[91] The effects of both of these initiatives would be to decrease production and farm incomes and eventually necessitate reform of the CAP.

The question was whether reform would be externally or internally driven. Directorate General (DG) VI (Agriculture) did not want to give up policy competence to the vagaries of DG II (Economic and Financial Affairs) and DG XI (Environment, Nuclear Safety, and Civil Protection). Nor did it wish to cede control to the economic and finance ministers (ECOFIN) and the environment ministers. In

87. Gardner 1991, 3.
88. Ibid., 8.
89. *Agra Europe,* no. 1408, 28 September 1990, E/5.
90. Ibid.
91. Gardner 1990, 4.

order to exert some control over the changes being forced on agriculture, DG VI released a detailed blueprint for CAP reform in February 1991 in the form of a "Reflections" paper. This blueprint represented a radical departure from the usual reform proposals. Rather than finding a way to prop up the existing system, the MacSharry plan assumed that one of the main aims of rural policy in the 1990s should be to retain rural populations, and it proposed radical price reductions in certain key sectors balanced by direct compensatory aid payments to farmers. Thus benefits would be switched from the intensive grain and animal product growers in the north to the smaller less-intensive landholders of the Mediterranean and other peripheral areas (including Ireland).[92]

The reform proposal itself, however, was not published until July 1991. While it maintained the original idea of replacing domestic support prices with compensatory payments to marginal producers, it also contained a few changes. Price cuts were not so drastic and compensatory payments were not so complex. Also, in an effort to quell the opposition of the Danish and Dutch governments, who were worried about the fate of their medium-sized farms, compensation for price cuts was made more universal. The Commission estimated that the total budgetary effect of the proposals would be to increase expenditure on support for agriculture by 2.24 billion ECU, with savings being offset by compensatory payments at least for the first few years until the farm population diminished.[93] The reform would eventually result in lower costs over time as the surpluses of grain, dairy products, and meat declined.[94] As *Agra Europe* reported, the MacSharry proposal would mean that "the guarantee budget for the CAP in 1997 would increase to 37.3 billion ECU. . . . This is well up on the 1991 level of 32.5 billion ECU *but* well down on the estimated cost of 42.7 billion ECU expected in 1997 if there are no reforms."[95]

For political reasons, the Commission contended that the MacSharry reform proposal was not linked to an attempt to find a compromise in the Uruguay Round. And, in fact, it was initiated by a different group of analysts in the Commission from those who were working on the Uruguay Round.[96] Nevertheless, as mentioned above, a successful lowering of cereal prices as advocated in the MacSharry reform proposal would reduce the need for export subsidies that in turn were used to dump food on world markets. As David Gardner reported, export subsidies were the "high octane fuel of the GATT row" because of their ruinous effects on industrialized and developing country competitors.[97] By May 1992, the Commission had linked the two reform processes. As *The Economist* reported, "The Community has insisted all along that the talks on reform are separate from the Uruguay Round, in which the Americans and Europeans have been deadlocked over farm subsidies for five years. But as the reform deal took shape on May 21, Mr. MacSharry said the Community

92. *Agra Europe,* no. 1430, 8 March 1991, P/1.
93. *Agra Europe,* no. 1447, 5 July 1991, P/4.
94. *Agra Europe,* no. 1449, 19 July 1991, P/2.
95. *Agra Europe,* no. 1448, 12 July 1991, E/1, emphasis added.
96. Author's interview with DG VI official.
97. David Gardner, "Reforms with a Grain of Sense," *Financial Times,* 22 May 1993, 14.

was showing it was able to meet its commitments to the GATT round in full. 'It will be up to the others to match us,' he said."[98]

Level III negotiations in 1992

As in the case of the 1988 stabilizers reform package, domestic politics influenced the contours of member state win sets at the Community level. In 1988 the German economy was strong; by 1992 the situation had changed drastically as a result of reunification. As reported in *The Economist,* Germany was faced with a "unity-induced financial crisis," and it was estimated that "Germany's total public sector debt could soar to more than DM 1.8 trillion in 1995, even excluding the extra costs arising from aid to Eastern Europe and new spending by the European Community. That figure would be more than 50% of GNP compared with a ratio of around 40% in western Germany before unity."[99] To deal with the rising deficit, *The Economist* argued that the government should block all proposed new spending "no matter how worthy the cause, including that for family allowances, care for the aged, and new subsidies to farmers, miners, utilities and others." In addition *The Economist* predicted that "{n}either the collaborative project of a European fighter aircraft, nor the European space program, nor the contribution to the EC's post-Maastricht spending would get through unscathed."[100] Given these financial realities, Germany began to revise its attitude toward supporting ever-increasing agricultural expenditures in the EC.

