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Strength Without Numbers: The Political Influence of European Farmers

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Strength Without Numbers: The Political Influence of European Farmers

By

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Professor Jonah D. Levy, Chair
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Abstract

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This dissertation addresses the puzzling persistence of farmers' influence over politics and policymaking in Europe, despite a dramatic decline in their population and share of economic output. I redeploy theories commonly used to explain welfare state retrenchment to the domain of agricultural policy.

Farmers today account for less than 5 percent of Europe's population, and agriculture's contribution to GDP is under 2 percent, yet farmers have repeatedly blocked reform initiatives and extracted new commitments of support. My project describes and explains how farmers have both thwarted proposed agricultural policy spending cuts and contained proposed reforms. It also accounts for the conditions that have facilitated limited instances of reform.

I contend that contemporary farmer power is grounded in four sources: sophisticated organizations, control of the policy space, sympathetic public opinion, and the unique nature of agricultural production. These updated tools have allowed farmers to remain politically influential despite their declining numbers.

Given the resilient power of farmers, I find that reforming agricultural policy is an exercise in managing the claims of farmers. In essence, European agricultural policies are welfare for farmers. In the same way that governments seeking to retrench welfare programs must contend with program claimants, agricultural policy reformers must manage the interests of farmers. A common outcome across reforms is that farmers defend the budget. In exchange for preserving the budget, farmers often accept administrative policy change. Because reformers often use welfare state retrenchment techniques when engaging in Common Agricultural Policy (CAP) reform, these policy outcomes tend to include compensation for affected claimants, changes to rules and standards, and reforms that seek to improve efficiency and equality of current programs rather than the creation of new programs. Outcomes also depend on how farmers exercise their power. When, for example, their control of the policy space begins to slip, reformers may be able to impose stricter rules and requirements upon farmers.

Important also in accounting for the contents of the final reform are the conditions under which reform takes place. When reform coincides with other periods of major negotiation or change, like enlargement or trade talks, changes to the operation of core CAP policies become possible. When such concurrent events are absent, it becomes incredibly difficult for reformers to enact any change at all to existing policy.

The dissertation draws on a combination of qualitative and quantitative evidence collected over six multi-month fieldwork trips to Belgium, France, Japan, the Netherlands, and the United Kingdom, and brief sojourns to Austria and Ireland. To construct a set of structured case studies, I conducted over one hundred interviews with local, national, and European Union officials. I spoke with current and former members of parliament, government ministers, leaders of farmer organizations, and officials from the European Commission, including several former agricultural commissioners. This unusually rich set of interviews, supplemented by information from EU documents and other data sources, provides the foundation for multiple case studies of major CAP Reform. In these case studies, I systematically analyze the causal processes at work in agricultural reform efforts.

The dissertation's argument and findings deepen the current understanding of how agricultural policy reform occurs and challenges the widely held notion that farmers are politically irrelevant. The findings of the dissertation demonstrate the efficacy of applying welfare state arguments outside of the domain of the traditional social welfare state. Finally, the dissertation has important implications beyond just agricultural policy, including policy making in the European Union, the handling of powerful groups in social welfare policy creation and reform, and the management of social class decline.

To my parents, Jim and Denise Ciciora

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Abbreviations

AGPB	*Association Générale des Producteurs de Blé*
APCA	*Assemblée Permanente des Chambres d'Agriculture*
BPS	Basic Payment Scheme
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
CDU	Christian Democratic Union
CFP	Common Fisheries Policy
COFOG	Classifications of the Function of Government
COGECA	*Confédération Générale de la Coopération Agricole de l'Union Européenne*
COPA	*Comité des Organisations Professionnelles Agricoles*
CSU	Christian Social Union
DGVI	Directorate General for Agriculture and Rural Development
DPJ	Democratic Party of Japan
EAGGF	European Agriculture Guarantee and Guidance Fund
ECU	European Currency Unit
ECOFIN	Economic and Financial Affairs Council
EEC	European Economic Community
EFA	Ecological Focus Area
EP	European Parliament
EU	European Union
FAIR	Federal Agricultural Improvement and Reform
FNSEA	*Fédération Nationale des Syndicats d'Exploitants Agricoles*
GATT	General Agreement on Tariffs and Trade
JA	Japan Agriculture
LDP	Liberal Democratic Party of Japan
LR	*Les Republicains*
LTO	*Land- en Tuinbouw Organisatie*
MAFF	Ministry of Agriculture, Forestry, and Fisheries
MEP	Member of the European Parliament
MFF	Multiannual Financial Framework
MODEF	*Mouvement de Défense des Exploitants Familiaux*
MTR	Mid-Term Review
NATO	North Atlantic Treaty Organization
NFU	National Farmers' Union
OECD	Organization for Economic Cooperation and Development
PS	*Parti Socialiste*
PSE	Producer Support Estimate
QMV	Qualified Majority Voting
SEA	Single European Act
SFP	Single Farm Payment
TRQ	Tariff Rate Quota
UR	Uruguay Round
VAT	Value Added Tax
WTO	World Trade Organization

Acknowledgements

To an observer outside of the academy, a dissertation might seem like a solo task. In reality, that description could not be further from the truth. This dissertation is the product of the time, support, and tireless efforts of a whole community.

First and foremost, I owe a gigantic thank you to my dissertation committee. They have helped me grow from a student into a scholar. They supported me, challenged me, and more than once helped steer me back on track. Beyond the regular advice and feedback, my committee provided me with a friendly, engaging, and collegial environment that allowed to explore new ideas, to make mistakes, and to learn. I appreciate the thoughtfulness they put into each round of feedback they provided and most importantly their willingness to help me stop, step back, and reframe and refocus the project when I was stuck spinning my wheels.

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These international trips were made possible by generous support from multiple institutions including the Embassy of France in the United States, the *Université Libre de Bruxelles*, and European Union Studies Association. At Berkeley, funding was provided by the Center for British Studies and the Center for Japanese Studies. In addition to these financial sponsors, I am grateful to my interviewees (and their staffers who helped me set up the appointment in the first place) who took their time out of their often very busy schedules to meet me and talk about agriculture for a few hours. In Japan, Kristi Govella, a friend and fellow Berkeley political science graduate student, took time out of her own busy research to translate and help manage any correspondence that was in Japanese.

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relief and provided a convenient excuse to take a break and go for a walk. Best of all, they never asked me how my writing was going or inquired about job market prospects. My cousins, Ed and Colleen McLaughlin provided many delicious home cooked meals and as many leftovers as I could manage to carry back to my apartment. Finally, my parents Jim and Denise Ciciora instilled in me a love a learning, exploring, and trying new things. They raised me to believe that I could be do anything and be anything I wanted to be when I grew up. For their love, confidence and support, I dedicate this dissertation to them.

Chapter 1

Introduction

Farmers in Decline?

European farmers have retained a surprising degree of political influence, despite demographic and economic decline. Today, farmers account for less than 5% of the population (OECD Labor Force Survey 2017), and agriculture's contribution to the European Union's GDP is under 2% (World Bank 2017). Despite these substantial losses in population and economic significance, farmers have succeeded in defending existing programs, defeating unwanted policies, and extracting new funding commitments. Although there have been repeated efforts to cut agricultural aid, and despite the fact that the population it maintains has declined dramatically, spending on the European Union's[1] (EU) Common Agricultural Policy (CAP) has not diminished.

The CAP has been, from its creation until today, the single largest program in the European Union. At present, the CAP consumes roughly 40% of the EU budget. Even though the agricultural community has shrunk dramatically, reformers have struggled to redirect funds from the CAP to other programs and arenas. European leaders regularly communicate that one of the Union's core objectives is to foster growth and modernization (European Commission 2010). Yet, in the EU's most recent budget, set for 2014-2020, the CAP remained again the largest single program in the EU. Moreover, €20 billion (out of €152.6 billion, roughly 13%) was removed from the "growth and competitiveness" plan, which funds research and development and cross-border infrastructure projects, and redirected to provide additional funding for farm subsidies. Not only did reformers fail to cut CAP funding, but they could not stop the policy's advocates from diverting money from investments in future competitiveness to farmers.

This sharp incongruity between continued robust financial commitments for agricultural policy and the unrelenting decline of the population it targets motivates the central puzzle in my dissertation. Why has agricultural assistance remained so high, and withstood so many attempts to cut it, despite the fact that the population it services has declined dramatically and agriculture is no longer a substantial component of the European economy? The principal outcomes that I seek to explain in my dissertation are the continued high level of CAP spending and repeated failures by would-be reformers.

My dissertation describes and analyzes the repeated watering down or total failure of budget-cutting initiatives, while also accounting for the occasional successful reforms. Farmers are a powerful political force, and the CAP itself has a strong bias towards the status quo. Farmers have honed a variety of strategies and tactics for maintaining their political efficacy despite their economic and demographic decline. Reforming agricultural policy, therefore, is an exercise in navigating farmer power. Farmer power, enhanced and sustained by the benefits of the CAP, makes it difficult if not impossible for reformers to cut agricultural spending or impose new costs on farmers. Reformers may be able to change the *ways* in which farmers are paid to reduce the incentives for over-producing or polluting, but they have been unable to reduce the *amount* that farmers are paid.

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[1] The European Union's official name has changed multiple times since the policy was created in 1962. In this dissertation, I use the names European Union and European Community interchangeably.

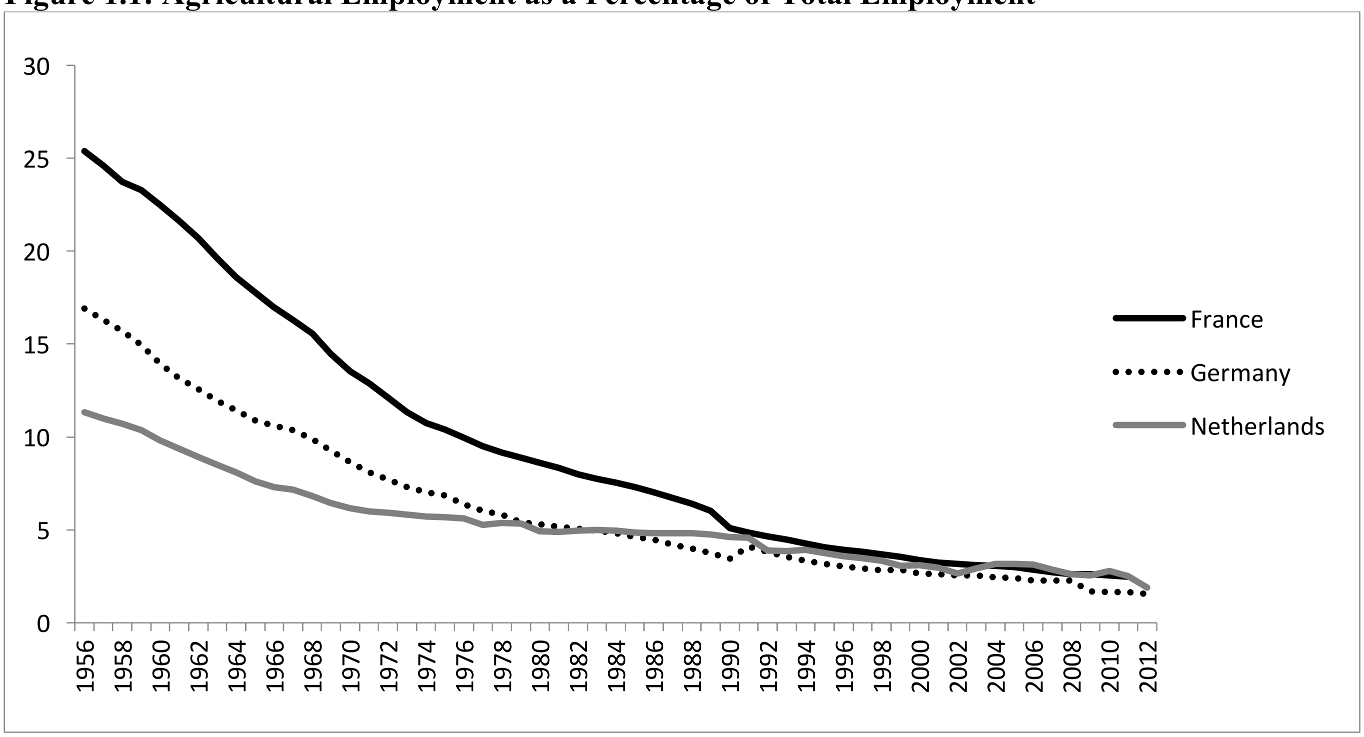
The remainder of this chapter proceeds in five parts. The first section, examining a wide range of measures, shows that that commitments to agriculture have remained high, despite a sharp decline in population. A review of the literature on farmer power is presented in the second section. In the third section I present my argument, elucidating the methods farmers use for exerting political influence, explaining how the conditions under which reform negotiations occur shape the set of possible outcomes, and highlighting the tactics reformers use to manage farmer influence. The fourth section provides an overview of the cases I examine and the methods I employ. Finally, the fifth section articulates the plan of the study and concludes with some initial thoughts about the overall contribution of the dissertation.

Farmers and Agricultural Spending: A Look at the Numbers

There is stark contrast between the size of the agricultural community and the level financial commitments to the community from the European Union. For decades, the number of persons employed in agriculture and its share of GDP have declined dramatically. Yet robust financial aid for agricultural has been a constant since the creation of the EU.

Figure 1.1 demonstrates that the number of people employed in agriculture has been reduced to a tiny share of the population.

Figure 1.1: Agricultural Employment as a Percentage of Total Employment

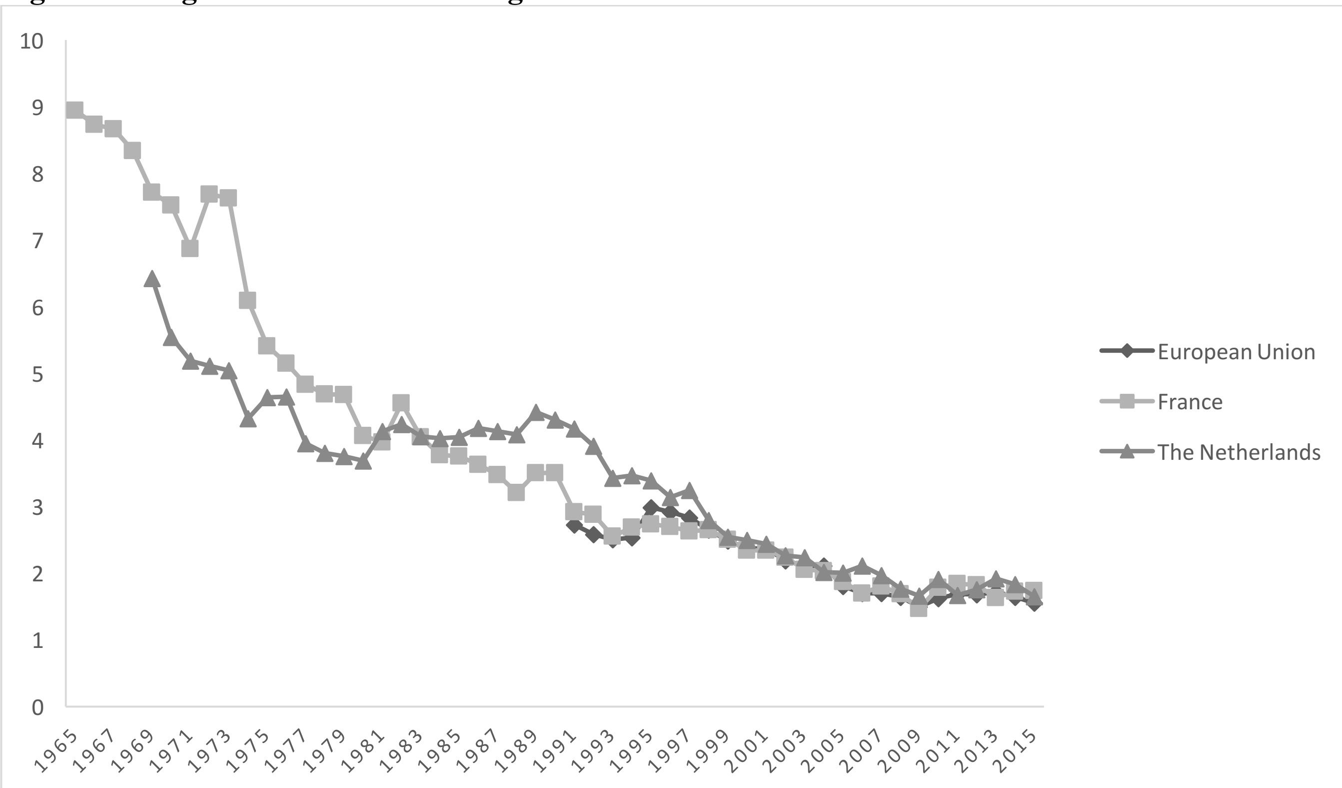


Source: OECD

Between 1956 and 2012, agricultural employment as a share of total employment fell from 25% to just under 2.5% in France, from 17% to just over 1.5% in Germany, and from 11% to 2% in the Netherlands. In other words, since the CAP was launched in the early 1960s, agricultural employment as a share of total employment has fallen roughly tenfold.

