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A Three-Level Game Approach to Understanding Agricultural Policy in the European Community: A Study of the 1988 Stabilizers Agreement and the 1992 MacSharry Reform Package

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In the last five years there have been two major attempts to reform the Common Agriculture Policy (CAP), the 1988 Stabilizers Reform Package and the 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 package, however, called for a shift from non-transparent consumer subsidies to transparent taxpayer subsidies. This represented a fundamental change in the philosophy underlying the CAP and laid the groundwork for substantial agricultural reform in the future. This paper examines the conditions under which this important policy shift occurred by looking at the simultaneous interaction of negotiations at the domestic, Community, and international levels.

The Common Agriculture Policy has been a subject of much debate both domestically and internationally in the last few years. The CAP was mandated by the Treaty of Rome and originated from a carefully crafted compromise between the French and the Germans who were determined to ensure that their domestic producers maintained the same advantages under the new Community-wide program as they had enjoyed under their respective national programs prior to the formation of the EC (European Community). 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."[1] Attempts to maintain all these objectives simultaneously resulted in a complicated system of border measures and subsidies which led to virtually uncontrollable overproduction.

Between 1975 and 1986 the European Community moved from a position of "overall net importer of agricultural produce to a position of net exporter for cereals, sugar, wine, beef and veal."[2] This increase in production resulted in two things. First, in order to reduce stocks, the

[1]H. von der Groeben , The European Community the Formative Years: The Struggle to Establish the Common Market and the Political Union (1958-66). (Brussels: The European Perspective Series), 1985. p. 71.
[2]Buckwell, Allen. "The CAP and World Trade" in C. Ritson and D. Harvey, eds. The Common Agriculture Policy and the World Economy. (Wallingford, UK: CAB International) 1991. p. 228.

European Community had to increase the use of export subsidies. In so doing, traditional exporters of agricultural commodities lost market share to the European Community. As 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 then those in competing countries, there has been a chorus of complaints against the European Community and the CAP."[3] As a result, competing countries began to use more and more aggressive policies to attain or 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 and thus, in 1986, the contracting parties to the GATT decided to place agricultural reform on the agenda of the Uruguay Round.

The second consequence of European overproduction was that supply increased faster than demand and this caused world prices to drop precipitously. As Agra Europe reports, world wheat stocks rose by 70% in the early 1980's and as a result, world prices fell by over 44% between 1981 and 1986.[4] In order to maintain producer incomes, the aggregate level of support in the European Community (including Community support, national government payments, and transfers from consumers) rose from an average of 30 billion ECU in 1979-81 to 59 billion ECU in 1986.[5]

As noted above, there have been two major attempts in the last five years at the Community level to reform the CAP to deal with the problem of overproduction; the 1988 Stabilizers Package and the 1992 MacSharry Reform Package.[6] The Stabilizers Package can only be viewed as a largely unsuccessful incremental reform package while the 1992 MacSharry Reform package

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[3]Ibid., p.231.
[4]Agra Europe, Special Report No. 61, "Effects of CAP Reform and GATT Agreement on World Agricultural Markets" (London: Agra Europe) September 1991. p.9
[5]Ibid., p.13.
[6]So named for Commissioner MacSharry of DG VI who initiated the reform package.

represented a fundamental shift in the philosophical basis underlying support programs in the EC. 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 had a monopoly over the EC market and that consumers paid much of the burden of agricultural support through higher food prices. The Stabilizers Reform set production ceilings for all major crops. When production exceeded these ceilings, producers were forced to pay price penalties. However, it did not change the fundamental nature of the CAP. The 1992 MacSharry Reform Package initiated a shift from non-transparent consumer subsidies to more transparent taxpayers subsidies by introducing a direct compensation program much like the agricultural support programs in the United States. Direct compensation programs are, for the most part, funded through the national budget and hence are open to scrutiny and re-evaluation on a regular basis. European farmers are justifiably worried that taxpayers will demand a reduction in agricultural support levels when they see how much of their tax money is going to support inefficient agricultural production. For this reason, the MacSharry reform package has the potential to lead to much greater and more far reaching agricultural reforms in the future.

This paper addresses the question of why the Council was able to adopt a radical new initiative in 1992 when they failed to achieve anything more than an incremental change in 1988. Because CAP reform is initiated in the Commission but must be agreed to unanimously in the Council, neither intergovernmental institutionalism "which stresses traditional concepts of national power"[7] nor supranationalism with its emphasis on supranational factors acting above the nation-state are adequate to explain the CAP reform process. Either theory could be supported by drawing selectively on the evidence and therefore both are necessary but neither is sufficient in its explanatory power. As Putnam notes with respect to two-level games "interpretations cast in

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[7]R. Keohane and Stanley Hoffman. The New European Community, Decisionmaking and Institutional Change. (San Francisco: Westview Press), 1991. p.42.

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."[8] Putnam goes on to state that "if international pressures reverberate within domestic politics, or if issues can be linked synergistically, then domestic outcomes are not exogenous and the two levels cannot be modelled independently."[9] This paper argues that the formation of EC agricultural policy results not from a two-level game, but from a three-level, interactive game in which negotiations at the domestic (Level III), Community (Level II) , and international levels (Level I) affect policy options at each of the other levels.

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 are pursuing their interests by pressuring their governments [the member states] 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."[10] However, in the case of the European Community there is an additional level of play, the Community level, in which member states attempt to achieve domestic goals while simultaneously pursuing cooperative integration.