The public debt was only the beginning of Kohl's problems. In the last week of April 1992, one hundred thousand workers in transport, postal, and refuse-collection services began a strike in support of a pay increase of 9.5 percent. In addition, rather than allowing western wages to drop because of the influx of new workers, German unions began to fight for an increase in eastern wages to match western levels, thus injecting new stress into the traditional partnership among capital, labor, and the state.[101]

Furthermore, Kohl's coalition government was in trouble. On the first day of the strikes, Hans Dietrich Genscher, Germany's foreign minister for eighteen years, resigned suddenly, raising questions about his confidence in Kohl's ability to manage the reunification process.[102] In addition, the share of the votes garnered by the CDU in the regional elections in Baden Württemberg had dropped from 49 percent in 1988 to 39.6 percent in 1992, and Kohl had to fight for support in the five new and somewhat politically unpredictable Länder. Whereas previously the government had maintained a cooperative relationship with labor and industry and was able to compensate agricultural interests through underwriting the CAP, suddenly the government was forced to deal with vocal and powerful labor and industrial lobbies

98. "EC Farm Policy: Getting Better," *The Economist,* 23 May 1992, 55.
99. "Kohl's Debterdämmerung," *The Economist,* 4 April 1992, 15.
100. Ibid.
101. "The New German Question," *The Economist,* 2 May 1992, 15–16.
102. Ibid., 15.

at the same time that it was experiencing growing budget deficits and losses in its traditional electoral base.

In addition, the nature of the farm sector itself changed with reunification. As the *Financial Times* reported, "German agriculture is no longer dominated by small farmers. . . . A whole new category of huge factory farms on the eastern model must now be taken into consideration."[103] Although East German production was relatively inefficient at the time of reunification, it was difficult to estimate how long this would last given improved technology and information about international commodity markets. The added farm budget costs of surpluses in the former East Germany would have been financed by the CAP at the Community level. However, West Germany had traditionally been the primary underwriter of the CAP. Thus the former West Germany was confronted with the possibility of having to underwrite even greater CAP budget expenditures to support agriculture in its east without expecting that part of the country to contribute proportionately to the overall German share of the EC budget.

The DBV strongly disapproved of the MacSharry reform proposal and stated that "such a total transformation of the system was both wrong and disastrous." Nevertheless, Kohl, breaking with his previous position on CAP reform, declared that "the EC agricultural reform was not possible without substantial price cuts, especially for cereals."[104] Thus he signaled to German farmers and other EC member states that Germany could no longer afford to underwrite the cost of the CAP as it had in 1988.[105] The *Financial Times* reported that "Ignaz Kiechle {the German agriculture minister} seemed to be standing his ground against his own farming lobby, strongest above all in his native Bavaria. He described the DBV and its members as day-dreamers who have no idea of agricultural political necessities." The article went on to state that "two factors seem to be behind the relaxation of Germany's staunch defense of the CAP: a desire to reach a deal in the GATT round, . . . and the advent of huge east German farms to German agriculture, requiring a whole new set of policy priorities."[106]

Thus, because of the structural and institutional changes in Germany in 1990 and the subsequent mobilization of several additional interest groups, not the least of which was labor, agricultural interest groups no longer held the political power that they held in 1988. Reunification had forced German leaders to consider the interests of a more heterogeneous coalition of interest groups in 1992 than in 1988.

On the surface, and from the vast amount of publicity the French farmers have been able to generate since the agreement, it may be somewhat difficult to understand why the French agreed to the MacSharry reform at all. Two sets of circumstances contributed to their decision. First, the French government realized that continually increasing budget expenditures would lead to continual budgetary crises; and that if

103. "Minister Stands His Ground Against German Farm Lobby," *Financial Times,* 22 May 1992.
104. "French, German Farmers Denounce EC Reforms," *Financial Times,* 23/24 May 1992.
105. For a discussion of how consumer and industry groups did not think the 1992 reforms went far enough, see von Cramon-Taubadel 1993.
106. "Minister Stands His Ground Against German Farm Lobby."

production continued to rise, public stocks would reach intolerable levels and the environment would be increasingly damaged.