Figure 1.2 shows that agriculture's share of GDP has also diminished significantly.

Figure 1.2: Agriculture as a Percentage of GDP



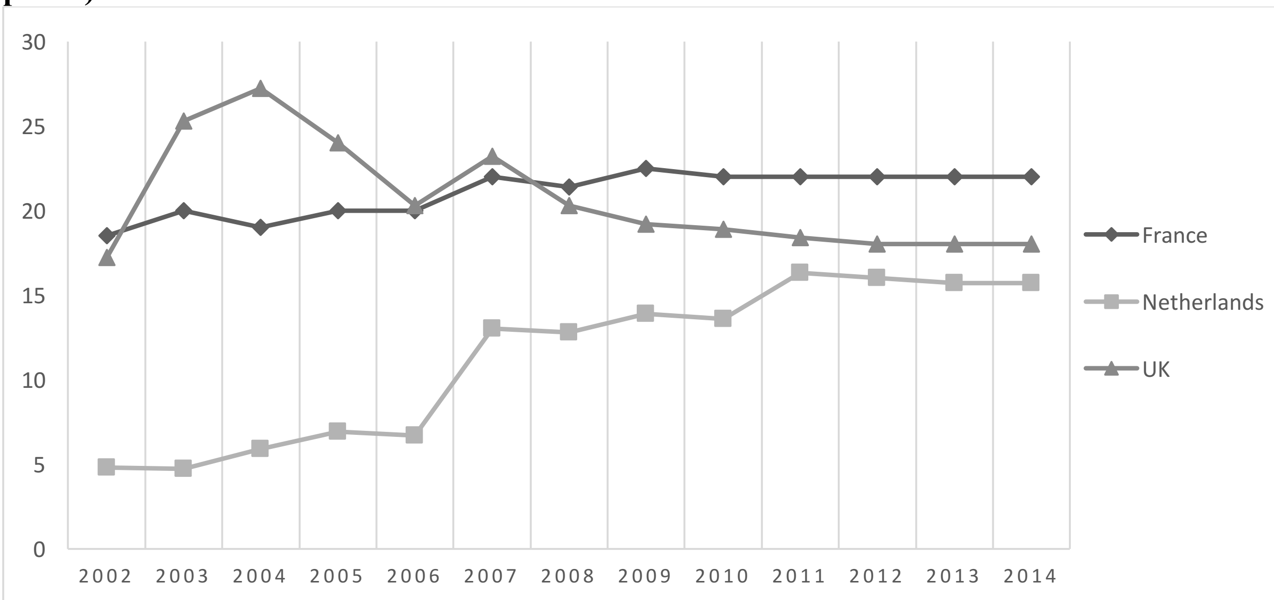
Source: OECD

In France in 1965, agriculture accounted for nearly 10% of GDP; today that figure is below 2%. A similar decline is observed in the Netherlands, where agriculture accounted for 6.5% of GDP in 1969 and now represents 1.5% GDP. The numbers for France and the Netherlands provide a high estimate of agriculture's share of GDP for European countries, as those countries are Europe's biggest agricultural producers and exporters.

Figure 1.3 reports the average CAP payment per eligible farmer from 2002 to 2015 in constant 2012 prices[2].

[2] The EU only began reporting the data necessary, including number of recipients and payments disaggregated by holding size, to calculate this figure beginning with the 2002 fiscal year as part of their annual "Report on the Distribution of Direct Aids to Agricultural Producers". For this reason, no figures older than 2002 can be provided.

Figure 1.3: Average Payment per CAP Farmer, in Thousands of Euros (2012 constant prices)



Source: European Union

Some volatility in the UK aside, this figure shows that the average CAP payment has remained steady, if not increased over time. France and the Netherlands in particular have seen an increase in the average payment, while the EU average has remained constant at roughly €5,000 per farmer. What is more, Figure 1.3 covers a period that saw some of the most important reforms of the CAP, which were designed to limit production and CAP spending. Despite these changes, the average payment per farmer remained stable. In other words, even when the CAP was overhauled, farmer supports were not actually cut; they were simply delivered to farmers in new ways. Figure 1.3 also covers a period that witnessed the accession of 12 new member states from Eastern and Central Europe. Yet farmers in Western Europe did not see a decline in payments, even though many new farmers joined the CAP and became eligible for CAP payments. Indeed, the average payment per farmer in France and the Netherlands *increased* over this period.

Finally, Figure 1.4 presents CAP spending as a share of total EU GDP from 2000 to 2013.

Figure 4: CAP spending as a Percentage of EU GDP (2000-2013)

Source: European Union

Once again, the figure shows stability, even as the agricultural population has shrunk to negligible proportions. Not only has the CAP increased or been preserved in real, inflation-adjusted terms, it has also done so as a share of the EU's GDP. By any measurement, the tale of CAP spending has been one of persistence, rather than retrenchment—a persistence all the more surprising in light of the collapse of the farming population. Thus, there is a real puzzle to be explained—the continued high levels of spending on an increasingly insignificant social group.

The Literature

The main literature that my dissertation engages concerns the sources of farmer power. This literature offers three explanations for why farmers are losing their political influence, each highlighting a different factor said to be eroding farmer power. The first set of claims ties farmer power to demographic dominance, anticipating that farmers are destined to become politically marginalized because of their declining numbers. A second set of arguments privileges macro-level economic factors, claiming that farmers are being swept aside by the forces of globalization. A final set of arguments highlights changing social values, suggesting that farmers' preferences are being trumped by post-materialist, and especially environmental, concerns.

<u>Declining Numbers</u>

The first line of argumentation suggests that demography is destiny, and expects farmer influence to decline over time along with the sector's share of the population (Mendras 1970; Daugbjerg 1998). Farmers, due to their large share of the population, exercised a decisive influence in pre- and inter-war Europe. The way that farmers aligned often affected the trajectory of economic policy (free-market or protectionist) and regime outcomes (democracy or dictatorship). Moore (1966) contends that the revolutionary potential of the peasantry was the key determinant of interwar regime outcomes. Where the peasants were driven off the land by the commercialization of agriculture, as in Britain, liberal democracy prevailed. By contrast, where peasants remained on the land, they provided a mass foundation for either fascism or communism. Luebbert (1991) builds upon the work of Moore (1966), contending that the choice of alliance of the family peasantry determined whether a country's interwar regime became social democratic or fascist. A peasant-urban worker alliance produced democracy, while an alliance with the urban middle class produced fascism.

In the post-war period as agricultural populations plummeted, many saw farmers as doomed to political irrelevance. According to scholars who fall into what might be called the "demography is destiny" school, such as Mendras (1970) and Daugbjerg (1998), now that farmers no longer have the numbers to be crucial and/or decisive alliance partners, they have lost political relevance. This political decline is perhaps most clearly illustrated by the rise and fall of agrarian parties.

Agrarian parties once flourished and were attractive partners for other parties seeking to form a coalition. As their core population declined, however, these parties faded into irrelevance or transformed into centrist or environmental parties (Arter 1999; Batory and Sitter 2004; Kristinsson 1991). For example, Sweden's once powerful Agrarian Party, founded in 1910, was a key source of support for governments headed by the Social Democratic Party in the 1930s, 1940s, and early 1950s. As Sweden's rural population shrank, however, the party's political relevance declined dramatically. In 1958, the Agrarian Party was renamed the Centre Party, and its traditional rural and agricultural interests were replaced by a platform promoting environmental and green interests. Moreover, the Social Democrats found new coalition partners, and the Centre Party was cast into the opposition. In short, farmers used to have political influence because they were a large voting bloc. With their decline in population, however, farmers no longer had the numbers to attract coalition partners. As opportunities for alliances diminished, so too did the farmers' ability to influence policy outcomes.

The demographic perspective would expect CAP support to decline with farmer population. Yet such accounts ignore past examples of small group influence. Gershenkron (1943) for example, describes how landed elites in interwar Germany (Junkers), despite accounting for only a sliver of the population, continued to steer the nation's agricultural policy (and to block democratization) for nearly a century. The low price of grain from Eastern Europe and the United States threatened the livelihood the Junkers, who operated large, grain-growing estates. However, the Junkers combined manipulation of the peasants and an alliance with heavy industry (i.e. the coalition of iron and rye) to protect agricultural subsidies, preserve an authoritarian social order prior to World War I, and undermine the Weimar Republic in the interwar period (Gerschenkron, 1943). The case of the Junkers demonstrates that, even when its members represent only a small percentage of the population, a group can be politically influential.

While the "demography is destiny" literature correctly identifies population decline as a challenge for farmers and farmer syndicates, it does not fully consider the possibility that farmers, like other small groups in the past, may be able to overcome demographic decline and continue to exert outsized influence. It assumes that farmers and their organizations are static, and cannot evolve in order to maintain their political influence as their numbers wane. Yet CAP spending figures indicate that farmers continue to exercise political influence. Declining numbers may have changed the ways in which farmers exercise power, but they have not eliminated that power.

Globalization

A second set of arguments claims that the rapidly changing global economic climate is overtaking farmers and blunting their ability to shape policy (Coleman and Chiasson (2002), Daugbjerg (2012), Frieden and Rogowski (1996), Hennis (2005), Keohane and Milner (1996), and Potter and Tilzey (2005)). Scholars in this camp contend that in an increasingly globalized world, groups that are globally uncompetitive and oppose liberalization, such as farmers, will become marginalized in policy debates. Lower costs of international transportation, along with global liberalization reforms, has made trade cheaper and more prevalent. The effects of maintaining closed markets in a globalized world grow while sheltering agriculture behind a wall of tariff barriers, income supports, and inflated prices becomes increasingly costly. Thus, as countries around the world open their markets and lower barriers to trade, those segments of business, industry, and labor that stand to gain from liberalization have increased incentives to mobilize for reform. Under these conditions, the protectionist demands of the much smaller farming population should be overwhelmed by the growing pro-liberalization preferences of consumers, industry, and business. In addition, while the farmer population continues to shrink, the expense placed on consumers and tax payers, like having 40% of the EU budget go to less than 5% of the population, appears increasingly egregious.

Globalization arguments would predict a dramatic reduction in CAP budget and a sharp turn away from protectionist policies and towards market-liberal measures. Yet outcomes of major trade negotiations do not fully match this prediction. Although trade liberalization has occurred, CAP spending commitments remain high, and farmers have successfully defended their subsidies.

Consider the Uruguay Round (UR) of the GATT. The UR, launched in 1986, was supposed to be concluded in 1990, but delays in the agricultural negotiations resulted in no conclusion being reached until 1994, doubling the expected length of the round. What is more, the central goal of the UR was to reduce subsidies to farmers. Yet, due to the efforts of farmers and their representatives, an agreement could only be reached and the round concluded once precisely the sort of payments targeted for elimination were redefined so as to be exempt from GATT/WTO regulations. Despite accounting for only a sliver of both the workforce and GDP, farmers stared down industry and services, delayed GATT negotiations for four years, and ultimately prevented reformers from cutting farmer subsidies. Farmers held the GATT agreement for ransom, ensuring the protection and continuation of their subsidies before allowing a deal to be reached. As the example demonstrates, farmers' interests are not doomed to being swept aside or overwhelmed by the preferences of consumers, business, and industry.

A consistent pattern has emerged whereby trade policy movement in a liberalizing direction has been accompanied by hefty side payments and/or policy concessions to farmers. Farmers have essentially been paid to accept liberalization. Traditionally, CAP programs paid farmers based on how much they produced, offered guaranteed purchase prices, and assured the purchase, storage, and dumping of excess product. The programs were all labeled by the GATT/WTO as trade distorting. Instead of simply eliminating these trade distorting programs and forcing European farmers to compete on the open market, CAP programs were reconfigured so that farmer incomes could still be maintained, but in ways that did not violate WTO rules on trade distortion. Specifically, the CAP moved from supporting agricultural prices to subsidizing farmer incomes. The CAP became GATT compatible, but at no loss to farmers. Ultimately, while scholars in the globalization school expect farmers to be eclipsed in the move toward the market, in reality, contemporary farmers have been able to adapt to this trend, making market-liberalizing measures compatible with the preservation of farmer incomes. Farmers are not prisoners of globalization; they are agents who have shaped the character of globalization in ways that protect their interests and preserve their incomes.

Changing Values

A third set of arguments contends that farmer preferences are at odds with those held by the general public. Scholars including Berry (1999), Inglehart (1990; 2007), Kitschelt (1995); Montpetit (2000), and Yearly (1992) describe the rise of a so-called post-materialist culture since the late 1970s. Post-materialism refers to a shift in political values and norms away from traditional political priorities such as economic growth and social order to new concerns, notably environmental protection, gender equality, and LGBTQ+ rights. Green parties have typically taken on the mantle of advancing these goals. Green parties have been successful politically and in many cases have come to replace communist parties as key alliance partners for Social Democrats and Socialists. Such "red-green" alliances have governed a number of European countries, including Germany (1998-2005), France (1997-2002), Finland (1995-2002), and Norway (2005-2013). In addition, Inglehart (2007) notes, "in recent decades, social class voting has declined and now shares the stage with newer post-materialist issues that emphasize lifestyle issues and environmental protection." This change in how voters mobilize and vote should threaten farmer interests, with politicians targeting voters via issue area, like women's rights and environmental protection, as opposed to making direct appeals to social classes, like farmers.

The increased salience of environmental and animal welfare issues is particularly threatening to the CAP. European consumers have become more concerned about the quality (as opposed to the quantity) of food production, with an increased interest in animal welfare and good environmental practices. Eurobarometer surveys reveal that European consumers want a CAP that produces food that is safe to eat and that is not harmful to the environment. While 90% of respondents in a 2001 Eurobarometer poll expressed a belief that the CAP *should* "ensure that agricultural products were healthy and safe", only 36% thought that "food bought could be safely eaten" (Eurobarometer 2001). As the survey indicates, there is a vast disparity between what the public thinks the CAP should be doing and what it believes the CAP actually does. The traditional CAP is widely regarded as bad for both the environment and animal welfare.

By guaranteeing high prices and a market for all output, the CAP incentivized farmers to produce as much food as possible, no matter the cost to the environment. A major side effect of this policy was the heavy use of pesticides and nitrates to maximize yields. A quantity-oriented approach was also at odds with animal-welfare standards. Given that the central elements of the CAP run contrary to increasingly influential post-materialist values, scholars in this school would predict a decline in support for and commitments to the CAP.

Arguments in the post-materialist camp predict that policies that promote harmful environmental practices will be gradually eliminated, notwithstanding the opposition of farmer organizations. A further implication of these arguments is that policies will be enacted that protect the environment and/or guarantee the provision of food that is both safe and of a high quality. For these authors, farmers will be forced to go along with a shift from quantity-based production to quality-based production at considerable economic cost.

The CAP has certainly felt the pressure of post-materialist values. Over the past several rounds of CAP reform, policymakers have striven to "green" European agriculture. New policies that focus on improving environmental practices are not just a threat to farmers, however. Such initiatives have offered opportunities for farmers to obtain more support. In exchange for greater regulation of the way that they farm, farmers have been able to extract subsidies for following "good farming practices," such as reducing their use of nitrates and pesticides. In other words, farmers have ridden the green wave to more subsidies and income-boosting programs and policies.

Argument

While many scholars provide compelling accounts of farmer power from the 19th century to the immediate post-war period, explaining contemporary farmer power poses more of a challenge. The reason is that the principal source of influence that the literature identifies for farmers, demographic and economic dominance, no longer exists. My dissertation therefore builds on and updates these arguments in order to provide an understanding of contemporary farmer power.

My argument has three parts. The first examines why agricultural policy reform is so difficult. Despite globalization, changing European values, and demographic and economic decline, farmers have remained politically influential. Contemporary farmer power stems from the ability to access politicians on both the left and the right, to manipulate public opinion, to control the policy space, and to leverage the broader importance of food production. Because farmers continue to be powerful actors, technocrats and policymakers must contend with their influence. Another obstacle to agricultural retrenchment is agricultural policy itself. Just as postwar welfare states have been shown by Paul Pierson (1994) to have generated their own political support base and locked in certain kinds of social spending, so the CAP has mobilized farmers in defense of agricultural spending. Indeed, for a variety of reasons, cutting agricultural spending may be even more difficult than cutting social spending.

The second part of the argument explores the circumstances that may make CAP reform possible. When CAP reform occurs in isolation, as a purely agricultural or budgetary issue, little or no change is possible. Conversely, when CAP reform is part of a broader agenda, such as adding new members to the EU or negotiating global trade agreements, more far-reaching change becomes possible as the introduction of new issues and actors may dilute farmer influence. Even in these circumstances, however, reforms are constructed so as to preserve farmer incomes.

Finally, the third part of the argument describes and explains the character of agricultural reform when it does take place. Here again, my work links with the literature on welfare state retrenchment, specifically that of Paul Pierson. I illustrate how CAP reformers use many of the same tactics identified by Pierson as central to the retrenchment of the social welfare state. These tactics include: obscuring cuts or spreading them out over time; imposing retrenchment on only one segment of agricultural producers; and coupling cuts with side-payments or measures to make the CAP more equitable.