The characteristic of Putnam's framework which makes it fascinating, conceptually complex, and possibility overdetermined 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 other levels of negotiation. This

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[8]Putnam, Robert D. "Diplomacy and Domestic Politics: the Logic of Two-level Games," International Organization, Vol.42, No.3, Summer 1988. p. 430.
[9]Ibid., p.456.
[10]Ibid., p. 434.

reverberation means that strategies and outcomes at different levels of the game simultaneously affect each other. 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 player who fails to satisfy his fellow players at the domestic table risks being evicted from his seat."[11] He goes on to add that "if national preferences were exogenous from the point of view of international relations, then the domestic political game could be modelled separately, and the "outputs" from that game could be used as the "inputs" to the international game. The division of labor between comparative politics and international relations could continue, though a few curious observers might wish to keep track of the play on both tables. 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 modelled independently."[12] Because domestic coalitions affect the passage of Community agricultural policy and Community agricultural policy affects world markets *and* vice versa, the policy shift which occurred between 1988 and 1992 can only be explained by changes that occurred simultaneously at several levels of the game.

Putnam, therefore, calls for combining sub-systemic and systemic levels of analysis. Singer wrote the seminal piece in 1961 on the pros and cons of using systemic or sub-systemic analysis and for the last 30 years international relations theorists have debated the benefits of each approach.[13] Recently, however, there is a growing recognition in both security studies and in international political economy that combining levels of analysis can often provide more accurate

[11] Ibid.,p.434.
[12] Ibid., p. 456.
[13] See J. David Singer, "The Level of Analysis Problem in International Relations" World Politics, vol. 14, October 1961. pgs. 77-92.

contingent explanations for policy change. On the other hand, this approach, by definition, limits the generalizability and parsimony of the resulting explanations.[14]

Several authors including Paarlberg, Rapkin and George, Moyer, and Cooper and Higgott have used Putnam's framework to examine positions taken and progress made, or perhaps more accurately the lack of progress made, in the Uruguay Round.[15] This paper argues that the same framework is useful in understanding the formation of agricultural policy at the EC level. On one hand, the EC is a major agricultural exporter, thus their agricultural policy both affects and is affected by domestic agricultural policies in other countries and by international agricultural agreements. On the other hand, the reform of agricultural policy in the EC is constrained by what is acceptable to the Council of Ministers, which is to say, what is domestically acceptable to each member state.

In general, Putnam argues that conflicts are resolvable in a multi-level game only when the win sets of those involved in the conflict overlap. According to Putnam, these win sets have three main characteristics. First, "the size of the win set depends on the distribution of power,

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[14]Both Checkel and Mendelson have focused on the the simultaneous effect of the external structure of the system and internal political determinants in the former USSR to explain the changes which took place in the USSR in the late 1980s. See J. Checkel, "Ideas, Institutions, and the Gorbachev Foreign Policy Revolution, World Politics, 45, January 1993 and S. Mendelson, "Internal Barriers and External Wars- Politics, Learning, and the Soviet Withdrawal from Afghanistan," World Politics, 45, April 1993. Haggard and Simmons argue that for too long the domestic determinants of political processes have "been ignored because of the lure of parsimonious systemic theory... The neglect of the domestic political and economic realm has had deeper costs, including a neglect of the substantive issues over which states are likely to seek cooperation and the basic forces leading to regime change." To address these difficulties they recommend "a research program that views international cooperation not only as the outcome of relations among states, but of the interaction between domestic and international games and coalitions that span national boundaries." S. Haggard and B. Simmons "Theories of International Regimes" in International Organization, 41, 3, summer 1987. Odell has also called for a theoretical synthesis in analyzing trade policies which addresses the international power structure, increasing global economic integration, and the "particular trade negotiations, threats, or inducements from other states." J. Odell, "Understanding International Trade Policies : An Emerging Synthesis," World Politics, October 1990.

[15]See R. Paarlberg,"Why Agriculture Blocked the Uruguay Round: Evolving Strategies in a Two-Level Game," D. Rapkin and A. George "Rice Liberalization and Japan's Role in the Uruguay Round," W. Moyer "The European Community in the GATT Uruguay Round: Preserving the Common Agriculture Policy at All Costs," and A. Cooper and R, Higgott "Australian and Canadian Approaches to the Cairns Group: Two-Level Games and the Political Economy of Adjustment." All of these articles are in World Agriculture and the GATT, International Political Economy Yearbook, Vol 7. ed., W.P. Avery. (Boulder: Lynn Reinner Publishers: 1993)

preferences, and possible coalitions among [domestic] constituents."[16] With respect to the distribution of power and possible coalitions, Putnam argues that the more heterogeneous the conflict, (that is to say the more internally divided a government is), the more likely it is that the government will be able to strike a deal internationally.[17] With respect to preferences he argues that the lower the cost of 'no-agreement,' (in other words of maintaining the status quo) the smaller the win set.[18] Thus in explaining the policy shift which occurred between 1988 and 1992 one could hypothesize that the major players, (Germany, the UK, and France in this study) were more internally divided among competing interest groups in 1992 than they were in 1988, and /or the cost of 'no agreement' in 1992 was greater than the cost of no agreement in 1988. In order to test these hypotheses, the number of competing interest groups and their ability to influence government decisions in the two periods under review must be examined as well as the real and perceived costs of 'no agreement' at the Community level and 'no agreement' or a stalled agreement in the Uruguay Round.