Second, France is a very efficient producer of agricultural products, especially grains, and as such could accept a decrease in support prices but would continue to lose internal and external market share if a system of quotas was introduced to control spending. The *Financial Times* characterized French concerns as follows: "France, the EC's agro-superpower accounting for nearly half the community's grain exports, was in the end, *frightened that prices would not come down far enough and that quotas would be used to limit production blunting its competitive edge.*"[107] The final agreement did impose price cuts but did not impose production quotas. Louis Mermez, the French agriculture minister, stated at a press conference held after the final agreement was reached that the French were satisfied with the reform proposal.[108]

The United Kingdom had always advocated EC agricultural reform to bring the CAP in line with world prices. As a 1991 House of Lords study states,

> Recognition of the need for fundamental change in the manner in which the Community supports its agricultural sector is hardly new. Six years ago on the occasion of the last major debate on CAP reform, we reported to the House that reform was imperative. We reiterate that view. The CAP denies the free operation of the market, distorts the relationship between supply and demand and leads to a welfare loss to the whole Community. It fails to pay sufficient regard to environmental concerns or the needs of consumers, and threatens the ability of the Community to trade freely on the world market. . . . This is clearly indefensible.[109]

The United Kingdom's main problem with the original reform proposal as submitted by the Commission was that it called for large farms to take more land out of production. If such an agreement was enacted, large and efficient British farmers would bear a disproportionate share of the burden of adjustment. The National Farmer's Union (the major British agricultural lobby) was strongly opposed to this and in the final agreement, the United Kingdom successfully ensured that "proposals to compensate cereal producers for taking land out of production took account of the much larger average size of British farms."[110] The British did, however, favor price cuts. The House of Lords report states that "The price mechanism has, in the past, been the means by which the Community has encouraged an expansion in agricultural production. One means of restoring market balances in the Community is therefore to reduce support prices. Virtually all witnesses in this inquiry {including academics, the National Farmer's Union, consumer lobby groups, and environmental lobby groups} recognized that reductions in guaranteed prices should be a central element of the reform package."[111] Thatcher's previous strategy had been to minimize British financial support for the CAP in light of German insistence on

107. "Reforms with a Grain of Sense," emphasis added.
108. "EC Farm Policy on Verge of Wide Ranging Reform," *Financial Times,* 21 May 1992, 1.
109. U.K. House of Lords 1991, 38.
110. "Major Gives Warm Welcome to Accord," *Financial Times,* 22 May 1992.
111. U.K. House of Lords 1991, 24.

maintaining it. However, the United Kingdom was happy to consider a more serious agricultural reform proposal.

Reaching agreement on the 1992 MacSharry reform package

To sum up, the EC was under greater international pressure at the GATT to reform its agricultural policy in 1992 than in 1988. In addition, the SEA had expanded the policy portfolio at the EC level and the Maastricht agreement had the potential to expand it further. At the same time agricultural expenditures were eating up the EC budget and two of the three main contributors to the budget, Germany and the United Kingdom, expressed reticence about increasing their budget contributions. All these things converged to produce a ratified MacSharry reform package.

The final reform proposal was adopted in May 1992. Among other things, the package included a 29 percent decrease in cereal prices over three years, a 15 percent decrease in beef support prices, and a 5 percent reduction in butter prices. In addition, the British and the Germans were able to ensure that all farmers, large and small, would be directly compensated for any loss of income. In exchange, large farmers would set aside 15 percent of their arable land from production.

Would the MacSharry reforms be successful in reducing overproduction in the EC? Agricultural economists agreed that it probably would not.[112] Set-aside programs in the United States have never worked because technology has always made up for the land taken out of production; in any case, there is every reason to believe that only marginally productive land in the EC would be enrolled in these programs. Efficient producers would continue to produce as long as they were receiving compensatory payments. In fact, Brian Gardner predicted that grain output would decrease by only about 10 percent.[113] Finally, with only a 29 percent cut in internal prices, export restitutions would continue to be required. Yet most experts agreed that the shift from high consumer prices to deficiency payments (i.e., compensation payments) represented a major philosophical change and a moral victory for the Commission. Even DG VI officials later admitted that it was only a matter of time before taxpayers refused to pay farmers to do nothing, although it was not politically possible to admit that at the time. Hence, the latest round of CAP reforms would eventually move the Community in the direction of greater dependence on world markets.