Why Agricultural Policy Reform is Hard

The influence of farmers today stems from several sources including: organizations, public opinion, control of the policy space, and the nature of agricultural production. Each source provides farmers with access to and influence over agricultural policymaking. Together, they make it difficult for those seeking to reform the CAP, whether technocrats or environmentalists, to override farmer preferences.

Farmers in advanced industrialized countries are generally organized into and represented by a single organization, though sectoral and rival organizations do exist. The organizations have strong membership rates, an impressive capacity to mobilize their membership, and well-disciplined and tightly coordinated sub-national branches. Examples of these farmer organizations include France's *Fédération Nationale des Syndicats d'Exploitants Agricoles* (FNSEA), the Netherlands' *Land- en Tuinbouw Organisatie* (LTO) and the UK's National Farmers' Union (NFU). The FNSEA has over 320,000 members, representing well over 50% of France's farming population. There are also a number of smaller French farmer representative organizations, including the *Coordination Rurale*, with roughly 15,000 members, the *Confédération Paysanne*, with about 10,000 adherents, and MODEF (*Mouvement de Défense des Exploitants Familiaux*) the communist-leaning organization created to be a dissenting voice to the FNSEA, which has, at most, a few thousand members (Le Figaro 2016). The Dutch LTO organizes just under 70% of farmers. Finally, the NFU represents roughly 75% of all farmers in the United Kingdom (European Foundation for the Improvement of Living and Working Conditions, 2007). The *Comité des Organisations Professionnelles Agricoles* (COPA) is the umbrella organization that represents all of the member states' farmer unions to the European Union. It is the supranational lobby organization whose presidency rotates among the heads of the national farming unions. Combining the membership of all the constituent unions, COPA represents roughly 13 million farmers.

Both the FNSEA and LTO are multi-tiered organizations that have local and regional branches united under a single national office. The NFU, meanwhile, is divided into three main branches, one representing England and Wales (NFU), another Scotland (NFU Scotland), and the third Northern Ireland (Ulster Farmers' Union). The three main branches, like the French and Dutch farmers' unions, have many more regional and local offices. NFU England and Wales typically takes the lead in representing the NFU supranationally in consultation with the Scottish and Northern Irish branches. While certain types of farming may be concentrated in particular regions, farming in general is undertaken nationwide, meaning that farmers are professionally organized across the entire country.

This type of organizational structure is distinct from that of most other interest groups, such as trade unions. Other interest organizations often lack either local-level representation throughout the country or tight coordination between national and subnational branches. Country-wide coordination between national and subnational branches permits farmer organizations to be actively engaged in political discussions at all levels of government. As one local politician from the Netherlands noted, the LTO has representatives at every single council meeting and is the only representative organization, professional or otherwise, that regularly attends (personal interview; The Hague, Netherlands; 2015). This strong presence in local politics allows farmers to form tight bonds with key local actors and shape the ways that important policies are implemented at the local level.

In addition to regularly participating in local and regional politics, farmer organizations routinely engage with national politicians of the left and the right in the capital and in their home constituency. For example, a member of the left wing of the *Assemblée Nationale* stated that he had "regular monthly meetings" with representatives of the FNSEA while a member of the right-leaning *Les Républicains* (LR) noted that he "meets regularly with [the FNSEA] and helps them advance legislative texts"[3] (personal interviews; Paris, France; 2014). The effect of regular contact with politicians locally and nationally is maximized in cases such as France where politicians hold multiple mandates. For example, a member of the parliament can also be a mayor. Multiple mandates allow farmers to lobby politicians in two capacities, as both a national and local office-holder. Local lobbying can be particularly powerful because of the additional pressure that the national government can put on local officials to keep their towns in order and minimize conflict.

The influence of the farmer organizations is not just limited to national farmers' unions. Other lobbying organizations include agricultural research centers or institutes, universities, such as the highly regarded Wageningen University in the Netherlands, and representative organizations, similar to the national farmers' lobbies, that focus on one crop. In addition to their national offices, these sectoral organizations, such as the *Association Générale des Producteurs de Blé* (AGPB) in France, typically maintain offices in Brussels, allowing them to lobby directly about those aspects of the CAP that are most important to their constituents.

In France, the broader farming lobby also includes the *Chambres d'Agriculture*. France is divided into 18 regions (*régions*), with each region further divided into multiple departments (*départements*), for a total of 94 across mainland France. Each *département* has its own *Chambre d'Agriculture* (with between 45-48 representatives in each of the 94 departments' *Chambre d'Agriculture*). Each *région* also has its own *Chambre d'Agriculture*, with the regional representatives coming from the *chambres départementales*. Finally, the 94 *Chambres d'Agriculture* are organized nationally into the *Assemblée Permanente des Chambres d'Agriculture* (APCA). The collective *Chambres d'Agriculture* thus afford the French farming community yet another avenue through which to lobby the government and influence policy at the departmental, regional, and national levels.

Another source of influence for farmer organizations is their monopoly on expert knowledge. Agricultural policy is incredibly complex- both to create and even to understand (the CAP's complexity is a perpetual complaint). As a result, government representatives and officials, and even sometimes the ministry of agriculture, will rely on the research centers, technical institutes, or various national and sectoral representative organizations to provide expert advice, research, and data on various aspects of agricultural policy. The government's reliance on these organizations affords the broader farming lobby even more political power and influence. On all matters of agricultural policy, including creation and reform, the government is very dependent on farmer organizations for both expert advice and implementation. This dependence allows farmers to wield more influence than other interlocutors. For example, they can reject non-preferred alternatives as implausible or difficult to implement. In addition, the government's reliance on the expertise of farmer organizations in the research and policy development phase affords these groups privileged access and a first mover advantage; they can exert influence before other actors gain access to the debate. Sometimes, due to their expert

[3] Translated from French by author.

knowledge farmers and their representative organizations are permitted to implement policies, creating further opportunities for them to shape the policy.

A third source of political power and influence is the relationship between farmers and the public. Public opinion data demonstrate that Europe's farmers benefit from a sympathetic public. According to the 2014 Eurobarometer survey, only 17% of French respondents think CAP spending is too high, while 69% believe spending is at the right level or too low. In general, the French public is supportive of its farmers and takes great pride in the myriad specialized wines, cheese, and other foodstuffs they produce. French farmer organizations, like the FNSEA have recognized that the farmers' relationship with the public can be a powerful source of political influence. Indeed, the FNSEA routinely manipulates public opinion to serve its purposes. Often, its marketing highlights the plight of the small, family farmer while its political lobbying tends to privilege the interests of the large cereals producers.

As Table 1.1 illustrates, strong public sympathy for farmers is not confined to countries like France.

TABLE 1.1: CAP ATTITUDES AMONG EUROPEAN CITIZENS [4]

	CAP Spending is Too High	**CAP Spending is Too Low**	**Right Amount of CAP Spending**	**Believe that CAP Benefits All**
France	17	27	42	64
Germany	19	17	47	80
The Netherlands	35	12	44	78
The UK	16	26	46	70
EU Average	13	26	45	77

Source: Eurobarometer

British farmers also benefit from a positive and sympathetic relationship with the public. According to the most recent Eurobarometer survey (see Table 1.1), only 16% of the British public believes that CAP spending is too high, while 72% believes that CAP spending is at the right level, or too low. This strong support for the CAP is all the more surprising given the British context. A series of public health scares (Mad Cow and Hoof and Mouth diseases) have given British farmers a particularly bad reputation (even though farmers elsewhere have had their own disease and pollution scandals). In addition, the general public in the UK is among the most Euroskeptical in the EU. The belief that the UK pays far more into the EU than it gets out is widespread and contributed to the Brexit vote and the UK's decision to leave the Union. Despite past issues with food safety and growing Euroskepticism, the British public maintains something of a soft spot for the CAP and for British farmers more broadly.

A sympathetic public can be a key tool for the farmer lobby, and is one that many farmer organizations commit significant resources to maintaining (and manipulating). Favorable public opinion permits farmers to take disruptive action without concern for pushback from those who are inconvenienced. It also allows farmers to demand a high price for their products (placing a significant burden on the consumer) because publics are willing to pay more to subsidize domestic production. Finally, public sympathy gives politicians the political cover necessary to direct costly programs of aid to an already heavily funded and small portion of the population instead of towards more economically promising sectors or other needy social groups.

[4] Numbers in chart reflect the percent of respondents who selected the given option.

The ability of farmers to shape public opinion stems from the nature of agricultural production itself. The ways in which farmers produce and the type of products that they cultivate allow farmers to marshal a wide range of arguments for continuing agricultural income assistance. When farmers are small or inefficient producers, the narrative of caring for farmers in need and investing in small-family enterprises is advanced. Appeals are also made to sustain and preserve traditional rural life and practices. These arguments tie into a desire to protect a country's rural heritage. When farms are large and efficient, aid is justified on different grounds. Farming is presented as a successful sector, generating jobs and exports and serving as the foundation for the much larger food industry, which includes processing and shipping. It can also be a source of pride or cultural influence for high-end products like cheese or wine. These arguments associate support for farmers with the protection of national culinary traditions and the defense of the culinary patrimony of the nation.

Control of the policy space is a fourth and final source of political power and influence for farmers. The EU's Directorate General for Agriculture (DGVI) which is responsible for developing and implementing CAP policy, is not only bigger than any other directorate, but also has effectively managed to isolate the agricultural policy making process (Sheingate (2000, 2001), Keeler (1987), and Knudsen (2009)). In CAP negotiations, the agricultural commissioner is the only one actively involved in the meetings. Other commissioners who may have an interest in the outcome of negotiations, like those for trade, budget and finance, competition, the environment, health and food safety, and competition are not party to the negotiations. In addition to excluding other commissioners, control of the policy space also keeps out groups representing other interests such as consumers, industry, and environmentalists. The exclusion of other actors allows agricultural interests to further dominate policy debates, while potential opponents, and the dissenting or alternative perspectives they can offer, are marginalized.

Agricultural policy is similarly isolated in trade negotiations. In the Uruguay Round of the GATT, for example, the agricultural component of the agreement was negotiated separately from the rest of the trade deal. In addition, interviews with members of national legislators across countries, including the UK, Netherlands, and France, reveal that, when making agricultural policy, little effort is made to reach out to and incorporate other groups who may be interested in reform outcomes such as environmental or consumer groups (personal interviews). Instead, they consult agricultural interests almost exclusively. By controlling the policy space, agricultural interests can ensure that their preferences are voiced, while potential opponents have little or no opportunity to participate in policy making.

Though farmers have seen their numbers decline, they have been able to preserve their influence. Organizations help farmers mobilize for collective action and access policymakers at all levels of the political system. Sympathetic publics permit farmers to ask for (and receive) policies that are often burdensome for the consumer and tax payer. Control of the policy space prevents opponents from challenging farmers' policy preferences and putting forward alternative reforms. Finally, the nature of agricultural production allows farmers to advance a variety of arguments about the continued relevance of the agricultural sector. Ultimately, these are the sources of influence that reformers must navigate and that have helped farmers avoid the political irrelevance they seemed destined for as their economic and demographic power declined.

Farmer power is not the only factor behind high levels of agricultural spending. In addition, reformers confront obstacles stemming from agricultural policies themselves. Here my argument builds on Pierson's (1994) analysis of welfare state retrenchment. Retrenchment of the welfare state is a process whereby policymakers seek to cut spending on social benefits. Examples of retrenchment policies include reducing unemployment benefits, raising the retirement age, and increasing co-payments for health care.

Pierson (1994) asserts that welfare state reform is a different process than welfare state expansion. Welfare expansion is an exercise in credit claiming while retrenchment is an act of blame avoidance. When expanding the welfare state, politicians are enacting "*popular* policies in a relatively undeveloped interest environment" whereas retrenching the welfare state "requires elected officials to pursue *unpopular* policies that must withstand the scrutiny of both voters and well-entrenched networks of interest groups" (Pierson, 1996, p. 1). In practice, cutting social benefits tends to be unpopular, politically delicate, and difficult to pursue (Pierson 1994).

Pierson identifies several reasons why reasons why welfare state retrenchment is a different and more difficult process than expansion. The first reason is that there is an asymmetry in perception of gains and losses, with voters tending to remember losses more than gains (also referred to as a negativity bias). At election time, voters are more likely to sanction politicians for cuts to programs than they are to reward them for commensurate benefits.

Second, when social programs are cut, the costs are highly concentrated, immediate, and sharply felt, while the benefits are typically uncertain, diffuse, long-term, and of low visibility. For beneficiaries of social programs, retrenchment has a direct impact on their well-being. The pensions of senior citizens are smaller or those without jobs no longer qualify for unemployment benefits. By contrast, the benefits of slightly lower public spending to the public at large are small and diffuse. This asymmetry of impact tends to produce an asymmetry of mobilization, with the groups threatened by retrenchment taking to the streets to defend their benefits, while the general population that might gain slightly says home.

Third, the welfare state creates its own support bases or "policy communities", in Pierson's language. When social policies are threatened by retrenchment, policy communities are activated and mobilized to defend them. Proposed reductions or other negative changes to retirement benefits in the US, would, for example, mobilize the AARP (American Association of Retired Persons). The challenge posed by imposing concentrated cuts on coordinated beneficiary groups is further compounded by the fact that many of these policies have strengthened the policy communities they serve over time (through funding or by encouraging membership) and have more broadly increased opportunities for these groups to access politicians. As a result, policymakers must contend with an active and visible resistance that will mobilize to oppose their cuts.

The fourth and final reason why welfare state retrenchment is different from expansion is the influence that past policy decisions exert on current options for reform. "Lock-in" refers to a situation whereby certain early policy decisions "greatly increase the cost of adopting once-possible alternatives and inhibit exit from a current policy path" (Pierson 1994, p. 42). A classic example is public pension systems. In the 1930s and 1940s, politicians were free to choose from a number of different models. Most countries chose so-called "pay as you go" systems under which current employees pay for the benefits of current retirees, rather than pre-funding their own pensions. By the 1980s, Pierson contends, reform options were narrowly constrained. Reformers could not easily shift to a private pension system since they would need to find a way to pay for the pensions of existing retirees along with future private pensions (the so-called "double payment problem"). Lock-in also impeded straight-forward benefit cuts, since retirees and those nearing retirement were counting on promised benefits and often lacked the time and opportunity to boost savings sufficiently to offset program cuts.

Pierson finds that even those leaders most inclined to retrench the welfare state, Ronald Reagan in the United States and Margaret Thatcher in the United Kingdom, ultimately failed. In both cases, the reforms that were adopted fell far short of their proponents' objectives, and social spending did not decline. In the end, policymakers in the US and UK simply could not overcome resistance from program beneficiaries or the challenges inherent in the existing policy structures.

There are many similarities between the process of retrenching the welfare state and that of reforming agricultural policy. European agricultural policies are, essentially, welfare for farmers (Sheingate 2000; Knudsen 2009). As with the traditional welfare state, retrenchment of the agricultural welfare state is an entirely different process from the construction of the agricultural welfare state in the first place. As with the welfare state, cutting agricultural policy is unpopular and politically sensitive. CAP reform has, in the past, been delayed due to important elections in member state countries, and heads of government have publicly expressed a desire to weaken or delay reforms until they are out of office. In the same way that governments seeking to retrench welfare programs must contend with the preferences of the supporters or beneficiaries of those programs, agricultural policymakers must contend with the interests of farmers. Much like social policy retrenchment, attempts to impose cuts on agricultural policy mobilize a well-organized and entrenched opposition. Cuts, if they are imposed at all, are typically much narrower than originally proposed.

While social and agricultural policy reformers face many of the same challenges, retrenching the agricultural welfare state may be even more difficult than retrenching the social policy welfare state. One reason is that the farmers themselves are key actors in policy implementation. Governments often rely on national farmer organizations to both explain and enact key agricultural policies. The very programs that assist farmers have preserved this group and its organizations. By contrast, groups that represent welfare claimants play no role in policy implementation. This dependence on farmers and their organizations makes it difficult for governments to enact retrenchment policies that would jeopardize cooperation. In addition, farmer organizations can potentially frustrate or check retrenchment initiatives at the implementation phase.

A second feature that makes agricultural retrenchment especially difficult is that the general public is quite sympathetic to farmers and agricultural interests. As noted above, public support for the CAP is robust not just in France, but even in the Euro-skeptical UK. As Table 1.1 indicated (see page 12) a large majority of citizens believe that CAP spending is at the right level or too low and that the CAP benefits all citizens, not just farmers. Pierson notes that general support for welfare state retrenchment tends to dissipate when specific cuts are put on the table, but in the case of agriculture, there is no general consensus for retrenchment in the first place.

Finally, there is the obvious political-institutional difference that countries set their own social policies, but Europe's agricultural policy must be jointly agreed upon by multiple countries (28 at present). The greatest hurdle is posed by the rules governing decision making that any reform must clear. For many years, EU agricultural reforms had to be agreed upon unanimously. The rules of Qualified Majority Voting, (QMV) have been applied to CAP decision making since the adoption of the Single European Act in 1987. For a decision to pass, QMV requires assent from a group of countries that represent both a super-majority of countries (55%, or 15 countries) and a super-majority of the entire Union's population (65%). This super-majority voting system provides considerable opportunity for opposition and obstruction. Under the current rules of QMV, a blocking minority consisting of 4 countries that represent 35% of the population can prevent the passage of a proposal. The threshold for enacting cuts to the CAP is much higher than that for retrenching national welfare policies.