The second characteristic identified by Putnam is that "the size of the win set depends on domestic political institutions."[19] In this case, the greater the autonomy of central-decision makers, the greater the chance of agreement. Thus, an alternative explanation for the above noted policy shift would be that between 1988 and 1992 central decision makers became more autonomous either at the domestic level or at the Community level and thus were able to pursue more substantial reforms despite domestic interests. To sustain this hypothesis one would have to show either that the Council of Ministers was willing to reverse their position on the 1988 negotiations despite what might happen domestically, or that the Commission gained some degree of autonomy over the Council and was able to force through a reform package which had previously been viewed as unacceptable.

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[16]Putnam, Robert D. "Diplomacy and Domestic Politics: the Logic of Two-level Games," International Organization, Vol.42, No.3, Summer 1988. p.442
[17]Ibid.., p. 445
[18]Ibid., p. 442.
[19]Ibid., p.448.

And finally Putnam argues that, "the size of the win set depends on the strategies of Level I [and Level II, in this case] negotiators."[20] For instance, the larger the initial win set of the negotiators at Levels I and II, the more likely it is that an agreement can be reached but the more difficult it may be to get it ratified at the domestic level. On the other hand, 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 breakdown altogether. Consequently, one might hypothesize that as a result of changes in domestic or international coalitions the size of win sets changed in 1992 allowing for more substantial agricultural reform. These hypotheses will be examined in greater detail below by looking at the negotiations which resulted in 1988 Stabilizers Reform Package and the 1992 MacSharry Reform Package.

The 1988 Stabilizers Reform Package

In late 1987, the EC was engaged in two negotiations to reform agricultural policy, the Uruguay Round Agriculture 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 which resulted from over-expansionist agricultural policies in both the European Community and the United States in the 1970s.

LEVEL I NEGOTIATIONS IN EARLY 1988

The Uruguay Round of the GATT negotiations commenced in September of 1986. As Moyer notes, "European Community decisionmakers, defending the highly protectionist Common Agricultural Policy, accepted the inclusion of agricultural trade issues into the negotiations reluctantly. This reluctance was overcome only when rapidly escalating farm subsidy costs in the mid-1980s threatened to break the EC budget..."[21] Although the United States naively believed that the agricultural system could be reformed in two to three years thus providing an "early harvest" for the overall round, little progress had been made by late 1987. At that time countries

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[20]Ibid., p.450.

[21]H. W. Moyer, "The European Community and the GATT Uruguay Round:Preserving the Common Agricultural Policy at All Costs" in World Agriculture and the GATT International Political Economy Yearbook, No. 7. ed. W.P. Avery (Boulder: Lynne Reinner Publishers: 1993) p. 95.

were still establishing their initial negotiating positions and there was no real feeling of urgency about achieving international agricultural reform. Thus Level I negotiations played a minimal role in influencing Level II and Level III negotiations in 1988. However, the EC did believe that any reform made at the Community level would indicate that they were serious about reforming the GATT, and most importantly, they believed that any reform would have to be taken into account in the final GATT agreement. By 1992 the situation at Level I had changed substantially as will be discussed below.

LEVEL II NEGOTIATIONS IN 1988

At the EC level the need for reform was much more urgent. In 1979-81, average agricultural expenditures were 30 billion ECU. By 1986 budget expenditures had reached 59 billion ECU.[22] The 1984 Fountainbleu Agreement limited the increase in agricultural spending to 2% a year. However, expenditures continued to rise at more than 18% a year because the agreement provided no incentive for individual farmers to cut back production, nor did it force them to do so,[23] and the Community continued to buy up all of the excess supply. Although the Community is not legally able to run a budget deficit, as Moyer and Josling state, "the budget shortfall for 1987 was estimated at 4-5 billion ECU, though the deficit had been concealed by clever accounting." Furthermore, "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."[24] However, the ability to come up with creative reform proposals was limited by the fact that despite increased expenditures, average farm income had actually declined.

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[22]Economic Research Service, United States Department of Agriculture, "Western Europe, Agricultural and Trade Report, Situation and Outlook Series" (Washington: United States Department of Agriculture, December 1992) p.14.
[23]H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p. 79.
[24]Ibid.., p.79.

LEVEL III NEGOTIATIONS IN 1988

The importance of domestic politics in determining the the contours of the win-set at the Community level can not be overemphasized. Both France and Germany were facing important elections in 1988. Agricultural lobby groups, which were fairly homogeneous in their support for the status quo, were expected to play an important role in determining the outcome of these elections. Therefore, despite the fact that both Germany and France were already net contributors to the EC budget,[25] they were under extreme pressure to reach an agreement at the EC level which would not be detrimental to agricultural producers.

In 1988, Kohl's Christian Democratic Union (CDU) party was facing important Land elections in Baden-Wurttemburg and Schleswig-Holstein, two districts in which the agricultural vote was very important and in which the CDU had been wracked by political scandals.[26] "These elections suggested caution on reform to avoid antagonizing farmers... [whose] support was critical to the ruling CDU/CSU-FDP coalition."[27] Traditionally, there had been a strong relationship between the CDU/CSU and the farm lobby. As 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. Indeed several studies and surveys on voting patterns in the FRG as a whole or in local elections... indicate that the CDU/CSU monopolizes the farm vote to a considerable degree."[28]

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. As Hendriks notes, "During the European Parliament election in 1984, two and a half months after the controversial decision to introduce a quota system, the CSU lost 708,000

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[25]In 1988 Germany's contribution to the EC budget was about 4 billion ECUs; Britain's contribution, post rebate; was 1.4 billion ECUs, and France's contribution was 1.1 billion. The Economist, Feb. 20, 1988, p. 50.
[26]Q. Peel and T. Dickson. "Hopes for EC Budget Resolutions May be Thwarted by Elections," Financial Times . Nov, 7, 1987.
[27]H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p. 84.
[28]Hendriks, G. Germany and European Integration, The Common Agricultural Policy An Area of Conflict, (New York: Berg Publishers Ltd.: 1991) p. 93.