Synergistic linkages and reverberation in the 1992 agreement

In the case of the 1988 stabilizer negotiations, France and Germany had relatively narrow win sets defined by a homogeneous set of interest groups. By 1992, the

112. Information obtained through personal interviews with DG VI officials; the director of European Policy Analysis; U.S. officials at the U.S. Mission to the European Communities; and an analyst at the Comité des Organisations Professionelles Agricoles (COPA), all in Brussels during June 1992; and from various issues of *Agra Europe*.

113. Personal interview with Brian Gardner, director, European Policy Analysis, 9 June 1992, Brussels.

strategies and stakes at different levels of the game changed, allowing for a more progressive reform. Putnam argues that synergistic linkages occur "not by changing the preferences of any domestic constituents, but rather by creating a policy option that was previously beyond domestic control. . . . Economic interdependence multiplies the opportunities for altering domestic coalitions (and thus policy outcomes) by expanding the set of feasible alternatives in this way—in effect creating political entanglements across national boundaries."[114] The successful implementation of the SEA, the reunification of Germany, the deepening of Europe implied by the Maastricht agreement, and the effect of the world recession on the GATT negotiations yielded a new policy synergy by creating entanglements across national boundaries. These events also created entanglements across issue-areas.

For instance, at the domestic level, German reunification increased the number of interest groups making demands on the German government and subsequently decreased the power of the agricultural lobby. This allowed Kohl to exercise more autonomy with respect to the DBV and resulted in an expanded German win set for CAP reform. This in turn introduced a crack in the previously impenetrable Franco-German alliance at the EC level. As *The Economist* reported in 1992, "Germany's yawning budget deficit is pushing it closer to Britain—the other big net contributor to the EC budget. In the argument over plans put forward by Jacques Delors, the President of the Commission, to increase the EC's budget by 21 billion ECUs ($27 billion) over five years, Germany is proving as mean as Britain."[115]

The cost of no agreement also increased at all three levels of the game. First, because of the linkage between success in the agricultural negotiations and the overall success of the Uruguay Round, stalemate in the agricultural negotiations would have costly implications for business and industry in the EC. In particular, Stephen von Cramon-Taubadel argues that the economic slowdown made Germany more dependent than ever on a stable world trading order. A successful conclusion to the Uruguay Round would improve the world trading order, but such a conclusion would not occur in the absence of an agricultural agreement.[116]

Second, no agreement on agricultural reform at the EC level would result in either the eventual breakdown of the CAP or another budget crisis just as the EC was trying to get the very ambitious Maastricht agreement ratified. This time, Germany appeared both unwilling and unable to continue to underwrite the CAP given the vastly increased number of domestic demands on German resources.

Finally, despite intense protest in France, the MacSharry reform proposal represented the lesser of two evils. If no agreement was reached on this reform package, quotas quite likely would have been imposed to balance the budget. This was wholly unacceptable to domestic agricultural groups in France. Agreement on the MacSharry reform package ensured the maintenance of export subsides. Quotas were not adopted to control production and direct income payments to compensate

114. Putnam 1988, 447–48.
115. "A Final Fling," *The Economist,* 23 May 1992, 52.
116. von Cramon-Taubadel 1993, 406–7.

producers for income losses, at least in the near future, were assured. In effect, the institutional changes in both Germany and the EC and the need to head off the world recession changed the number of synergistic policy linkages and widened the boundaries of the game that existed at the EC level.

Just as these factors conspired to influence the adoption of the MacSharry proposal, so the adoption of the MacSharry proposal affected the outcome of the GATT negotiations because it laid the groundwork for the November 1992 Blair House agreement between the United States and the EC. This accord, with a few modifications, became the Uruguay Round agriculture agreement.[117] The EC was able to agree to the Blair House reforms primarily because MacSharry could claim that they were within the commitments made in the May 1992 CAP reform. He argued that "the Blair House deal was not a disadvantage for EC farming but an advantage because it consolidated the reform of the CAP internationally."[118] Although the French argued, probably correctly, that further adjustments would be needed to meet the new GATT commitment, they were unable to veto the agriculture agreement because it was not voted on separately but as part of the entire Uruguay Round agreement. The French industrial and service sectors had too much to gain from the Uruguay Round to let the powerful agricultural lobby prevent an agreement. However, by refusing to accept the Blair House agreement at first, the French ultimately were successful at negotiating compensation from the EC for losses that French agricultural producers might incur beyond the 1992 CAP reform.