While retrenching the social welfare state is generally considered to be difficult, a case can be made that retrenching the agricultural welfare state is even more challenging. Reformers must out manoeuver farmer organizations that are deeply embedded in the policy process. They must also navigate a public that is favorably disposed toward farmers. Finally, they must overcome the European Union's complex decision making rules that provide a host of opportunities for thwarting change.

When Reform is Possible

The first part of my argument shows why CAP reform is so difficult. Yet reform does happen at times. This section identifies the circumstances that make CAP reform possible.

Moments of crisis may strengthen the hand of reformers. Pierson notes that welfare reformers often deploy or even manufacture crises and constraints to boost support for retrenchment. Globalization is claimed to force countries to cut social spending and taxes in order to remain competitive; deindustrialization and mass unemployment are said to necessitate reductions in labor costs and benefits in order to boost job creation in low-productivity services; European Monetary Union allegedly compels governments to slash spending in order to balance their budgets; and population aging is portrayed as mandating cuts in age-sensitive programs like pensions and health care.

Crises and external pressures have also opened the door to agricultural retrenchment. International trade negotiations, enlargement, and environmental crises have all challenged the CAP. They have destabilized the status quo and created opportunities for proponents of far-reaching change. These pressures are frequently cited in the literature about CAP reform. One group of scholars links the CAP reform process to GATT/WTO pressures (Akrill et al 2008; Coleman and Tangermann 1999; Cunha and Swinbank 2011; Grant 1997; Hall and Rosenstock 1998; Josling 1998; Moyer and Josling 2002; Nedergaard 2006, 2008). For these authors, episodes of CAP reform are presented as essentially driven by pressures related to a round of trade negotiations. In this school of thought, the time and content of CAP reform is shaped by the concurrent presence of trade negotiations. Other scholars cite budgetary concerns and the process of enlargement as driving CAP reform (Moyer and Josling 1988, 2002; Pezaros 1999; Swinnen 2003; Tangermann 1998). As with the GATT/WTO line of argumentation, these authors evoke pressures related to budgetary restrictions and enlargement to both explain why CAP reform happens when it does and account for the contents of the final agreement.

While the attention to these pressures is particularly helpful in identifying the factors that both precipitate reform and strengthen the position of the reformers, this literature is less compelling in explaining the ultimate content of the final CAP reform. More often than not, the final agreement differs greatly from the initial proposals, and the concerns related to external pressures are not always fully addressed. This approach, however, is quite useful for understanding when CAP reformers have the opportunity to press for broader, deeper reforms of the CAP. Building on this insight, I have developed a framework for determining the broader conditions under which CAP reform occurs and the implications of those conditions for reform.

CAP reform and negotiations can be broadly categorized as falling under two sets of conditions. The first condition, which I refer to as "politics as usual", characterizes those negotiations in which the primary pressures and concerns relate to day-to-day functioning and operation of the CAP in the EU under its present configuration. The main challenges and issues typically relate to spending and the budget, rural development, and the environment. Although bold and ambitious reform proposals are made, final agreements under politics as usual conditions tend to be underwhelming. Many of the proposals are defeated outright. Those that are not rejected are often made voluntary or watered down so significantly that the resulting policy has little impact on CAP operations.

The second potential condition involves what I refer to as “disruptive politics”. Under this condition, reformers are not only concerned with the CAP itself (and the associated problems of the budget, rural development, and the environment), but must also consider the problems and consequences of the application of the CAP and its policies beyond the agricultural sector. Specifically, when negotiating the CAP in the context of disruptive politics, reforms are shaped by non-agricultural considerations, such as trade negotiations and enlargement. CAP reformers have considerably more success when they are able to expand the proposal’s scope, tying it to these broader issues.

The reform success under “disruptive politics” tracks with what Baumgartner and Jones (1993) describe as “Schattschneiderian moments”. In Schattschneiderian moments, issues or policy proposals are reframed or repackaged so as to change the scope of conflict. Much like these moments, disruptive politics allows CAP reformers to reframe the policy under discussion (often raising the stakes) by tying agricultural reform to a broader issue or challenge. By managing the scope of conflict and shifting the agenda CAP reformers have a greater chance of successfully pursuing far-reaching agricultural change.

While both types of negotiation scenarios may be motivated by a similar set of core common pressures, including the budget, environment, and rural community, at times of disruptive politics, additional pressures including trade negotiations and enlargement come to bear. These additional pressures bring about a difference in the actors involved. When the CAP is considered in an environment of politics as usual, the actors involved are agricultural stakeholders only. By contrast, discussions of the CAP at a time of disruptive politics often entail intervention from non-agricultural actors. For example, when trade negotiations are concurrent with CAP reform, member state governments often feel pressure from business leaders who do not want agriculture to jeopardize an important trade deal. At the EU level, other commissioners who may have a stake in negotiation outcomes, such as the commissioners for trade or the environment, may lobby or pressure the agricultural commissioner to reach an agreement in line with their preferences.

Although reformers under both politics as usual and disruptive politics push for bold, broad reforms, the ultimate outcomes vary across the two contexts. When negotiations involve politics as usual, reforms are muted. New programs and initiatives are voluntary, often including a lot of member state discretion for if, when, and how to implement them. Binding changes to programs rarely amount to more than a minor tweak or surface adjustment.

When EU officials and the member states operate under disruptive politics, including the extension of the CAP to new member states or its application in global trade agreements, the outcome is different. Proposals to make fundamental changes to the operation of the CAP are adopted and reforms are binding, rather than optional. These changes are made in order to ensure that the CAP can survive and continue to meet its operating objectives given the broader issues confronting negotiators, like enlargement and trade negotiations.

Of the four CAP reform initiatives since 1992 analyzed in this dissertation, one has involved politics as usual (Agenda 2000), two have been marked by disruptive politics

(MacSharry and Fischler), and the most recent (the 2013 Reform) took place under mixed conditions. The MacSharry and Fischler Reforms occurred in times of disruptive politics, with trade negotiations and enlargement looming large, and resulted in systemic change to the operation of the CAP. Not only were new rules and conditions adopted for determining eligibility for CAP income payments, but the entire system of calculation and delivery of CAP payments was revised. By contrast, the Agenda 2000 and the 2013 reforms, which occurred under politics as usual conditions (entirely and almost entirely, respectively), resulted in little meaningful change. New initiatives were optional and non-binding, and no systemic changes occurred to the structure or operation of the CAP. In the case of the CAP for 2020, the only change of note that occurred could be clearly linked to disruptive politics[5], demonstrating the importance of such conditions in facilitating reform.

CAP reforms have often defied expectations. The outcome of the Fischler Reforms, for example, was supposed to be a mere "review" of existing policies. While the member states expected little change, the Fischler Reforms resulted in major alterations to the operation of the CAP. Conversely, Agenda 2000 was supposed to bring about a new CAP for the new millennium, but instead yielded no major changes. Ultimately, a pattern can be identified whereby, regardless of member state expectations, major change is possible when negotiations grapple with disruptive politics while only narrow, limited change is possible during politics as usual. Table 1.2 summarizes the key similarities and differences of these two types of CAP negotiations.

Table 1.2: A Comparison of CAP Negotiating Conditions

	Politics as Usual	**Disruptive Politics**
Common Pressures	Budget, Environment, Rural community	Additional pressures from Trade Negotiations and Enlargement
Actors Involved	Agricultural stakeholders only	Additional actors outside agriculture
Nature of Proposals	Broad and ambitious	Broad and ambitious
Characteristic Outcomes	Voluntary agreements, surface level change, minor program adjustments	Compulsory programs, sweeping changes to CAP programs
Impact on Spending	Increase	Increase
Cases	Agenda 2000 & 2013 Cap Reform	MacSharry Reform & Fischler Reform

Despite differences in the structure and nature of the reforms, one important similarity under both scenarios is that spending increases. No matter the condition, CAP reforms rarely impose spending cuts. Under "politics as usual", existing programs persist unchanged, while

[5] Though the process of enlargement to Eastern Europe had been completed, the CAP was still suffering from serious imbalance of payments issues across the EU. Western member states could use a wider variety of formulas to calculate the direct payment, while the new Eastern member states had to use a single formula. The 2013 reform required all member states to use the same formula. While this reform made some minor changes to inequality, it mostly served to reduce complexity. An additional program that would have directly redistributed payments in favor of new member states was severely restricted.

under “disruptive politics”, reformers channel the same amount of money to farmers via new programs.

Shaping CAP Reform Outcomes

The third part of my argument concerns the forms that CAP reform takes when it does occur. Many of the ways in which reformers endeavor to change the CAP echo the politics of welfare state retrenchment described by Pierson. Reformers of the social and agricultural welfare state must navigate a host of obstacles, in particular, resistance by the beneficiaries of the policies they seek to retrench. The set of possible reform outcomes is contingent upon navigating the influence of farmers. This dissertation explains CAP reform outcomes by highlighting five different strategies for dealing with farmers that reformers employ. Four of the five strategies are loosely modeled on the strategies used by welfare reformers as described by Pierson (1994), while the other applies Levy’s (1999) “vice into virtue” to agricultural policy reform.

The first strategy is obfuscation. Using this tactic, reformers attempt to hide or disguise cuts and manipulate information about policy changes. One way technocrats can engage in manipulation is to “lower the salience of consequences”, for example, by freezing a program, such as unemployment benefits, in a growing economy, thus not adjusting for inflation (Pierson 1994). The ramifications of non-adjustment build slowly and are unlikely to attract attention. At first glance, it appears as though there is no change, but in the long run, spending is reduced greatly.

In the realm of agricultural policy, an example of obfuscation is to freeze the subsidy payment levels and not adjust for inflation. Another example is to increase the complexity of the reform. Simple cuts are easy to detect, but complex rules and standards can make potential losses much harder to detect and trace. The CAP is already among the EU’s most complex policies, offering ample opportunity to veil cuts in obtuse Eurospeak. If the procedures and rules are sufficiently complex, reformers can restrict the population of beneficiaries and/or the total amount of benefits delivered. Obfuscation strategies have the potential for meaningful change because reforms can be imposed without causing immediate pain to the farmers themselves, the member state representatives answerable to the farmers, or the EU policymakers.

A second option for reformers is to “divide and conquer” the target population. In the welfare state, cuts can be designed, typically through changes to eligibility rules, so that only some benefit recipients are affected (Pierson 1994). For example, many pension reforms exempt existing retirees and those nearing retirement from the new, less generous calculation of benefits. Such divide-and-conquer strategies find success because they are able to limit the size of opposition, in this case objection from senior citizens.

In the domain of agricultural policy, a divide-and-conquer strategy involves proposing changes that will affect only some farmers, such as big farmers or commodity producers. Policy examples include price cuts for only some crops, or changing eligibility rules of certain types of income-aid payments. This strategy has the potential for meaningful change because either the farmers are no longer united and thus less able to resist change, or the reforms have targeted those sectors that are most amenable to change, while avoiding producers who would resist reform. Certain types of producers are more willing to accept retrenchment or reform than others. In particular, reforms that target large-scale and/or commodity producers tend to be more successful because many of these farmers believe that they can compete internationally without assistance and could take markets from weaker competitors.

A third approach for reformers is to enact reform in exchange for “compensation”. Under this strategy, the potential for fierce opposition is quelled by offering a positive gain to victims of cuts (Pierson 1994). For example, while cutting general pension levels, reformers offer better or more attractive pension plans to women who have taken time off from work to raise children or lower the retirement age for people who have been working since their teens. A compensation strategy is the mostly likely to succeed and provides the most protection to loss-imposing politicians, but is also the most expensive avenue. Under the CAP, this strategy involves advancing policies that buy off or incentivize farmers for adopting certain behaviors, for example offering farmers direct payments in exchange for price cuts and or paying farmers for meeting specific environmental benchmarks.

The fourth route is for reformers to engage in what Pierson calls “systemic retrenchment”. Following this strategy, reformers implement changes that may increase the prospects for future cutbacks or reform. This strategy is indirect, and potential consequences will only be realized in the long term. Examples include institutional reforms that limit the government’s revenue base, strengthen the hand of budget cutters, or undermine the position of pro-welfare state interest groups. Ronald Reagan engaged in systemic retrenchment by introducing tax cuts that significantly weakened the government’s ability to finance social programs (Pierson 1994).

In the realm of the agricultural welfare state, systemic retrenchment takes a slightly different form. Rather than using fiscal tools to strengthen the hand of reformers, systemic retrenchment within the agricultural welfare state plants the seeds of future reform by introducing controversial proposals on an optional basis at first. Once a policy is established, even on an optional basis, reformers have an easier time converting the voluntary provision into a mandatory policy. Typically, they rely on the argument that the member states had already agreed to the idea in principle, so the conversion to a permanent rule is simply a matter of implementing what has been agreed to. Indeed, this exact logic was used in the 2003 Fischler reform to convert an optional set of environmental standards (agreed to in the 1999 CAP reform) into a compulsory greening program. As in the social welfare state, the inclusion of optional rules in 1999, did not change anything initially, but opened the door to deeper reforms down the line.

The fifth strategy entails turning “vice into virtue” by reforming existing policies that are operating unequally and are also a source of “economic inefficiency or substantial public spending” (Levy 1999). Reformers can work on correcting these programs rather than taking the much harder road of eliminating the program and attempting to adopt an entirely new program that functions better. In addition, by correcting the program, reformers are often able to extract new revenue streams that can then be redirected and redeployed toward achieving other policy objectives (Levy 1999). Elements of “vice into virtue” overlap with Sheingate’s (2000) discussion of how CAP reformers take advantage of opportunities to control and manage issue definition. For Sheingate (2000), CAP reform is possible when these changes are tied to broader objectives, like increasing animal welfare standards or promoting good environmental practices.

CAP reformers have taken advantage of many opportunities to use the both “vice into virtue” approach and the issue definition strategy, particularly when changing to the system of income assistance for farmers. In some cases, this strategy is employed in order to shift money from one program to another, so that farmers still get paid the same amount, but the money comes from a different program. More often than not, the money is shifted out of a program that has been tagged as operating inefficiently or perpetuating harmful practices and into an existing (or new) program that corrects for these problems. For example, income assistance payments were channeled out of a system that paid farmers based on output that encouraged environmentally destructive industrial farming and massive surpluses, and into a new system that paid farmers a flat rate based on holding size. This shift did not reduce CAP spending, but by delinking payments and production, it reduced the incentive to produce no matter the consequences for the environment.

All five of these strategies (obfuscation, divide and conquer, compensation, systemic retrenchment, and "vice into virtue") have been deployed by CAP reformers. The most commonly used have been compensation and vice into virtue. Such is the farmers' influence that is is nearly impossible to impose new costs on them without offering some form of compensation in return. Vice into virtue, meanwhile, has facilitated the successful overhaul of major CAP systems by presenting the task as correcting a malfunctioning program as opposed to simply shutting it down.

In sum, the first part of my argument shows why CAP reform is so difficult by revealing both how farmers have managed to retain political influence despite losses in demographic and economic power and by using welfare state theories to identify key obstacles to retrenchment. The second part of my argument identifies the circumstances that may permit systemic reform. The third enumerates the welfare state retrenchment tactics policymakers use to navigate and manage the influence of the farmers. Taken together, my argument accounts for when and why CAP reform occurs as well as the final outcome of CAP reform.

Plan of the Dissertation

Chapter Two describes the history and operation of the CAP leading up to the contemporary period of reform covered in the dissertation's empirical chapters. The chapter focuses on three main periods of the early CAP: its creation in the 1960s, including early successes and challenges, the failed Mansholt Plan of the 1970s, and the limited changes of the early 1980s. I show that even in these early periods of reform, disruptive politics were a necessary condition for reform and that policymakers utilized welfare-style tactics to achieve what limited success they could. This overview provides the background necessary to understand contemporary challenges to the CAP and obstacles to reform.

Chapter Three focuses on the 1992 MacSharry Reform of the CAP. The MacSharry reforms marked the first major overhaul of the Common Agricultural Policy since its adoption in 1962. The MacSharry Reform took place under conditions of disruptive politics, as the negotiations overlapped with the GATT Uruguay Round. The landmark reform paired vice into virtue with compensation in order to transform the CAP's primary function from production to income support. Specifically, the MacSharry Reform introduced, in a limited form, a direct payment system that paid farmers regardless of how much they produced, essentially "decoupling" payments from production. Overall, the chapter demonstrates that even when reform was urgently needed, reformers still had to employ a number of welfare retrenchment tactics to overcome farmer opposition and were ultimately unable to cut spending.

Chapter Four explores the so-called Agenda 2000 reform. Agenda 2000 was intended to further the objectives outlined in the MacSharry round. However, Agenda 2000 was not negotiated during a time of disruptive politics. The surplus crisis had been resolved by the MacSharry Reform, no GATT/WTO negotiations were scheduled, and the next round of enlargement was far enough in the future that no immediate reform action was required. The

Agenda 2000 reform thus allows for the dissertation argument to be tested on a reform that took place under politics as usual. I show that Agenda 2000 ultimately introduced only limited, mostly voluntary change along with substantial financial compensation to farmers.