votes. And, 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. 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."[29]

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 D-mark. As Moyer and Josling note, "The cost in terms of loss of support from farm groups appeared too great, with no counterbalancing gain in support from other groups."[30]

Thus Kohl's primary concern in the stabilizers negotiations was to protect his party's interests in the upcoming elections. [31] 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. 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 is the strongest advocate of European Union and was a fervent promoter of institutional reform." The 1985 veto indicated that Kohl placed German agricultural interests above other German interests even those that stood to gain from a European union.[32] There was little reason for the other member states to believe that Kohl's commitment to protect German producers had diminished.

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[29]Ibid., p. 94.

[30]H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p. 87.

[31]Q. Peel and T. Dickson. "Hopes for EC Budget Resolutions May be Thwarted by Elections," Financial Times . Nov, 7, 1987

[32] Hendriks, G. Germany and European Integration, The Common Agricultural Policy An Area of Conflict, (New York: Berg Publishers Ltd., 1991) p. 100.

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 had resulted in a loss of French market share within the Community to less efficient German producers. On the other hand, Mitterand was facing a presidential election in 5 months and was anxious to forestall a strong challenge from Raymond Barre.[33] Mitterand and 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."[34] Thus the French were reluctant to embark on a radical agricultural reform initiative.

The UK had to answer to a more heterogeneous set of lobby groups. Agriculture in the UK underwent a vast structural change as a result of the enclosure and the corn laws. Consequently, agricultural producers in the UK tend to be among the most efficient in the Community.[35] As such, they have consistently argued for rationalizing the CAP in a manner which would allow Community producers to respond to world price signals. The UK tends to view their contributions to the EC budget as a mechanism by which they are forced contribute to the support of their farmers' competitors, the less efficient continental agricultural producers. On the other hand, British farmers are assured of a market for their produce under the CAP. In the run up to 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."[36] Interestingly, this last condition can be viewed as a fall

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[33]P. Betts "Plodding Barre upstages Chirac in Presidency," Financial Times, December 3, 1987.
[34]H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p. 92.
[35] Ibid., p. 92.
[36] Anonymous "A suitable Rock to Founder On." The Economist, November, 28, 1987.

back position. In other words, there was an implicit understanding in the way these two conditions were put forth that although the UK advocated agricultural price reform, if this failed, under no circumstances should the UK be made worse off by an agricultural agreement. The bottom line was that the UK wanted the budget crisis resolved so that the Community could move forward with the 1992 internal market program because many of their industrial producers and service industries stood to gain from the completion of the internal market. The heterogeneity of lobby groups in the UK meant that it had a wider win set and thus greater maneuverability.

REACHING AGREEMENT ON THE STABILIZERS PACKAGE

The agricultural ministers in the member states who form the Council at the Community level are the link between Level I and Level II negotiations because they represent national interests at the EC level and they must approve any EC reform package. The Stabilizers debate in the Council focused on the philosophical question of whether agricultural policy should be based on budgetary considerations as supported by the UK and Denmark, or socio-cultural ones as supported by France, Germany, Belgium, and the Mediterranean countries. In keeping with their philosophy, the UK proposed a 15% price cut for cereals and in years where production was in excess of an established ceiling level (referred to as the Maximum Guaranteed Quantity (MGQ)), they argued that producers should pay a tax, called a co-responsibility levy, to help pay for storage and export subsidies. For cereals, the UK proposed that the MGQ be set at 155 million metric tons. This position was in direct conflict with German and French proposals which stated that price cuts should reach a maximum of 3% and that the ceiling on grain production should be set at the very high level of 165 million metric tons. In essence, the German and the French proposals were that prices and therefore consumer costs should be maintained at the same high levels and that producers should only be marginally penalized for production above the maximum guaranteed amount.[37]

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[37]Total cereal production in the EC in 1987 was 155 million tons. So essentially the program would do very little to control production. Western Europe Agriculture and Trade Report, Situation and Outlook Series, Economic Research Service, United States Department of Agriculture (Washington: ERS: July 1989). p. 93.

Denmark held the presidency of the Council in late 1987 but the Danish Agricultural Minister was unable to broker a deal between the competing coalitions and no agreement was reached by the end of 1987. At that time "the Dutch and the British governments made it clear that they would not countenance any additional resources for the European Community until agricultural spending was brought under control."[38] As Moyer and Josling note, "the Commission increased the pressure by taking the member states to the European Court for not producing a 1988 budget, and by threatening to cut off intervention if the Council did not agree on budget stabilizers in February."[39] However, future prospects were not promising for a meaningful agreement because West Germany was scheduled to take over the Presidency in January. Moyer and Josling have made the interesting observation, however, that "the Council presidency changes a nation's priorities. 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."[40]

When the final agreement was struck in February of 1988, the Germans and the French were successful in achieving among other things, price cuts of a maximum of 3% and co-responsibility levies when cereal production exceeded 160 million tons. Because the ceiling was set at such a high level, agricultural economists estimated that there would be no savings from the agreement until 1990, if at all.[41] In order to pay for this Germany agreed to contribute an extra 5 billion ECUs ($6 billion) to the EC budget over a five year period. This equalled a 30% increase in their net yearly contributions to the EC budget.[42] Thus "West Germany got credit for forging the