Conclusion

Many of the previous studies utilizing a two-level game framework of analysis employed paired comparisons of international negotiations involving different countries and issues. This study takes a slightly different approach. By observing the same actors on the same issues over time, some of the bias due to the involvement of different personalities or unique factors surrounding different issue-areas can be factored out. For the most part, the actors and the world agricultural situation remained the same throughout both negotiations, except for some fluctuations in market conditions due primarily to weather conditions. Why, then, was the EC able to adopt a radical new initiative in 1992 when it failed to achieve more than an incremental change in 1988?

Three points are clear from the analysis. First, the power and diversity of interest groups affect outcome. The more heterogeneous the interests represented in a negotiation, the easier it is to make substantive reforms. In the stabilizers negotiation at Level III, Kohl and Mitterrand were held hostage to the narrowly defined interests

117. For an interesting analysis of how little impact the Uruguay Round agriculture agreement actually will have on resolving the underlying systemic problems associated with agricultural production in the United States and Europe, see Sanderson 1994.

118. *CAP Weekly, Common Agriculture Policy News and Legislation, Agra-Europe* 25 November 1992, iii.

of their farm lobbies. They knew they faced eviction if they tried to implement reforms that would be harmful to these relatively small but politically powerful lobbies. Their win sets were limited and the reform was incremental at best. By 1992 unification had expanded the number of diverse domestic lobby groups in Germany and the number of demands on the German budget. This allowed Kohl to appeal to a wider set of domestic interests and in so doing consider substantive agricultural reform. Germany alone, however, would not have been able to carry the day. The widening of the German win set resulted in a realignment of coalitions at the EC level, with the Germans and the British both strongly advocating agricultural reform.

Second, as always, the higher the cost of no agreement the more likely it is that a substantive reform will be passed. In 1988, the cost of no agreement was mitigated by an increase in the German budget contribution. In 1992, pressure was mounting for an Uruguay Round agreement to stimulate the faltering world economy. The deepening of the EC brought about by the SEA and the Maastricht agreement in combination with the continual pressure placed on the EC budget by the CAP heightened the need for agricultural reform. Reverberation between the different levels of negotiation intensified this pressure. Not only would failure to reach agreement on agricultural reform continue to stall or possibly break the Uruguay Round but it would also break the EC budget. A bankrupt Community would severely weaken chances for ratification of the Maastricht agreement and would certainly not serve the interests of agricultural producers.

Finally, the degree of autonomy enjoyed by policymakers and the strategies they employed played key roles in achieving acceptable and meaningful policy reform. In 1992 Kohl was more autonomous vis-à-vis the German agricultural lobby, and MacSharry as the chief EC agricultural negotiator at the GATT was able to use the negotiations at Levels I and II to craft a deal that was acceptable at all three levels. MacSharry utilized the Uruguay Round crisis, the EC budget crisis, and the growing pressure from diverse domestic groups in the various member states to achieve a ratifiable reform of the CAP. Then he used the CAP reform to both restart the GATT negotiations and set the limits for an acceptable GATT agriculture agreement by pleading that the EC could not ratify an agreement that moved significantly beyond the 1992 MacSharry reform. In this way, MacSharry was able to influence U.S. expectations by clarifying exactly how far the EC could go toward substantive reform.

In the end, the Uruguay Round agreement will probably require additional changes to the CAP, though not as many as the United States originally had sought. Even so, EC agriculture ministers could not veto the Uruguay Round agricultural agreement because it was subsumed in the whole Uruguay Round agreement, and the pressure on politicians to conclude the round favorably was immense. By utilizing all three levels of the game, MacSharry pushed the EC toward agricultural reform and then pushed it a little further. Only by looking at the domestic, Community, and international levels and how they interacted with each other do the pressures and options for CAP policy reform in February 1988 and May 1992 become apparent.

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