Chapter Five examines the 2003 Mid-Term Review of the CAP, also known as the Fischler Reform, which was not expected to bring about a significant change. This round of reform occurred under disruptive politics, however: the CAP confronted severe financial pressure from enlargement and contentious trade negotiations in the WTO. This round of CAP reform presented a favorable context for reformers to make changes and a challenge for farmers to prevent tough amendments to a flailing policy. Fischler's reform continued and extended the process of decoupling, begun by MacSharry and also introduced a new version of the compensation scheme called the Single Farm Payment. In addition, Fischler was able to make mandatory environmental policies that had only been optional in previous reforms. Despite these changes, many proposed policy reforms were watered down significantly and reformers had to employ a number of tactics typically used by welfare state retrenchers to achieve their goals. For example, reformers paired a compensation program with the vice into virtue strategy to successfully introduce the Single Farm Payment.

Chapter Six investigates the most recent round of CAP reform concluded in 2013, which occurred largely under politics as usual. The budget was not in crisis and the EU was not involved in any WTO negotiations. The only major reform achieved during these negotiations, the recalibration of the direct payment system, is the only one with a clear link to a source of disruptive politics, in this instance enlargement. The CAP was still contending with the consequences of the previous rounds of enlargement, in particular issues related to an imbalance in payments made to Western and Eastern countries. In order to increase the likelihood of successful reform in at least this domain, reforms linked the policy revisions to the disruptive politics of enlargement, rather than presenting the reforms as routine policy maintenance. Other reform proposals, such as adopting strict greening standards, imposing a ceiling on direct income payments, and restricting the qualifications for receiving agricultural payments, were completely blocked. The within-case variation, then, illustrates the importance of disruptive politics for achieving CAP reform.

In Chapter Seven, the conclusion, I demonstrate the applicability of the dissertation argument beyond CAP reform through three mini cases. The first analyzes national government responses to the financial crisis, the second Japanese agricultural policy, and the third farmer influence over international trade negotiations. Across all three cases, each in different institutional settings, a common theme emerges: whatever changes to agricultural policy may be enacted, it is difficult if not impossible to impose spending cuts on farmers. Finally, the conclusion considers the implications of my argument for EU policymakers, for welfare retrenchers, and for scholars of social class transformation and decline.

Chapter 2

The CAP from Creation to Crisis

This chapter reviews the creation of the CAP and early efforts to reform its policies. Initial decisions about the core operation and objectives of the CAP had powerful long-term consequences. They set the CAP on a path towards interrelated production and spending crises that lasted for decades. Multiple reform initiatives were undertaken in the 1970s and 1980s in an effort to correct these problems. In the absence of disruptive politics, however, CAP spending surged, and reform efforts yielded little more than tinkering with existing policies, as opposed to systemic change.

The original core CAP policies were oriented towards increasing production. All other concerns, including incomes and the environment, were secondary. In fact, the founders of the CAP believed that the other problems would take care of themselves once the production problem was resolved. The end result was that production dramatically increased, but incomes for most farmers did not, and the environment was damaged. Although it became apparent to CAP leaders that the fundamental operation of the CAP needed to be reformed, this sort of paradigmatic change was not possible. Instead of addressing the fundamental operation of the CAP, early reforms propped up the CAP with additional revenues and engaged in no more than superficial corrections to existing programs. Paradigmatic reform was not possible without the help of disruptive politics. As long as politics as usual prevailed, production and spending would continue to grow rapidly.

CAP Origins and Early Years

The CAP emerged out of a political deal between France and Germany. France agreed to support the common market, which would be of great benefit to Germany industry, while Germany agreed to support a common policy for agriculture. Essentially, this promise meant that Germany would be paying for French farmer subsidies, and in exchange, France would open its market to German manufactured goods. The Treaty of Rome, signed in 1957, established the European Economic Community (EEC), and with it, the common market. It also included plans for a common policy for agriculture to be established within five years.

While the Treaty of Rome did not outline the design or operation of the CAP, it defined the objectives of the CAP as follows: "to increase productivity by promoting technical progress…to ensure a fair standard of living…by increasing the individual earnings of persons engaged in agriculture; to stabilize markets; to assure the availability of supplies; to ensure that supplies reach consumers at reasonable prices" (Treaty of Rome, 1957, Title II, Article 39). The operational details would be worked out in a series of conferences, meetings, and negotiations that followed the signing of the Treaty of Rome in 1957, culminating in the formal launching of the CAP in 1962[6]. There was obviously some tension among CAP objectives, and the goal of ensuring products at reasonable prices for consumers would quickly be abandoned: the CAP would be grounded in a system of inflated prices, funded by taxpayers.

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[6] The details of these negotiations, including months of fighting over grain prices, are not reviewed in this dissertation. It should be noted that while support for the CAP in principle was part of political deal between France and Germany, the technical negotiations between the two sides were extremely contentious.

When the CAP was established, famine was a recent memory, so there was concern for ensuring self-sufficiency in food. During WWII, Europe suffered from food crises ranging from shortages to famine. The Netherlands, for example, endured what is now known as the "Hunger Winter", when an estimated 22,000 Dutch people died from starvation. After the war, rationing was common as Europe struggled to feed itself. In Germany alone, the US, with support from the UK had, by 1948, provided nearly $1.5 billion in food aid. The memories of Europe's food insecurity were, and remain, powerful. Indeed, in speaking to policymakers in the Netherlands about the importance of the CAP, nearly every official referenced the Hunger Winter, even those who would not have been alive at the time (personal interviews; The Hague, Netherlands; 2015). One of the core goals of the architects of the CAP (perhaps unsurprisingly lead by a Dutchman), was to ensure that Europe would always be able to feed itself by boosting agricultural productivity and output.

CAP founders also had a social objective, seeking to close the income gap between farmers and industrial workers. In the years just before the creation of the CAP, a noticeable gap had developed between the average earnings of farmers and those of individuals employed in other fields, most notably industry. For example, in Germany in 1958-1959, farm incomes were equal to 76% of non-farmer incomes (FAO 1963). The situation was equally grim in the other member states. In France in 1961, farm income was estimated at "3,280 French Francs for farm owners and 2,540 French Francs for farm workers" compared to 4,690 French Francs for industrial wage and salary earners (excluding managers and professionals) (FAO 1963). Policymakers feared that, without intervention, this wage gap would only worsen. The ultimate result would be an uncontrolled rural exodus, collapsing the countryside and overburdening cities, as farm workers sought more lucrative industrial jobs.

The CAP sought to achieve the goals of increased production and improved earnings through a system of price guarantees, with agricultural prices set well above world market prices. Three key policy instruments supported the price guarantee system. The first was a set of high import tariffs and other measures to limit the import of agricultural goods. The second was a guarantee to engage in intervention buying, whereby the EU would purchase those goods in excess of EU customer demand at inflated prices. The third was a system of export subsidies that allowed the EU to dispose of the excess product on the world market. Essentially, this system guaranteed that all agricultural output would find not only a buyer, but one who was willing to pay a much higher price than what the market dictated.

The CAP registered three major successes in its early years. First, food production, stimulated by high guaranteed prices, increased rapidly. The CAP enabled Europe to attain food security and self-sufficiency. The Continent would never again have to rely on the US to feed its people. The CAP generated a steady supply of core goods including cereals, milk, and butter. In addition, European consumers were provided with an abundant and diverse selection of produce.

The second major achievement of the CAP was the modernization of European agriculture. The high prices that incentivized production generated capital that farmers could now reinvest in their farms. In the past, European farmers had tried and largely failed to compete with cheap imports, particularly of cereals, from the United States and Canada. European farms lagged behind the United States, and most farmers did not have the means to modernize and become competitive. The CAP's high prices and tariff barriers sheltered European farmers from US competition. Farmers who benefited from high prices were able to reinvest their profits into both new technology and more land. New technology facilitated more and faster production at a lower cost.

The third achievement of the CAP was to manage Europe's transition from a primarily agrarian and rural society to an increasingly urban and industrial society. In other words, the CAP allowed for the peaceful (though expensive) management of the rural community's transformation. The new system which offered higher guaranteed prices allowed smaller and less efficient farmers to stay on the land and eke out a living instead of abandoning it as they otherwise might have done. Thus, instead of a mass rural exodus and the subsequent collapse of countryside, this system slowed the process and cushioned the decline of agriculture. That is not to say that no one left farming under the CAP. Indeed, opportunities for early retirement facilitated the permanent exit of a small number of farmers in a controlled manner. In fact, exit from the sector was used to strengthen it, as the departure of predominantly small and inefficient farmers allowed the larger and more productive farmers to buy up more land. Essentially, exit permitted a transition to a more modern, efficient model of agriculture, grounded in large farms as opposed to small family or subsistence farms that had once dominated the European countryside. Most importantly, this goal was achieved humanely and without democratic collapse, social upheaval, or economic catastrophe.

Although a transition from agriculture to industry and rural to urban might seem natural, it is in reality perilous and difficult. Both Karl Polanyi (1944) and Alexander Gerschenkron (1943) provide cautionary tales of the mismanagement of class decline. They demonstrate that the most fundamental potential consequences of poor class management are collapse of democratic regimes and the rise of authoritarian alternatives, accompanied by social unrest. Thus in the wake of a war that destroyed the continent and saw the rise of fascism in the heart of Europe, the post-war task of successfully managing the decline of the farmers was immensely important. The Common Agricultural Policy was the plan for navigating the peaceful transition from agriculture to industry without destroying democracy along the way. Along with these significant successes, however, came major costs and what proved to be systemic problems.

The Problems of the CAP

Although the CAP brought many benefits to European farmers and society, its reliance on high prices generated several problems, starting with a growing imbalance between supply and demand. The introduction of the CAP coincided with a substantial leap forward in technical and scientific progress, such as improved chemical fertilizers and new farming equipment. These advances resulted in a dramatic increase in output. While the baby boom was in full swing when the CAP was being debated and designed, by the 1970s, population growth was slowing. The improved agricultural output quickly resolved the post-war food crisis and ensured that the vast majority of the population was well fed. Consequently, total food consumption remained steady while food output skyrocketed. Meanwhile, the CAP continued to incentivize production, yielding chronic surpluses for a growing number of products, including sugar, wheat, and milk. CAP rules required these surpluses to be purchased and stored at the European Community's expense. Their disposal quickly became a serious problem. The products could not be sold on the Community market without depressing prices, which would undermine the CAP's goal of increasing farmer incomes. One alternative, destroying surpluses, was politically unviable. The memory of starvation in Europe was still strong, and thus there was a powerful morally negative association attached to the destruction of food.

Given these restrictions, the surpluses were disposed of in three main ways. One was to sell the products back to farmers at low prices. This option was primarily utilized with those goods that could serve as animal feed. To prevent farmers from reselling the bargain-priced feed for the higher guaranteed prices on the market, the surplus grains sold to farmers were "denatured" (i.e. fish oil was added to the wheat) (Hill 1984). A second option was to use export subsidies to sell the commodities purchased at intervention prices at the much lower world prices (Hill 1984). The third option was to use the surpluses for food aid. Overall, surplus disposal was very expensive and quickly became one of the largest expenditures of the "Guarantee" portion of the EAGGF[7]

High CAP prices did not necessarily lift all farmers' boats. On the contrary, the CAP created vast inequality among farmers, both across and within member states. With CAP support based on market intervention, the amount of support received was directly proportional to the amount of goods produced. Under this system, the larger, commodity producing farmers raced ahead, while the smaller and/or non-commodity producers made little gain. Larger farmers, who produced more, benefited the most. Moreover, the gap widened as they bought up available land and invested in the latest machinery to boost output. Meanwhile, subsistence farmers, many of whom still milked their cows by hand, continued to survive on the land, but lacked the means to modernize and expand. Essentially, the CAP served to modernize and improve the larger farms, but for the small family farms, it did little more than allow them to survive and did not improve small farmer incomes in a meaningful or sustainable way. This income problem, both within and across member states, has persisted to the present day and is an issue that current CAP reform is still struggling to address.

High CAP prices also caused recurring budgetary crises as the EU was required to purchase and store or dump whatever was produced at prices that were inflated. Indeed, these obligations consumed the budget, while other important CAP projects, such as modernization and rural development, were woefully underdeveloped and underfunded. The problems stemming from inflated prices were obvious very quickly, but became hard to change since farmers violently opposed price cuts[8]. The budgetary crisis could be resolved in one of two ways: cutting prices or overhauling the fundamental operation of the CAP. The former solution ran contrary to the CAP's use of inflated prices to improve incomes. In addition, as studies of social welfare state retrenchment reveal, it is exceptionally difficult to cut benefits once they have been extended. The second solution, to achieve paradigmatic reform by altering the core operation of the CAP, was highly controversial. Agricultural differences among the member states made it almost impossible to agree on any kind of significant CAP reform.

CAP reform, whether in 1968 or in 2019, is defined by a lack of consensus. Member states are split on every issue from how (and how much) farmers should be paid, to the methods for protecting the environment, to if such rules should even exist in the first place. While every member state plays an active part in CAP negotiations, there are four countries that tend to drive negotiations and dominate the narrative. In addition, these four countries, France, Germany, the Netherlands, and the United Kingdom, play a role akin to a coalition leader. The dividing line on most, but not all, issues tends to be drawn between the coalition led by the former two countries

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[7] European Agriculture Guarantee and Guidance Fund (EAGGF) is the fund in the budget that accounts for CAP expenditure. The Guarantee portion covers market expenditures, including all expenditure related to agricultural markets and export subsidies. The Guidance portion covers rural development and environmental issues. The Guidance portion has always been smaller, and for the early years of the CAP was significantly smaller, accounting for roughly 5% of the total EAGGF budget in 1987.

[8] One person died in a 250,000-farmer protest in Brussels in 1971 over a proposed overhaul of the CAP. (Cunha and Swinbank 2011).

and that led by the latter two. Where these countries are positioned on any CAP issue is almost always driven by their agricultural production profile.

French agriculture is diverse on all accounts. It includes the highly productive and the uncompetitive, the commodity producers and the specialty goods cultivators, and the large landholders and the small family farmers. Not all groups and preferences are equal, however, and the large landholding cereals producers tend to have more political influence than other farmers. Since the CAP was essentially France's compensation for supporting German industry, France is typically the most ardent defender of the portions of the CAP committed to supporting and improving farmer incomes. Particularly in the early years of the CAP, these policies were how France forced other countries, most notably Germany, to pay for the modernization of French agriculture. France typically leads a coalition that seeks to preserve CAP support for farmers, to keep prices high, and to ensure compensation for any burdens or new standards imposed on farmers.

Germany's production profile and CAP preferences are best understood by dividing them temporally, pre and post-unification. At the time the CAP was created, smaller, family-style farms predominated in West Germany. A notable exception, however, were the grain farmers in Bavaria. So, at the CAP's creation and in its first decades, Germany preferred higher prices. At this time, high prices were a means for modernizing the sector and also for preventing its sudden and total collapse, with industrial jobs looking increasingly attractive in Germany. Indeed, the post-war recovery and modernization of its agricultural sector were particularly important.

Around the time of reunification, however, Germany's preferences began to shift and it has come to slightly prefer more financial discipline as the burden of its financial contribution to the EU has increased. Specifically, by the late 1980s, agriculture in the west had long since modernized. Now, Germany was confronted with the massive financial burden of absorbing the East, essentially a Soviet colony that lagged behind West Germany on every measure. Given the financial burden associated with reunification, Germany sought to contain expenditure as much as possible elsewhere. Essentially, Germany no longer wanted to pay to subsidize French farmers when it needed to modernize all aspects of society and the economy in half of its own country. Despite calling for financial discipline, however, Germany tends to oppose efforts to limit the amount an individual farmer can receive, given the internal structural diversity of its agriculture. Moreover, farms in the East tended to be large, and would be likely to be hit with the effects of any effort to cap incomes. One important similarity has persisted, pre and post-unification, which is that Germany is traditionally a strong supporting member of France's coalition. Though it breaks with France from time to time, those moments are the exception and not the norm.

The United Kingdom is home to some of the largest farms in the EU, with a mean holding size nearly six times the EU average. Until eastern enlargement in 2004 the UK had, on average, the largest farms with a mean holding size of 94 hectares compared to an EU average of 16.4 hectares (Eurostat 2018). Though there is some diversity, the dominant production is in cereals and livestock-related goods. In addition, UK farmers tend to be efficient and competitive, even without price supports. The relative competitiveness of British farmers, coupled with the UK's substantial financial contributions to the EU, is the major factor driving British attitudes toward the CAP. Although UK farmers are among the largest individual beneficiaries, the situation is spun as one where British government is paying to subsidize its own farmers' competitors.

For the UK, the preferred CAP outcome is to cut spending as much as possible, ideally eliminating income supports entirely. Indeed, the UK routinely favors cuts to prices and income supports. However, because its farms are so large, the UK also opposes any efforts to limit individual benefit levels. If prices and income supports cannot be entirely removed, then the UK will see its farmers disproportionately bear the burden of income limits. In negotiations, then, the UK typically leads the price-cut coalition.