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[38]H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p. 94.
[39]Ibid., (from Agra Europe 11, December 1987) p. 94
[40]Ibid., p. 95.
[41]Agra Europe, No. 1274 (London: Agra Europe Ltd. , Feb. 19, 1988) p. P/1.
[42]In 1988 Germany's contribution to the EC budget was about 4 billion ECUs; Britain's contribution, post rebate; was 1.4 billion ECUs, and France's contribution was 1.1 billion. Anonymous, "The Lady Turned" The Economist, Feb. 20, 1988, p. 50.

agreement and could claim success for creating the set-aside and 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 benefitted in that the movement towards the single European market could proceed smoothly."[43]

THE REVERBERATION AMONG LEVELS OF NEGOTIATION

The Stabilizers Agreement, albeit a relatively incremental reform package, could be achieved for the following reasons. First, even though France and Germany had relatively limited win sets the contours of which were set by homogeneous interest groups their win sets overlapped. The UK had a larger win set as a result of its heterogeneous interests.[44] 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" which can now be assured of the continued smooth progress towards the completion of the internal market.[45] Secondly, the Commission raised the cost of 'no agreement' by taking the member states to the European Court for failing to produce a 1988 budget. By so doing, they raised the crisis level and thus placed increased pressure on the Council to resolve the budget crisis. Thirdly, 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

[43] H. W. Moyer and T. Josling. Agricultural Policy Reform Politics and Process in the EC and the USA. (Ames, Iowa: Iowa State University Press: 1990). p.97.
[44]The other member countries were willing to accept side payments in return for their support of the program.
[45]Agra Europe, No, 1274 (London: Agra Europe Ltd. , Feb. 19, 1988) p. P/1.

he may not have taken otherwise. In order to meet objectives at both Level II and Level III of the game, Germany's strategy was to increase their budget contributions by 5 billion ECUs. This allowed all the member states to ratify the Level II agreement and satisfied the Commission. While negotiations at the international level played a small role in this compromise, it is true that both Level II and Level III negotiations occurred because of systemic factors, which by definition are international in nature, such as increasing supply, the rapid diffusion of technology, and the dramatic drop in agricultural prices. Thus within the policy context set at the international level, there seems to have been a great deal of reverberation between the Level II and Level III negotiations in this case.

The 1992 MacSharry Reform Proposal

The stabilizer package did not succeed in providing the necessary reform that EC agriculture needed. As David Roberts, the Commission's Deputy Director General for Agriculture said, "When the heads of government agreed to budget discipline and the stabilizers, they signalled clearly that the problem of the imbalance between growing agricultural productivity and static demand could no longer be resolved by ever growing exports at ever increasing budgetary costs. The stabilizers package was, however, incomplete because it did not explicitly confront the problem of growing productivity and static demand."[46] As the OECD reported, "the price adjustments caused by the MGQ [maximum guaranteed quantity] system are still not directly related to world price developments, and do not permit world market conditions as such to influence Community producer decisions."[47] Consequently, production and expenditures continued to increase. Agricultural price and income supports in 1992 were up 13 percent from 1991 and 33 percent from 1989 and 1990.[48] In February 1991, the Commission published a

[46] Agra Europe, No. 1429 (London: Agra Europe Ltd. , March 1, 1991). p. P/3.
[47] Agricultural Policies, Markets and Trade, Monitoring and Outlook, 1992. (Paris:OECD), 1992. p. 160-161.
[48] Agra Europe, No. 1489 (London: Agra Europe Ltd. , May 1. 1992)

'Reflections' paper which represented the "most serious attempt at fundamental reform of the CAP since its inception."[49] This paper formed the basis of the MacSharry Reform Proposal.

LEVEL I NEGOTIATIONS IN 1992

Whereas there was only a minimal link between the Uruguay Round and EC reform in 1988, this link had substantially strengthened by 1992. Throughout the Uruguay Round, the EC and the United States have been 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 reliance on the 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 their 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, this philosophical difference in opinion has never been adequately resolved.

Nevertheless, three developments occurred between 1988 and 1992 which changed the picture. First, the EC and the rest of the world realized that the stabilizers program, as predicted, had done nothing to to mitigate the stress that the CAP was placing on the EC budget or on world trade relations. This will be discussed in greater detail below. Second, despite the United States' and the EC's attempts to keep negotiations in each issue area of the GATT separated from and not dependent upon agreements in other issue areas, and the EC's refusal to link CAP reform to the Uruguay Round negotiations, there was a growing awareness that unless some compromise could be made in the agriculture negotiations, the whole Uruguay Round would collapse. As Agra Europe notes, "Unless substantial and substantive progress is made on the agricultural issue, it is unlikely that any significant improvements will be made in their [the EC's] other areas of concern

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[49]House of Lords Select Committee on the European Communities, Development and Future of the Common Agriculture Policy. Vol. 1 - Report. (London: HMSO, 23 July 1991) p. 7.

[such as trade in services and intellectual property rights]."[50] Suddenly, the EC was under increasing pressure to respond not to a 'homogeneous' agricultural lobby but to a heterogeneous lobby composed of agricultural, industrial, and service interests. (The relative power of these groups in resolving the agricultural dilemma in the Uruguay Round is yet to be determined.) Third, whereas there was little pressure to get an agreement in the Uruguay Round in 1988, time was running out in the spring of 1992. The Bush Administration was pushing for an agreement by the November elections; Clinton was an unknown quantity; and, the US fastrack authority was scheduled to expire in June of 1993. If the Uruguay Round was to be saved, some progress in the agricultural negotiations had to be made.

For political reasons, however, 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 work on the Uruguay Round.[51] Nevertheless, by May of 1992, both the Council of Ministers and the Commission had linked the two reform processes. As the Economist reported "The Community has insisted all along that the EC's 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 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."[52] Furthermore as David Gardner reported, the lowering of cereal prices "will by 1996 or 1997 have virtually eliminated the export subsidies that Community producers use to dump food on world markets. These subsidies are the high octane fuel of the GATT row, and the ruinous effects of the EC dumping on its industrialized and developing country competitors are the single

[50] Agra Europe, Special Report No. 61, "Effects of CAP Reform and GATT Agreement on World Agricultural Markets" (London: Agra Europe) September 1991. p.1-2.
[51] Personal interview with Rob Peters, DG VI, EC Commission Brussels.
[52] Anonymous "EC Farm Policy Getting Better" The Economist, May 23, 1992, p. 55.

most insidious feature of the CAP."[53] And finally, Kohl said that "the deal created the preconditions for a successful end to the GATT talks."[54]

LEVEL II NEGOTIATIONS IN 1992

By 1990, there were also two major developments which affected agricultural policy at the Community level. First, as mentioned above, the budget crisis had worsened, despite the Stabilizer Program. As Brian Gardner notes, "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."[55] However, 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."[56] In addition, many argued that the 1988 measures "did not deal with the increasing divergence of incomes within the agricultural sector. The income gap between the highly productive minority and the economically less efficient, but socially important majority of farmers, continued to widen."[57]

Second, the Community had moved forward with several initiatives under the '1992' program. For instance, environmental policy regulations were being developed as part of the

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[53] D. Gardner, "Reforms with a Grain of Sense" The Financial Times, May 22, 1993.
[54] W. Dawkins, Q. Peel, and I. Owen, "French, German Farmers denounce EC reforms" Financial Times, May 23/24, 1992.
[55] Gardner, Brian,. "The 1991 CAP reform Initiative: How Serious?" Paper presented at the Tenth European Agricultural Outlook Conference, February 27-28, 1991, London. p.3
[56] Ibid., p.8.
[57] Agra Europe, No. 1408, (London: Agra Europe Ltd. , September 28, 1990).

Single European Act. These would inevitably affect agricultural production which tends to be highly intensive in the EC. Complying with new environmental standards would force producers to decrease the quantity of fertilizers, pesticides, and herbicides used.[58] This in turn would decrease both production and farm incomes. In addition, the EC's plans to move towards 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.[59] The spillover effects of both of these initiatives, one developed as part of an ongoing attempt to improve environmental policy and the other developed under the rubric of advancing the internal market, would eventually necessitate reform of the CAP.

In light of the inevitable changes being forced on agriculture, the detailed blueprint for CAP reform released in February 1991 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] propose[d] radical price reductions in certain key sectors balanced by direct compensatory aid payments to farmers."[60] 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."[61] Needless to say, this resulted in a north-south split which will be discussed in greater detail below.

The actual reform proposal, itself, however was not published until July of 1991. While it maintained the original idea of replacing domestic support prices with with compensatory payments to marginal producers, a few changes were also made. Price cuts were not as drastic and compensatory payments not as complex. Also, in an effort to quell the opposition of the Dutch and

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[58]Ibid., p.5.
[59]Gardner, Brian. "The State of European Agriculture and Policy Developments in the 1990s," Paper given at the 1990 UKASTA Conference 20-23 May, 1990. The Imperial, Torquay. p.4.
[60]Agra Europe, No. 1430, (London: Agra Europe Ltd. , March 8, 1991).
[61]Agra Europe, No. 1430, (London: Agra Europe Ltd. , March 8, 1991) p. P/1.

Danish governments who were worried about the fate of their medium sized farmers, compensation for price cuts was made more universal. The major points in the proposal were:

1) a reduction in cereal support prices of 35% over 3 years. Farmers would be compensated with the phased introduction of compensatory income aids, i.e. deficiency payments.[62]

2) "Farms of less than 20 hectares would be compensated in full for the loss in income. Between 20 and 50 hectares there would again be full compensation, but farmers would have to take a certain portion of their land out of production, i.e. set-aside (probably 15%) in order to benefit from aid. Producers with more than 50 hectares would have a reduced rate of compensation, again dependent on participation in the re-vamped set-aside scheme."

3) A global 4% cut in milk quotas; however, producers with less than 200,000 liters would be exempt from the cut. Agra Europe notes that this presumably means that larger producers would have to take a cut of more that 4%.

4) Beef support prices would be cut by 15% over three years. A special premium would be paid for each head of beef under three years of age up to the first 50 animals on each holding.

5) An early retirement scheme for producers over the age of 55.

6)"Accompanying measures' to address environmental objectives.