Dutch agriculture is defined by small but incredibly efficient holdings. Most production is concentrated in livestock and horticulture, as opposed to commodity products. In addition, the Netherlands places a particular emphasis on research and innovation in agriculture and agricultural technology. Indeed, the world's leading agricultural research institute is located in Wageningen, the Netherlands. This commitment has allowed the Dutch to become one of Europe's top agricultural-exporting countries despite having very little land available for agriculture. Dutch agriculture is also defined by a robust commitment to rigorous environmental standards, important in a densely populated country with limited arable land.

The ideal CAP outcome for the Netherlands would include the elimination of any price supports and direct income payments so that the most competitive and efficient countries, like the Netherlands, would not be forced to subsidize those who are weaker. In addition, the Netherlands would prefer to see stronger environmental standards. It is typically part of a coalition led by the UK that seeks to cut spending on prices and income supports.

These sharp and persistent divisions help explain why systemic reform is only possible under conditions of disruptive politics. Disruptive politics help reformers overcome these divisions among the member states. Challenges such as enlargement or trade negotiations can force member states to reevaluate their policy preferences and priorities. These additional pressures can also raise the stakes for reaching an agreement, incentivizing member states to find a compromise or to agree to a larger policy change than they otherwise normally would. The introduction of external actors can increase the drive to reach reform. For example, these external actors can threaten to impose change that is broadly disagreeable to agricultural interests. As disruptive politics makes member state divisions and preferences less rigid, paradigmatic reform becomes possible.

When CAP reform is negotiated during politics as usual, as the following examples in this chapter will demonstrate, the fundamental divisions on core policies cannot be overcome. There is little incentive for member states to reevaluate their preferences. As a result, the policies that emerge from CAP reform initiatives tend to produce little meaningful change to the operation of core CAP programs. The policies and changes that do result in these situations are those that upset no one. They are often defined by lax rules, extensive exemptions, and/or their voluntary nature.

The Mansholt Plan

The first significant effort to reform the CAP was the so-called Mansholt Plan. In 1968 the Commission, led by Sicco Mansholt, published the "Memorandum on the Reform of Agriculture in the European Economic Community" commonly referred to as the Mansholt Plan. Mansholt was one of the principal architects of the CAP, representing the Netherlands, and was the only agricultural minister party to the negotiations among member states. He was deeply committed to the project of European integration in agriculture and was considered a leading expert on the topic. His document contained a formal analysis of the situation in the Community. It built on Mansholt's 1967 speech to the Council of Ministers in which he warned the Council that the CAP already required major changes, even though it was barely half a decade old. In particular, Mansholt noted that price supports had fostered a significant increase in production, which yielded massive surpluses that were incredibly expensive to dispose of. More troubling, these price supports failed to meet a key goal of the CAP, as incomes did not increase for the majority of farmers.

Despite a founding goal of the CAP being the improvement of farmer incomes, during the first decade of its existence not only had the income gap failed to diminish but income disparities had grown considerably within agriculture (Grant 1997). The UN's Food and Agricultural Organization's 1975 "State of Food and Agriculture" noted that in the previous decade (the first decade of the CAP's existence) there was "no evidence of any general narrowing of the gap between agricultural and non-agricultural incomes", rather "the general tendency was for the gap to widen still further" (p. 81). Despite the EU's program being designed with the specific intention of improving farm incomes, the only developed nations where "large improvements" were observed were the United States and the Soviet Union (FAO 1975).

Mansholt believed that the fundamental problem in Europe was too many farmers. The Mansholt Plan observed that farms were, on average, small. The average farmer produced and sold very little, resulting in a low income. In addition, there remained too many elderly farmers with inadequate training for modern conditions. Mansholt asserted that CAP price policy encouraged and allowed marginal farms to stay in business. His plan's core claim was that the only practical way to increase farmer incomes was for farms to become larger and more modern businesses. To make farms larger, there would necessarily have to be fewer of them. Achieving the objective of creating larger and more efficient farms, Mansholt argued, would meet the CAP's goal of increasing agrarian incomes. Moreover, higher incomes would reduce dependence on high prices, allowing these prices to be lowered, which would in turn remove incentives to overproduce. The result, in the long run, would be lower EAGGF support costs and an efficient farming sector. Essentially, Mansholt's plan was oriented around improving farmer incomes by removing farmers from the land in order to increase the average holding size. Reduced production and CAP spending were uncertain outcomes that would only emerge in the long term.

Mansholt asserted that 5 million people would need to be removed from agriculture between 1970 and 1980. His proposal included several options to encourage exit. Exiting farmers could be offered either retirement pensions or compensation and training for a new profession. To prevent rural depopulation, however, Mansholt suggested that regional plans be implemented to bring jobs to the countryside. For those remaining in farming, financial assistance would be available for the modernization and expansion of their farms. Finally, because the remaining farms would ostensibly be larger and more productive, he recommended that 5 million hectares be taken out of agriculture and devoted to re-afforestation. The removal of agricultural land would prevent a worsening of the surplus situation because it would limit the ability of farmers to both keep excess labor in farming and expand the areas devoted to certain crops known for higher yields, such as grains and sugars (Fennell 1997). If the land were permanently removed from production, it could not be bought up and used by the highly-productive farmers already benefiting from the current system. In addition to better controlling production, this initiative to both remove land from production and engage in a re-afforestation effort would help to reduce the Community's dependence on timber imports.

Despite its efforts to address the real crises facing the CAP, the Mansholt Plan was poorly received by farmer groups and politicians. Farmer groups criticized it extensively, dubbing Mansholt "The Peasant Killer" because they perceived of the plan as an existential threat to their constituencies. For their part, politicians, wary of farmer voting power and the sway of agricultural lobbies, declined to engage in formal discussions of the plan.

One issue that made discussion difficult from the start was that Sicco Mansholt's understanding of the family farm was very different from that of key member states. Mansholt's plan aligned with the Dutch assessment of a family farm as a unit that could support a family when run professionally, using modern techniques. The other member states saw the family farm as the key socio-cultural institution of Europe's countryside, thus requiring its preservation. To the non-Dutch member states, Mansholt's plan portended the destruction of the family farm as they knew it, thus rendering the plan politically unpalatable and fundamentally unacceptable.

The fundamental problem, though, was that Mansholt undertook his reform initiative at a time of politics as usual. In 1968, when his memorandum was published, there were no ongoing trade negotiations. Moreover, not only was there no looming enlargement, but the prospects of accession in general seemed grim, with French President Charles de Gaulle blocking British membership.

Paradigmatic reform, like the Mansholt Plan proposed, is essentially impossible to achieve under politics as usual. Mansholt's plan faced strong resistance from farmers, and there was no disruptive event to overcome this resistance. Even though Mansholt did not take on the issue of surpluses directly and instead focused on the size of the farming community, he was unable to overcome the refusal of other key actors to accept the need for CAP reform. For these reasons, the fundamental problems plaguing the CAP's operation carried on into the ensuing decades.

1988 Stabilizer Reform

The CAP's unresolved production problems and their associated financial expenditures continued to build in the years following Mansholt's unsuccessful initiative. The high cost of disposal was all the more alarming, given that in 1970 the CAP accounted for 75% of the Community's budget. A new funding agreement for the CAP which was reached in 1969 and would be implemented in 1975, would provide much needed stability for the financing of this incredibly expensive program. Previously, national contributions to the Community were settled through acrimonious negotiations. Under the new plan, the CAP, and by extension the Community, would have its own resources. Specifically, levies on agricultural imports and customs duties were to accrue to the Community. National value added tax (VAT) receipts, up to a maximum VAT rate of 1%, would meet expenditures in excess of what could be covered by revenue from the levies (Hill 1984). Due to delays in harmonization of the member states' VAT systems, the VAT component of the financing was not implemented until 1979. Essentially, this financial program served to prop the CAP up without fixing it by providing a large, dedicated source of funding. Overproduction, and the associated costs, continued to drive up spending.

By 1986, CAP annual spending had reached 56 billion ECU ($54.8 billion), up from an average of 30 billion ECU ($39 billion) between 1979 and 1981. The 1984 Fountainebleu agreement attempted to stabilize expenditures in agriculture by limiting spending increases to 2% annually. The agreement, however, provided no incentive (or penalty) to compel individual farmers to cut back on production. In the wake of limited change, production continued unchecked, and overall expenditure continued to increase at a rate of 18% per year.

By 1987, the CAP was violating the policy's own financial regulations by running a budget deficit between 4 and 5 billion ECU, which, at the time, "was concealed through cleaver accounting" (Patterson 1997). Despite the swelling agricultural budget, farmers did not necessarily become richer. Rather, most farmer incomes held steady or declined because these new funds were directed towards costs associated with exports and/or maintaining the growing surplus. This decline in farmer incomes made reform even more difficult, particularly any proposals that would cut prices, since this strategy would hurt farmer incomes that were already not improving, despite a growing CAP budget. Yet, other than a major overhaul of the CAP, cutting prices paid to farmers for their production was the quickest solution for the CAP's twin problems of out of control spending and excess production.

The 1988 Stabilizer Reform was negotiated under politics as usual. Enlargement was not a pressing issue, as Spanish and Portuguese accession had been completed two years prior, and the next round of enlargement would not be until 1995. Although the Uruguay Round had been launched in 1986, negotiations were slow to get underway, and it was not yet clear that the CAP was playing a key role in forestalling progress. With farmer interests dominating CAP policymaking, only incremental change was possible. The CAP would be patched up by the 1988 Stabilizer Reform, rather than fundamentally overhauled.

France and Germany were both reluctant to adopt major agricultural reform. François Mitterrand and Helmut Kohl were facing major elections. In Mitterrand's case, he was attempting to prevent a strong challenge from his prime minister, Jacques Chirac, in the 1988 presidential election. Both Mitterrand and Chirac "believed that the agricultural vote would play a crucial role in the election outcome" and thus were reluctant to challenge farmer preferences[9] (Patterson 1997). In Germany, the Christian Democratic Union (CDU)/Christian Social Union (CSU) was facing tighter *Länder* elections in two states with significant agricultural populations, and believed that they would lose votes if they hurt farmer interests. Kohl and his party therefore had good reason to be reluctant to cross the farmers, as German farmers had habitually sanctioned the CDU/CSU in elections over agricultural policy.

To address the crisis, Germany and France each proposed price cuts of no more than 3% and a grain production ceiling of 165 million metric tons. This plan, however, would do little to address the actual problems plaguing the CAP, as the proposed ceiling would allow for a 6 percent *increase* in production over production levels that were already considered to be unsustainable. Only after reaching that point would production penalties be applied. In short, the Franco-German plan proposed little change to existing price supports with minor penalties, at best, for overproduction. It thus did little to address the budget problem.

The UK, supported by Denmark, represented the opposite end of the spectrum on CAP reform. Given that British farmers were among the largest and most efficient in the Union, Prime Minister Margaret Thatcher viewed the CAP primarily as a means by which the UK was forced to support less efficient competitors. Just a few years prior to this reform, Thatcher had negotiated the UK rebate, essentially awarding the UK a refund for money they paid into the EU. The rationale for the rebate was that the UK got back from the EU far less than it paid in, with the CAP being the main cause. Thatcher proposed a 15% price cut for cereals in years in which

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[9] The French situation was slightly more nuanced that the German situation in that France was 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" (Patterson 1997). So, while a price cut probably could have been sold to the cereal producers, the looming presidential election compelled Mitterrand to avoid radical policy change, particularly since price cuts would hurt farmer incomes, even if, in the long term, the policy might benefit French grain farmers.

production was in excess of an established ceiling and also advocated for a producer tax, called a co-responsibility levy, which would help defray the costs of export subsidies and surplus storage.

Ultimately, the final agreement contained a 3% price cut for cereals, as France and Germany preferred, along with the co-responsibility levy that took effect only when cereal production exceeded 160 million tons (Patterson 1997). Beyond cereals, which was among the more contentious commodities, a system of production ceilings and co-responsibility levies was adopted for the other major crops. However, the ceilings were set so high, and the fines so low that no change in production practices would result. Ultimately, the reform did little to address the main budgetary issue, however, as it was estimated that "no savings would result until 1990, if at all" (Patterson 1997). Because of strong British and Danish resistance to contributing even more to an out of control budget, "Germany agreed to contribute an extra 5 billion ECU over a five-year period, representing a 30% increase in their net annual budget contribution" (Patterson 1997). For the most part, small adjustments were made to spending and revenues, while the basic logic of the CAP remained unchanged. The 1988 Stabilizer Reform did not attempt systemic reform, a change to the CAP's fundamental paradigm of supporting incomes via incentivized production. Without an opening created by disruptive politics, this type of fundamental reform simply was not possible.

Conclusion

The discussion of the early CAP reforms in this chapter elucidates a major component of my approach for understanding agricultural policy reforms, one which will be invoked in each of my four cases of CAP reform. The conditions under which CAP reform occurs determine the extent of reform that is possible. When reform occurs during politics as usual, only minor adjustments or changes to CAP policies are possible. Only when disruptive politics are concurrent with reform is paradigmatic reform, or change to the fundamental operation of the CAP, possible. This rule holds even when the CAP itself is in crisis. At the time of both the Mansholt Plan and the 1988 Stabilizer Reform, the CAP was in crisis. It was facing a growing surplus problem along with a looming budgetary crisis. In order to address these problems, the CAP needed a paradigmatic reform shifting away from production subsidization. However, both of these reforms attempts took place under politics as usual, rendering fundamental change impossible. Only the 1988 reform resulted in any policy change at all, and even that was only a small cut to the support price for grain (Commission 1988). For both of these reform attempts, the political conditions that prevailed constrained the set of possible outcomes and rendered ambitious reforms impossible.

The unresolved issues of unsustainable production, which drove the budget out of control, would eventually begin to be addressed with the landmark MacSharry Reform of 1992. A context of disruptive politics would allow Agricultural Commissioner Ray MacSharry to bring about paradigmatic change. As the next chapter illustrates, MacSharry was able to take advantage of a crisis in international trade negotiations to reorient the CAP away from supporting farmers via subsidized production and towards directly supporting farmer income, regardless of output.

Chapter 3

The 1992 MacSharry Reform: Departing From Politics as Usual

Introduction

The previous chapter examined the creation of the CAP and early efforts to adjust policies to correct increasingly evident problems. This chapter is the first of four empirical chapters examining the major rounds of CAP reform. Prior to the MacSharry Reform of 1992, the CAP had never undergone a major reform. While there had been minor reforms, none had altered the fundamental operation of the CAP. Instead, the fiercest CAP battles had pertained to the semi-regular negotiations over the setting of prices, particularly for core commodities like cereals and livestock. By the 1990s, one of the key goals of the CAP when it was created, to increase food production in order to make Europe food secure, had not only been achieved, but had since become a threat to the continued existence of the program. Minor adjustments to the CAP, as had been the norm in the past, would not suffice if the CAP was to be sustainable long term.

The MacSharry Reform occurred when the CAP was in crisis. Linking farmer payments to agricultural output had created a production crisis which was quickly followed by a budgetary crisis. The current system was unsustainable. The CAP could no longer afford to pay farmers subsidies linked to production while also absorbing the financial cost of storing and dumping that production. Meanwhile, GATT Uruguay negotiations had ground to a halt and the clear culprit holding up an agreement that was badly desired by the European manufacturing and services sectors was European agriculture. The EU, under strong pressure from the French, staunchly defended the protectionist (and trade distorting) system of European agriculture, while the US-led camp called for aggressive liberalization, including the elimination of income subsidies for farmers.

The MacSharry Reform thus had two main objectives. First, reformers needed to bring the budget under control in both the short and long term, with specific attention paid to the surplus problem. Second, a reform had to be adopted that would bring support for agriculture into compliance with liberalized GATT trade rules without prompting a rebellion among European farmers and their political allies. While the MacSharry Reform laid the groundwork for a GATT agreement, it failed to reduce CAP spending. Instead, CAP spending *increased* even further in the years following the MacSharry Reform and excess production continued, albeit at a lower level. Given the crisis conditions confronted, the MacSharry Reform should have been a prime opportunity for cuts to be imposed on agricultural spending, yet as my argument predicts, it proved impossible to cut spending on farmers. Farmers simply received that money from new sources.

The final agreement of MacSharry Reform included four central components. The first was a series of price cuts for cereals, beef, and dairy. The second component paired these cuts with compensatory payments to offset losses incurred by farmers stemming from the newly-lowered prices. These reforms marked what would be the beginning of the process of decoupling CAP payments from production. The third initiative was a set-aside program that required land to be removed from production, with farmers being compensated for this out-of-production land. Finally, the fourth reform was a package of three non-binding accompanying measures that affirmed the environmental role of farmers, offered subsidies for land afforestation (e.g. cultivating forests), and set up an early retirement scheme for farmers.