Clearly the reform proposal favored small producers. In addition, the Commission estimated that the the total budgetary effect of the proposals would be to increase expenditure on support for agriculture by ECU 2.24 billion, with savings being offset by compensatory payments at least for the first few years until the structural adjustment of decreasing the farm population was

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[62]Agra Europe, 1446, (London: Agra Europe Ltd. ,June 28, 1991) Agra Europe was quick to note however that on the basis of current world prices, an internal EC cereals price 35% less than the 1991/2 level would still require an export restitution of around 60 ECU per ton. The existing stabilizer program would also be withdrawn.

accomplished.[63] As Agra Europe reported, however, 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."[64]

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 very strong; by 1992 the situation had changed drastically as a result of reunification. As the Economist noted, 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."[65] In order 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 stated that " Neither 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."[66] 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, however. In the last week of April 1992, 100,000 workers in transport, postal, and refuse-collection services began a strike in support of a pay increase of 9.5%. 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

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[63] Agra Europe, No. 1447, (London: Agra Europe Ltd. ,July 5, 1991)
[64] Agra Europe, No. 1448, (London: Agra Europe Ltd. ,July 12, 1991)
[65] Anonymous, "The new German Question" The Economist, April 4, 1992. p.15
[66] Anonymous, "Kohl's Debterdammerung?" The Economist, April 4th, 1992. p. 58.

wages to match western levels thus injecting new stress into the traditional partnership between capital, labor and the state.[67]

Furthermore, Kohl's coalition government was in trouble. On the first day of the strikes, Genscher, Germany's foreign minister for 18 years, resigned suddenly raising questions about his confidence in Kohl's ability to manage the reunification process.[68] In addition, the share of the votes garnered by the CDU in the regional elections in Baden Wurttemberg had dropped from 49% in 1988 to 39.6 % in 1992 and Kohl had to fight for support in the 5 new and somewhat politically unpredictable lander. Whereas previously the government had maintained a cooperative relationship with labor and industry and was able to buy off agricultural interests through underwriting the CAP, suddenly the government was forced to deal with newly vocal and very powerful labor and industrial lobbies at the same time that they were experiencing growing domestic deficits and losses in their traditional electoral base. Thus because of the structural and institutional changes in Germany in 1990 and the subsequent mobilization of several new 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 the German leaders to consider the interests of a more heterogeneous coalition of interest groups in 1992 than they had to consider in 1988.

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 to be taken into consideration."[69] Although east German production was relatively inefficient at the time of reunification, it is difficult to estimate how long this will last given improved technology and information about international commodity markets. The former West Germany was thus confronted with the possibility of having to underwrite even greater CAP budget expenditures to

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[67]Anonymous, "The New German Question" The Economist, May 2, 1992. p. 15-16.
[68]Ibid., p. 15.
[69]Q. Peel, "Minister Stands his Ground Against German Farm Lobby" Financial Times, May 22, 1992.

support agriculture in east Germany without expecting the east Germans to contribute proportionately to the overall German contribution to the EC budget.

The German farmers' union (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'."[70] Thus he signalled to German farmers and the other EC member states that Germany could no longer afford to underwrite the cost of the CAP as they had in 1988. The Financial Times reported that "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 goes 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."[71]

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 this policy reform. However, two things should be noted. First, Mitterand realized that agricultural expenditures could not continue to increase at the same rate as they had in the past and that some reform to the CAP had to be made. 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. As the Financial Times noted, "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*

[70]W Dawkins and Q. Peel "French, German Farmers Denounce EC Reforms" Financial Times, May 23/24.
[71]Q. Peel, "Minister Stands his Ground Against German Farm Lobby" Financial Times, May 22, 1992.

edge. (author's emphasis)"[72] In the final agreement, price cuts were imposed and production quotas were not. Mermez, the French agriculture minister, stated at a press conference held after the final agreement was reached, "we accept the proposal... we are satisfied."[73]

The UK has 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."[74]

The UK'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 UK successfully insured that "proposals to compensate cereal producers for taking land out of production took account of the much larger average size of British farms."[75] On the other hand, the British did favor price cuts. The House of Lords report states "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 enquiry [including academics, the National Farmer's Union, consumer lobby groups, and environmental lobby groups] recognized that reductions in guaranteed prices should be a central

[72]D. Gardner, "Reforms with a Grain of Sense," Financial Times, May 22, 1992.
[73]D. Gardner, "EC Farm Policy on Verge of Wide Ranging Reform," Financial Times, May 21, 1992.
[74]House of Lords Select Committee on the European Communities, Development and Future of the Common Agriculture Policy. Vol. 1 - Report. (London: HMSO, 23 July 1991) p. 38
[75]P. Stephens and D. Blackwell"Major Gives Warm Welcome to Accord," Financial Times, May, 22, 1992.

element of the reform package."[76] Thatcher's previous strategy had been to minimize UK financial support for the CAP in light of German insistence on maintaining it. However, the UK, who always had a large win set 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 international pressure to reform their agricultural policy. In addition, the SEA had expanded the policy portfolio at the EC level and Maastricht had the potential to expand it further. At the same time agricultural expenditures were eating up the budget and two of the three main contributors to the budget, Germany and the United Kingdom, expressed reticence about increasing their budget contributions. All of these things worked together to result in the adoption of the MacSharry Reform Package.

The final reform proposal was agreed to in May 1992. Among other things the package included a 29% decrease in cereal prices over three years, a 15% decrease in beef support prices, and a 5% cut in butter prices.[77] In addition, the British and the Germans were able to ensure that all farmers, large and small, would be compensated through direct compensation measures for any loss of income. In exchange, large farmers would place 15% of their arable land in set-aside.[78]

Will the new reform be successful at reducing overproduction in the European Community? Experts agree that it probably will not. Set-aside programs in the United States have never worked because technology has always made up for the land taken out of production and there is every reason to believe that only marginally productive land in the European Community will be enrolled in these programs anyway. Efficient producers will continue to produce as long as they are receiving compensatory payments.[79] In fact, Gardner has predicted that there will only be a 10% cut in grain output.[80] And finally, with only a 29% cut in internal prices, export restitutions will

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[76]House of Lords Select Committee on the European Communities, Development and Future of the Common Agriculture Policy. Vol. 1 - Report. (London: HMSO, 23 July 1991) p. 24.
[77]D. Gardner"EC Agrees Shake-Up of Farm Policy," Financial Times, May 22, 1992.
[78]Ibid.
[79]Compensatory payments are based on the income loss resulting from the cut in support prices, multiplied by the average yield per hectare in each region, which is very high for the UK.
[80]Interview with Brian Gardner in Brussels, June 9, 1992.

still be required. On the other hand, most experts agree that the shift from high consumer prices to deficiency payments (i.e. compensation payments) represents a major philosophical change and a moral victory for the Commission. Even DG VI insiders admit that it is only a matter of time before taxpayers refuse to pay farmers to do nothing, although it is not politically possible to admit this now. Hence, the latest round of CAP reforms will eventually move the Community in the direction of greater dependence on world markets.

REVERBERATION IN THE 1992 AGREEMENT

In the 1988 Stabilizers case, France and Germany had relatively narrow win sets defined by homogeneous interest groups. By 1992, reunification increased the number of interest groups making demands on the German government and subsequently decreased the power of the agricultural lobby. This allowed Germany to expand their win set at the Community level of agricultural negotiations subsequently resulted in a coalitional shift at the EC level. As the Economist reported "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 to 21 billion ECUs ($27 billion) over five years, Germany is proving as mean as Britain."[81]

The cost of 'no agreement' increased at all three levels of the game. 'No agreement' in the Uruguay Round would have costly implications for business and industry in the EC. 'No agreement' at the EC level would result in either the eventual breakdown of the CAP or another budget crisis. However, in 1992, Germany appeared both unwilling and possibly unable to continue to underwrite the CAP given the vastly increased number of domestic demands on German resources. For the French, the 1992 agreement insured the maintenance of export subsides; quotas were not adopted to control production; and direct income payments to compensate producers for income losses at least in the near future were assured. Despite the current level of protest in France, the crisis initiated by 'no-agreement' could have resulted in a

[81]Anonymous, "A final fling," The Economist May 23, 1992, p. 52.

much worse outcome. The British stance in past negotiations indicated that in the case of a budget crisis, they would not increase their contributions. However, the 1992 agreement did insure that their farmers were not disadvantaged at the same time that first steps toward rationalizing agricultural policy were made.

In addition, institutional changes in both Germany and the EC (implementation of the SEA and the Maastricht agreement) changed the number of synergistic policy linkages and widened the boundaries of the game that existed at the EC level. 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."[82] In addition, the admission of linkage between the GATT agriculture negotiations and the GATT services and intellectual property rights negotiations created policy synergism not by creating 'entanglements across national boundaries' but by creating entanglements across issue areas.

Conclusions

In attempting to explain why the EC was able to adopt a radical, non-incremental agricultural reform package in 1992 when they were only able to adopt an incremental reform package in 1988, one must look at the interaction of games being played at the domestic, regime, and international levels. A partial equilibrium analysis which focuses on any single one of these levels to the exclusion of the others will not capture the full range of pressures and options for policy reform. Putnam's 1988 article on two-level games provides a useful framework for analyzing the interaction that occurs between the separate levels of the game.

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[82]Putnam, Robert D. "Diplomacy and Domestic Politics: the Logic of Two-level Games," International Organization, Vol.42, No.3, Summer 1988. p. 447-448.

One of the primary explanations for the policy shift rests in the changed nature of win sets at the domestic and regime levels of the game. In the Stabilizers negotiation, Germany and France had narrowly defined win sets which represented primarily agricultural interests. The UK, responding to more heterogeneous set of interest groups had a wider win set which allowed for an agreement to be reached. At that time, Germany was willing to pay the cost of maintaining the status quo. The GATT negotiations seemed to have little effect on the Stabilizers negotiations because there was no real pressure to reach agreement in the Uruguay Round in 1988.

By 1992, the number of diverse domestic lobby groups in Germany had increased as a result of reunification as had the number of demands on the German budget. Consequently, the German win set had widened. This resulted in a realignment of coalitions at the EC level with the Germans and the British strongly advocating agricultural reform. In addition, institutional changes brought about by the Single European Act and the possible institutional changes resulting from the Maastricht Agreement affected agriculture and heightened the need for reform. Finally, all of the member states and the Commission were under pressure to get an agreement on agricultural reform so that the GATT agricultural negotiations and the Uruguay Round as a whole could proceed. In other words, by 1992 the cost of 'no agreement' or only marginal reform was much greater than the cost had been in 1988.

Thus as Putnam argues the "distribution of power, preferences, and possible coalitions among [domestic] constituents," the cost of "no agreement", and the strategies of the negotiators seem to affect the possibilities for policy shifts. His argument about the degree of autonomy of central decision makers needs further analysis. The Commission had no more autonomy in 1992 than they did in 1988. As for the Council, Kohl could appeal to a more diverse domestic constituency to support Germany's position and the position of the UK changed little between 1988 and 1992. Mitterand seemed to act more autonomously but in the end paid a dear price in domestic political terms for agreeing to the reform package. It remains to be seen what affect this will have in the long run on implementation of the MacSharry Reform Package and on the EC position in the Uruguay Round Agriculture negotiations.

Finally, while intergovernmental institutionalism stresses the role of lowest common denominator bargaining and supranationalism stresses logrolling and linkages in negotiations, neither theory indicates under what circumstances such tactics will prevail. The negotiations in the stabilizers case were based more on lowest common denominator bargaining while the 1992 negotiations seem to have been based more on logrolling and linkages at the domestic, regime, and international levels. Putnam's two-level game approach offers an alternative to these two approaches and thus deserves further empirical attention.

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