The purpose of this chapter is to account for the content of the 1992 MacSharry Reform and to explain why, despite the fact that there was urgent need for major change, the reform failed to reduce spending. The confluence of two major crises, budgetary and trade-related, allowed Agricultural Commissioner Ray MacSharry to make bolder proposals than had ever before been seriously considered in a round of CAP reform. As my framework for CAP reform conditions predicts, a context of disruptive politics facilitated the proposal and consideration of more dynamic reforms than would have normally been possible. These extraordinary circumstances were not enough to hold back the influence of farmers and their representatives, however, or produce a reduction in CAP spending. The disparate needs and demands of the member states led to a watering down of the final version of the reform so that changes were more circumscribed than initially proposed or even entirely abandoned; there were also significant side-payments to farmers. Disruptive politics were therefore important in facilitating the serious discussion and consideration of fundamental changes but they were not enough to stop the farmers from significantly weakening the final agreement and extracting compensation. The composition of the final reform package is consistent with my claim that it is difficult if not impossible to cut agricultural spending. Decoupling support from production simply led to farmers being paid via a new program, and not to actual meaningful cuts in farmer supports.

Finally, the CAP reform process shared many features with welfare state retrenchment. The most ambitious and far-reaching reforms, like price cuts, were significantly watered down, and some, like shifting compensation in favor of small farmers while limiting payments for large farmers, were defeated outright. The core reforms ended up following a "vice into virtue logic": rather than eliminating programs, existing programs were adjusted to fix inefficiencies and problems with their operation. The final package included a number of side-payments, concessions, and exemptions in order to facilitate the agreement and overall spending levels increased, rather than decreased.

Pressures for Reform: Disruptive Politics and the Opportunity for Systemic Change

The timing, negotiations, and content of the MacSharry Reform were fundamentally shaped by two pressing issues: rapidly ballooning spending that was pushing the CAP budget to the brink of sustainability and GATT Uruguay Round (UR) negotiations that were being held up by agriculture. Both of these pressures threatened the CAP's continued existence. Without a correction to spending related to high prices and out of control production, agricultural expenditures would grow beyond the point of sustainability. A failed GATT Uruguay Round, with agriculture as the clear culprit, was expected to spark serious backlash against the CAP, both within the Commission and among member state governments.

Consistent with my framework, the critical situation of the CAP and the serious nature of the pressures driving reform broke with politics as usual and created an opportunity for MacSharry to propose and advocate for major reforms. Previous CAP reform efforts had only tinkered with the policy. The MacSharry Reform, however, occurred at a time of "disruptive politics", which gave reformers an opening to alter the fundamental operation of the CAP. GATT pressures informed the content of the proposed reforms, facilitating the consideration of policies that made the CAP less trade distorting. The surplus-induced budgetary crisis allowed debate over policies that would affect both how farmers were supported and the ways in which production was managed and controlled. Crucially, however, while disruptive politics may have facilitated systemic CAP reform, they were not enough to produce cuts to the farmers' bottom line.

By the late 1980s, surplus production of core European goods, most notably cereals, beef, butter, and milk, contributed to a budget that was also growing out of control. Overproduction was so severe that the EU, having filled all of its existing stores, had taken to storing food on ships in the North Atlantic (personal interview; Sligo, Ireland; June 2016). Vividly demonstrating the problem of excess production, DGVI, the Directorate General for Agriculture, actually calculated that with the butter on hand in storage, "the road between Brussels and the southern end of Italy could be buttered as though it were bread" (personal interview; Paris, France; June 2016). These stocks began to build up in the early 1970s (less than a decade into the CAP's existence) as did exports onto an already stagnant world market (Swinbank 1993). While production in the EU increased 2% annually between 1973 and 1988, consumption grew only 0.5% annually over the same period (Swinbank 1993). Over a twelve-year period, from 1980-1992, the CAP budget tripled (Cunha and Swinbank 2011). The collapse of the world cereals market in 1991 made matters even worse for CAP spending, as export refunds to the sector increased fourfold, adding another 5-6 billion ECU[10] to CAP expenditure (Moyer 1993). The Commission estimated that CAP spending would increase by a further 20% in 1992 (Daugbjerg 2003). Virtually all of this money was dedicated to keeping pace with the main costs of the CAP, which related to surplus disposal: intervention purchases, storage costs, and export refunds. Moreover, despite the rapidly expanding CAP budget, the income gap between "the highly productive minority and the economically less efficient but socially more important [majority] continued to widen" (Pattersen 1997).

A core problem with which the CAP reform would have to contend was the traditional system of high prices paid to farmers for their products. The system of inflated prices was widely believed to be encouraging out of control production. Ironically, it was also damaging the ability of farmers, particularly grain farmers, to compete. Because prices were so high, grain farmers who produced cereals for animal consumption were losing market share to cheaper animal feed substitutes, whose prices were not set by the CAP.

In addition to immediate concerns about surpluses and the sustainability of the budget, CAP spending threatened the impending transition to the single market as outlined under the recently signed Single European Act (SEA). With the accession of Greece, Portugal, and Spain and the reunification of Germany, economic disparities within the Union increased. Greece, Portugal, Spain, and East Germany were comparatively underdeveloped, lagging behind their fellow member states, particularly in infrastructure. In order to improve competitiveness and enhance harmonization among the member states, massive structural development investments were needed in these countries. EU leaders viewed these investments and income transfers as essential, preparing the poorer member states for entrance into the Single Market and eventually, a currency union (Moyer 1993).

The current share of agricultural spending, roughly 80% of the total budget, was already seen as an impediment to creating a redistributive function in the budget (particularly in the form of structural investments) and as posing a threat to meeting the objectives outlined in the SEA. If CAP production continued unchecked and spending on agriculture increased as projected, the EU would be unable to fund regional development programs, putting progress toward the Single

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[10] In January of 1991, the middle of the reform negotiations, 1 ECU was equivalent to 1.38 USD (US Federal Reserve).

Market at serious risk. Commitments to these structural programs could not be easily ignored or delayed. A 1988 agreement, complementary to the SEA, committed the EU to a doubling of structural funds by 1993 and further stipulated that those funds would be aimed at supporting the cohesion countries of Greece, Ireland, Portugal and Spain (Heidenreich 2006). For this reason, the general consensus was that the CAP budget could not be allowed to increase any further.

Another major pressure to reform the CAP stemmed from the Uruguay Round negotiations of the GATT. Little progress had been made since the launching of the round in 1986 placed further pressure on the CAP. The preferences of the US along with the Cairns Group[11] were diametrically opposed to those of the European Union. The US saw government support as the root of trouble in farm trade while the EU blamed the market (Daugbjerg 2007). Specifically, the US called for dramatic liberalization primarily by reducing the protection and support afforded to European farmers under the CAP. The EU, however, argued that the aim of negotiations should be to "progressively reduce support to the extent necessary to reestablish balanced markets and a more market oriented agricultural trading system" but not to phase out support and protection entirely (Daugbjerg 2007). The US, the Cairns Group, and many developing countries were frustrated by the lack of access to EU markets, privileged trade within the EU, and EU surplus dumping on world markets (Josling et al 1994). If the talks failed, there was the very real threat that the EU would suffer retaliation from the Cairns Group (Moreira 2015).

In December of 1990, GATT talks over agriculture completely collapsed at the Heysel Conference, which had been scheduled for the purpose of concluding the negotiations. The lack of progress in agriculture was a concern for all sectors. The agreement launching the UR stipulated that the round could not be formally concluded without an agreement in agriculture. By this time, key European leaders, most notably President of the European Commission Jacques Delors, French President François Mitterrand, and Chancellor of Germany Helmut Kohl, recognized that European farming interests were threatening the benefits that important sectors of the economy would realize from a new global trade agreement (Garzon 2006). Three areas of importance for the EU and its member states, trade, services, and intellectual property rights, stood to benefit significantly from the agreement.

American domestic politics added a sense of urgency to finding an agreement in agriculture. The coming election presented the possibility that Bill Clinton, who had already expressed a desire to re-evaluate the US stance, would succeed George H. W. Bush. In addition, Congress' "fast-track authority", which requires Congress to accept or reject an international agreement in its entirety quickly and without altering the substance, was set to expire in 1993 (Patterson 1997).

Given the position of the EU relative to the other major negotiating parties in the GATT, it was clear that CAP reform was required in order to reach an agreement on agriculture and thus conclude the Uruguay Round. Agricultural Commissioner Raymond "Ray" MacSharry knew, however, that he could not openly and directly link his CAP reforms to the GATT UR. Connecting CAP reform to the GATT would lead to the perception among the public and member state representatives in the Council of Ministers that "reforms were being made for the benefit of the Americans" (personal interview; Sligo, Ireland; June 2016). If the perception that

[11] The Cairns Group formed in 1986 around a common interest in achieving liberalization in agricultural trade (Stiles 1996). At the time of the Uruguay Round, the Cairns Group consisted of 13 members: Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, Philippines New Zealand, Thailand, and Uruguay (Warley 1987).

CAP reform was being done for the sake of a GATT agreement took hold, MacSharry knew that his "reforms would be dead in the water" (personal interview; Sligo, Ireland; June 2016). For this reason, the reform package was presented as being constructed to deal with problems related to the budget and surplus production only (personal interview; Paris, France; June 2016). Any consequences these reforms might have for the GATT negotiations were, ostensibly, secondary.

The combination of pressures confronting the CAP at the time of MacSharry's reform, most notably concerns related to the GATT and how budget overruns would affect the SEA, meant that reformers were operating at a time of "disruptive politics". Reformers were concerned with not just the CAP in isolation, but also how CAP spending would affect progress toward the goals of the SEA. In addition, reformers needed to contend with the CAP's impact on trade negotiations in the ongoing GATT Uruguay Round. These events and concerns opened the door for MacSharry to propose and advocate for deeper reforms to the CAP than would be possible when reformers were at work during a period of "politics as usual".

Initial Proposal

The articulation of the Commission's formal proposal took place in three steps. First, MacSharry and his team drafted a full version of their vision for reform. This plan included specific numbers for cuts and compensation levels and was intended to be confidential until the Commission's formal articulation of the proposal. The second step was the publication of a "Reflections Paper". This paper explained the proposed reforms in broad terms (without specific numbers and figures) and identified the main issues the Commission sought to address with this reform. The Reflections Paper was intended to push forward and focus the debate on these matters. The third and final step was the formal presentation of MacSharry's initial plan, this time including the numbers that were omitted from the Reflections Paper.

Preparations for reform began in the spring of 1989 with MacSharry's creation of an informal (and secret) working group. The team developing the reforms included the *Chef de Cabinet,* Paddy Hennessy, Jacques Demarty, who was Jacques Delors' personal agricultural expert, and DGVI Director General, Guy Legras. The group started their discussions by exploring whether the CAP's existing price support mechanism could be maintained (Moyer and Josling 2002). At the same time as he was preparing the reform, MacSharry was also quietly meeting with the Americans about the GATT UR as a means to ensure that the changes being made to the CAP would comply with GATT rules and facilitate an agreement. MacSharry's EU team quickly concluded that prices would have to be cut and moved ahead on constructing a reform to do so.

Reformers intent on retrenching the welfare state are also known to work in secret. Keeping potential reform proposals out of the public debate, particularly those which include cuts or that involve an overhaul of the manner in which benefits are distributed, is an important way for reformers to manage dissent and opposition. While opposition will certainly spring up, developing the reform out of the public eye allows the reformers to present a full package, including information on the effects of the changes, as opposed to having to constantly defend a policy in development.

MacSharry had three goals in his vision of reform, which shaped the content of his working group's discussions. First, he sought to reduce existing production quotas. Second, MacSharry wanted to impose price cuts, with compensation targeted at small farmers. To MacSharry, attempting to channel aid to small farmers via price supports was costly and inefficient. Given that 6% of cereals producers were responsible for 2/3 of Europe's output, and 50% of beef came from only 10% of producers, MacSharry saw price supports as a poor instrument for supporting smaller farmers. His third overarching goal was to improve the rural environment, which he sought to do via the promotion of less invasive but more efficient production, the extension of technology, and the redirection of aid (personal interview; Sligo, Ireland; 2016; Moyer and Josling 2002).

By December of 1990, at the same time that the GATT negotiations had collapsed at the Heysel Conference, the working group had completed a paper outlining initial ideas for reform. The document was leaked to *Agra Europe*, a major news source on agricultural policy, which promptly published it in January of 1991. The document contained four main elements: price cuts, a system of income compensation, mandatory land set-asides, and some recommendations for measures related to the environment and early retirement.

The bulk of the discussion within the leaked plan focused on the price cuts and compensation, which were targeted at cereals, beef, and milk. These three sectors represented the vast majority of surplus production. By reducing the prices for these goods, farmers would have less incentive to produce them. In addition to production concerns, price cuts in the cereals sector were necessary to protect the competitiveness and market share of those producers who grew grain for animal consumption. Because of the high prices of cereals, livestock farmers were increasingly turning to cheaper animal feed substitutes, imported from the United States and other non-EU countries. These animal feed substitutes had become price competitive with European grain, even though they were slapped with import levies. The new GATT deal included a provision that would force the EU to drop levies on the animal feed substitutes, meaning that unless grain prices were lowered to a reasonable level, animal feed substitutes would be far cheaper than cereals produced for non-human consumption in the EU. In order to keep these products competitive as a feed source for livestock farmers in Europe and abroad, cereal prices had to be lowered. The economic threat posed by animal feed substitutes actually gave MacSharry an opening to propose cuts beyond cereals. Price cuts for cereals meant that livestock farmers would see their input costs lowered. These lower input costs then allowed MacSharry to propose cuts to the beef and dairy sector that would not have been feasible absent lower prices for feed.

A system of compensation was designed to accompany the price cuts. Until this point, European farmers were paid primarily through a system of fixed prices (set well above the world market price) and guaranteed purchase agreements. The more farmers grew, the more money they could make, with the EU on the hook for buying, storing, and dumping the excess production. Under the new system of compensation, farmers would be given a "direct payment" which was calculated based on the historic yield of a farmer's eligible land. Rather than attempting to overhaul the entire payment system in one fell swoop, MacSharry sought to decouple payment from production over time, starting with the most critical sectors. As such, only a portion of the farmers' land would be supported by direct payments. The rest of their land would could continue to operate under the traditional system whereby farmers were compensated via a system of inflated purchasing prices for their products. For this reason, the reform is referred to as "partial decoupling".

For the cereal sector, MacSharry and his team proposed a price cut of 35%. Cereals producers would be offered full compensation for their first 30 hectares of land in the form of a direct income payment based on the historic yield of the crop in that region. Compensation for their next 50 hectares of land would be reduced by 25%. A 35% reduction in compensation would be applied to any land beyond that. For dairy producers, the document outlined a 10% cut in the intervention price and an average reduction of 4.5% in quotas. Farmers producing under 200,000kg would be exempted from the quota cut, while those producing over 200,000kg would be subjected to a 10% cut in their quota. Finally, the team proposed a 15% cut in beef intervention prices. Beef sector farmers would be compensated for these cuts via an incease to the premiums they were paid per head of cattle. Beef and dairy farmers would also benefit from the proposed reductions in grain prices, which would translate to lower animal feed costs, reducing input expenditures.

The pairing of cuts with compensation is a tactic also seen in welfare state retrenchment. Direct confrontation, through the slashing of benefits, often provokes mass protest, leading to the withdrawal of the proposals. For this reason, welfare state reformers will often pair cuts with a form of compensation to buy off resistance. While the reform tactic of pairing cuts with compensation may seem weak or ineffectual, it can and often does have broader implications. These changes to how farmers (or welfare claimants) are supported are changes to the system of support. Once a small change is made to the operation of the program, it opens the door to broader and more systemic reform or retrenchment in the future. Indeed, future CAP reforms would build on and extend MacSharry's partial decoupling.

In a further effort to reduce production, cereals farmers would be required to remove some of their land from production, a practice called "set-asides". This proposal was the most direct way to curb production, as swaths of land that had previously grown crops would now be required to lay fallow. The amount of land withdrawn from production was to vary based on the size of the holding, with the largest farms, those over 80 hectares, required to set aside 35% of their land. Farmers between 31 and 79 hectares would be required to remove 25% of their land from production while holdings 30 hectares and smaller would be exempted from set-asides altogether. The proposal included the stipulation that land set aside would not be eligible for compensatory payments (Coleman and Tangermann 1999).

This stipulation was one of the methods through which MacSharry aimed to rebalance the disparity in support between large and small farmers. By not providing compensatory payments on set aside land, and by regulating the amount of set aside land based on the size of production, MacSharry could effectively garnish the earnings of the largest farmers while not affecting the payments to the smallest producers. In addition, the proposal could be presented as a means of curbing production and expenditures, while also helping to heal land that had been damaged by relentless production, with the redistributive effects a mere byproduct. These tactics of both disguising cuts and imposing cuts on some while channeling additional benefits to others again have parallels in the welfare state. When seeking to retrench social benefits, reformers might cut the replacement rate while raising, or at least maintaining, the minimum pension or unemployment benefit. Here, the protection of (and potential increase in) benefits for some limits opposition to a deeper longer term cut for others. This tactic helps to divide and demobilize resistance, because cuts are neither uniform nor fully visible.

The entire package of reforms MacSharry constructed to address the surplus and budget problem mirrors a "vice into virtue" style strategy for designing welfare state reform. The existing system of farmer support was both unequal and dysfunctional. The system of high prices was already taxing for the EU coffers. The income support system linked to production compounded the effect of these high prices, raising expenditure even further by fostering excess production that the EU was responsible for storing and dumping. Instead of proposing to scrap and redesign the entire program, an initiative almost certain to fail, MacSharry sought to make fundamental alterations to the aspects of the program that were most problematic. Specifically, MacSharry proposed lowering prices and removing land from production in order to address problems related to over production, ballooning costs, and environmental damage.

The contents and overall design of the reform as elucidated in the leaked report were a product of MacSharry's fundamental belief that price cuts and quota reductions were unavoidable. From his experience working on budgets in Ireland (where he earned the moniker "Mac the Knife"), MacSharry knew that "the EU could not keep spending 75% of its budget on agriculture. With twenty other Commissioners, one could not control 75% of spending" (personal interview; Sligo, Ireland; June 2016). Indeed, in Agricultural Council meetings, MacSharry warned that without correction, the CAP budget would overrun the ceiling placed upon agricultural spending. At the same time, MacSharry wanted to keep European farmers on the land. He argued that, "desertification of the rural area would be a disaster, and very expensive [for national governments]. There were no jobs, so people would be on the dole. The infrastructure already existed in the countryside for them: houses, roads, schools, and so on. If there was a rural exodus, new housing, roads, schools, and so forth would have to be built to accommodate all of these people" (personal interview; Sligo, Ireland; June 2016).

MacSharry's plan for reform was first formally presented to the member states via a "Reflections Paper" published by the Commission in February of 1991. The paper was purely qualitative and provided no specific numbers on cuts, compensation amounts, or any other action, unlike what had been published in the leaked document. The purpose of the document was to explain the proposed reforms in broad terms and to push forward and focus the debate on these matters (Cunha and Swinbank 2011).

The Reflections Paper began with a discussion of two major problems that needed to be addressed in the subsequent reform. The first problem was production. Production had been increasing far more rapidly than consumption, resulting in the accumulation of massive stocks. Excess goods were then dumped onto an already stagnant world market, angering the EU's trading partners. This problem of surplus dumping was one of the core sources of tension in the GATT that was forestalling progress toward an agreement.

The second problem related to the economic well-being of farmers. Inequality was increasing. CAP support payments concentrated on the largest and most productive farms such that 20% of the Union's farmers received 80% of the support. Meanwhile, the overall agricultural population continued to decline and the per capita income of farmers improved very little. This income problem highlighted a failure of the CAP to achieve one of the basic goals laid out in the Treaty of Rome, which formally proposed the creation of the CAP: to improve the standard of living and decrease income inequality in agriculture. These income problems persisted even though spending on the CAP was increasing rapidly from year to year (Tangermann 1998)

The Commission argued that any reform undertaken needed to keep a sufficient number of farmers on the land because farmers play an essential role in preserving the natural environment and traditional landscapes of Europe. The Commission suggested that more emphasis be placed on this environmental role of the farmer and that rural development be promoted more broadly. Keeping farmers on the land was also tied to preserving the family farming model, which the Commission asserted was "the model…favoured by society generally" (Cunha and Swinbank 2011). Finally, the Commission suggested that reforms needed to make the agricultural budget "an instrument for real financial solidarity in favour of those in greatest need" by which it meant a more equitable distribution of support (Tangermann 1998).

Specifically, the Commission proposed that compensatory payments be modulated based on size of holding and income level. In other words, full compensation would be allowed up to a certain amount. After that, the payment would be decreased, and the money saved would be redirected to smaller farmers and rural development objectives. Exemptions under quota and set-aside policies were also to be targeted towards the smallest and weakest producers.

The broad objectives on market issues concerned re-balancing markets by bringing production back under control, promoting a system of production that relied on fewer inputs (in terms of chemicals and fertilizers, labor, and capital), and encouraging the spread of technology. The document singled out cereals, suggested that previous policies for the sector were flawed and instead proposed price cuts and mandatory removal of land from production. Lower cereals prices were needed to make European cereals competitive with animal feed substitutes, which were already a threat to grains in the European market, and stood to be an even bigger threat if and when the new GATT agreement was ratified.

Overall, the contents of the Reflection Papers (and the leaked document) marked a sharp break with past practice in CAP reform (Patterson 1997). Instead of trying to make the existing system work, MacSharry was proposing systemic change and the, at least partial, introduction of new instruments, most notably a direct income payment. In addition, these reforms marked the first time that a proposal was made to directly and intentionally privilege smaller farmers.

The proposals as first outlined by MacSharry in the leaked document were officially presented by the Commission in July of 1991, formally kicking off the CAP reform debate. This official proposal matched the specifics of the initial leaked document, with minor changes to the systems for managing price cuts and compensation payments. The Commission projected that, due to the extension of compensatory payments and the other new programs created for early retirement, afforestation, and environmental measures, total CAP spending would increase by 2.24 billion ECU. The Commission anticipated however, that expenditure on the CAP would decrease in the long run as stocks of cereals, beef, and dairy, as well as the agricultural population itself, declined (Patterson 1997). Still, estimates of how much savings there would be and how far into the future they would come were vague and unspecified.

Negotiation, Reform, and Adoption

There were three broad camps that emerged after the reform was officially announced. The first group, Denmark, the Netherlands, and the United Kingdom, though in favor of the market liberalizing price cuts, was staunchly opposed to any “special treatment” for small farmers. Their farming sectors were comparatively large and efficient. With less protectionism and more liberalization, representatives for these member states believed that their farmers would gain market share at the expense of EU farmers who were propped up via protectionist policies.

Countries in this group strongly opposed the Commission’s proposal to modulate aid in favor of small farmers, since their agricultural sectors were dominated by larger farmers. They believed that their farmers would be unfairly forced to bear the financial burden of sustaining unviable farms. In addition, the UK argued that modulated compensation offered farmers a perverse incentive to “split their holdings, becoming pensioners and non-competitive” (Cunha and Swinbank 2011). British Agricultural Minister John Gummer summed up his opposition to a program of modulation by stating that the United Kingdom was “not prepared to buy a reform at the expense of turning Europe’s agriculture into a tourist attraction for people who liked farming in Marie Antoinette style" (Cunha and Swinbank 2011 citing Agricultural Council minutes). Fundamentally, all three countries advocated the largest possible price cuts with the lowest possible, ideally temporary, compensation administered at a flat rate to all farmers.

France and Germany (and to a lesser extent Ireland) formed the second main group and maintained their traditional CAP alliance despite somewhat contradictory positions on the proposal. Germany, whose support for high prices, particularly for cereals, dated to the creation of the CAP (and had been a tradition in Germany stretching back to the leadership of Bismarck), unsurprisingly objected to MacSharry's proposed price cuts. German Agricultural Minister Ignaz Kiechle questioned the link between price cuts and production, suggesting that cutting prices for cereals would have little to no effect on production levels[12] (Moyer and Josling 2002). That said, as one of the member states that underwrote most of the CAP budget, Germany generally favored all measures for controlling production, including set-asides and reductions of dairy quotas. France, however, rejected set-asides outright and was internally divided over the issue of price cuts for cereals. In addition to questioning the need for such a deep cut in cereal prices, French Minister Louise Mermaz called for the continuation of Community Preference[13], which would provide adequate protection for domestic supplies on the European market (Moyer and Josling 2002). Ireland's main concern was over the cuts to beef prices, which it opposed even though it had no stake in the debate over cereals, as its cattle industry was grass fed. Finally, Ireland joined Germany and France in favor of a program of modulation that would focus support on the neediest farmers.

This second group of countries was important for an additional reason. Under the rules of Qualified Majority Voting (QMV) France, Germany, and Ireland formed a blocking minority[14], while the Denmark, Netherlands, and the UK did not. So, while MacSharry and the Commission wanted to pass the reform with unanimous support, particular attention was directed to winning the cooperation of the group with the potential to block reform.

All of the remaining countries, primarily the southern bloc, composed of Greece, Spain, Portugal, and Italy, accounted for the third group. The main agricultural sectors of these countries were largely excluded from the reforms[15]. Because farmers in these countries were typically poorer and less efficient than their northern counterparts, they stood to benefit from any redistributive programs, and thus were supportive of modulation. The minority of farmers in these countries that did grow products that were to be subjected to price cuts objected to a yield-based calculation for compensation, as the yields in these countries were the lowest in the Union. If compensation for the price cuts was calculated on the basis of the historical yield in the area (how much of a given crop was grown annually), then farmers in these countries would be paid a smaller direct income payment than farmers in other member states. Finally, Greece, Spain, and Portugal, and Italy most of all were particularly focused on the debates surrounding the milk quotas, hoping to preserve existing levels, if not increase them.

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[12] Accounts of the negotiations make reference to this statement of the German Minister but do not provide any discussion of the logic behind it.

[13] Community Preference is a core principle of the CAP, first outlined upon its creation in 1962 stating that products of European origin are bought in preference to imported products. This principle was designed in order to defend the European Common Market from fluctuating world prices and cheaper imports from abroad.

[14] A blocking minority refers to the number of votes needed to block a vote from passing under the rules of Qualified Majority Voting.

[15] Dairy was included, and while it is important, it is not largest or most important sector of production any of these countries.

The fact that every member state objected to at least some aspect of the program, and that many of these CAP positions put member states in direct opposition to one another, might seem to have doomed the negotiations from the start. However, as Dutch Farm Minister Piet Bukman, who chaired the Agricultural Council while the Netherlands held the rotating presidency noted, "all delegations agree that if there is no fundamental reform we will have an unbearable situation" (Moyer and Josling 2002). The common belief in the necessity of some kind of reform allowed for compromises to be made and an agreement to be reached, despite the wide range of positions held by the member states.

In addition to internal conversations that each member state government held, part of the process of reaching the final agreement involved MacSharry and Arlindo Cunha, Portugal's Agricultural Minister and Chairman of the Agricultural Council[16] each working with the member states one by one. While Cunha toured the capitals in an effort to determine each country's bottom line, MacSharry met with each minister privately, requesting a list of the 4-5 items most important to them. MacSharry agreed to include at least some of the requests in the reform in exchange for that minister's support for the passage of the overall package of reforms (personal interview; Sligo, Ireland; June 2016). The bargaining that followed centered primarily on three core issues: level of price cuts for cereals, modulation, and milk quotas.

Typically united in the CAP, France and Germany were divided over if and how much cereal prices should be cut. A major step in clearing the way for a deal was the reaching of an informal agreement between Mitterrand and Kohl. Germany agreed that it would not veto a cereal price cut in exchange for a promise from the French not to veto a new GATT deal, or at the bare minimum, to display "good will" (Webber 1999). While Germany was opposed to any price cut for cereals since most of the farmers in the East grew that crop, it placed far more importance on a GATT deal. Conversely, France, favored cuts to cereal prices (a position it came to hold due to pressure from the French grain farmers[17]) but had broad objections to liberalizing the CAP. France believed in general that the Commission had far exceeded the negotiating mandate that had been agreed to prior to the start of GATT negotiations. French representatives were particularly upset with the extent to which EU negotiators were willing to reduce or even eliminate export subsidies.

The informal deal between Mitterrand and Kohl helped each side advance an interest of particular importance. This agreement was made possible by a meeting in September of 1991 of the Quadrilateral (Canada, EU, Japan, and United States) that confirmed that the terms of the MacSharry proposals could unblock the stalemate in GATT agricultural negotiations. Shortly thereafter, the German cabinet formally announced that it would not veto the CAP deal over a cereal price cut (so long as farmers received compensation). An announcement from the French government in favor of the CAP reform quickly followed. To get to this point each government had to come to some hard realizations about the CAP reform under discussion.

Germany was facing a domestic fiscal crisis induced by the costs of reunification. In addition, its farming sector had changed dramatically. While small farms had dominated in the West, the East German model was the factory farm. East German farms lagged in production, but they were expected to rapidly become more efficient with access to improved technology and information. Any surpluses produced by the East would, under the current model, add to CAP

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[16] At this time, Portugal held the rotating EU presidency. As a result, Portugal's Minster of Agriculture, Arlindo Cunha at the time, chaired the meetings of the EU's Council of Ministers when in its agricultural configuration (often referred to as the Agricultural Council). He succeeded The Netherland's Piet Bukman.

[17] This shift in position on grain price cuts is explained in more detail below.

costs and expenditures. Germany was already one of the main underwriters of the CAP budget and was confronted with having to pay even more to fund the CAP. These budgetary increases would also come in addition to the growing costs of reunification. While some of the new money from added CAP costs would be filtered back to the East German farmers, Germany's overall contribution to the CAP would likely increase at a higher rate than its return, as CAP costs continued to grow rapidly. It was therefore more economically advantageous for Germany to advocate for a smaller and less expensive CAP, which would reduce Germany's overall contribution, leaving more money to be deployed as needed domestically.

Germany also desired a successful conclusion of the GATT round, which would benefit its industry tremendously. The MacSharry Reform marked the first time that Germany faced significant resistance to agricultural policy from industrial and economic circles, with the Federation of German Industry stating a preference for agricultural policy reform, albeit cautiously (Hendricks 1988). This opposition from industry marked a major change, given that industrial and agricultural interests had been bonded in a close alliance (the Coalition of Iron and Rye) dating back to Bismarck (Hendricks 1988). A GATT deal could not be reached without progress in the agricultural sector, and a reduction in price supports would go a long way towards making GATT progress possible. Kohl therefore broke with Germany's traditional stance against price cuts, announcing that "the EC agricultural reform was not possible without substantial price cuts, especially for cereals" (Webber 1999).

France's acceptance of reform was made possible by four developments. First, there was recognition that a structural change needed to be made. Production that continued unchecked would lead to increasing expenditure and thus an endless cycle of budget crises. Second, French officials realized that the structural reform on the table, price cuts paired with compensation, favored the French production profile. At the time, France was not only an efficient producer but also Europe's leading exporter of agricultural goods and the world's second leading exporter of cereals, a position the French were bent on maintaining. Given the strong position of the agricultural sector, particularly in cereals, the French government and the French Grain Farmers Association (the *Association Générale des Producteurs de Blé, AGPB)* recognized that France could remain competitive, if not gain market share, under a system of price cuts while less efficient farmers in other countries would not be able to compete with the French. The status quo in the CAP, with its system of export subsidies, high prices, and import tariffs allowed even small and inefficient producers to sell their goods competitively alongside those of the largest and most efficient producers. If prices were cut, large grain producers would remain competitive, due to their efficiency, but the smaller farmers would be rendered uncompetitive. With these producers driven out of the market, the larger and more efficient French farmers could then gain market share.

The third development that pushed France toward accepting the reform was the acceptance (particularly by the powerful grain growers) that for some products, the status quo was no longer tenable. The AGPB was warned by Guy Legras, DGVI director and part of the EU's GATT team, that new GATT rules were likely to require duty free importation of PSCs, or "products to substitute for cereals" (in animal feed) and that, without a cereals price cut, French farmers would be unable to compete with PSCs (personal interview; Paris, France; June 2016). Cereals producers grow grains for both human and animal consumption. If the system of high prices was maintained and the GATT agreement proceeded as expected, grains produced for animal feed would be far more expensive than the PSCs, and French grain growers would lose market share and revenue as livestock farmers turned to alternative food sources for their animals. So, while the main French farmers' union, the FNSEA (*Fédération nationale des syndicats d'exploitants agricoles*) maintained its "no reform and no discussion of reform" position, the powerful grain farmers, represented by the AGPB broke with the FNSEA and lent their formal support to the French government's acceptance of the MacSharry Reform.

The fourth factor that led to France swinging to support the reforms was the fear of the consequences of a failed reform. Specifically, what was most feared was a quota system, a possible alternative way to check spending and production if price cuts failed. In other words, while the possibility existed to impose reform via price cuts now, the failure to adopt reform would put the CAP into a position where the only possible alternative to control CAP spending would be to impose a quota system.

At this point, a quota system existed, but only for the dairy sector. It was controversial, because it placed a strict limit on production, dividing up "shares" among producers and prohibiting production beyond the specified amount, even if it could be done more cheaply and efficiently than a competitor. A quota system would potentially cost France market share both internally and externally. In terms of the internal market, if demand exceeded production limits in France, milk would have to be brought in from producers in countries where quota limits exceeded domestic demand. Externally, efficient French producers would be unable to produce and sell milk beyond their strict quota limit, restricting their ability to expand their market share. A quota system would place a hard limit on production, continuing to prop up smaller and less efficient producers by guaranteeing them a market while restraining the ability of the efficient producers to expand into and serve new markets. While French farmers were split over price cuts, they were united in their opposition to a quota system.

In sum, on this first core issue of the negotiations, price cuts, Denmark, the Netherlands, and the United Kingdom were in favor of them from the start. The southern bloc of Greece, Spain, Portugal, and Italy were not opposed, as these proposed cuts did not affect their main agricultural products. The final three member states took a more circuitous path to support for the price cut element of the reform. Germany, though traditionally in favor of high prices, ultimately supported price cuts in an effort to ameliorate a domestic financial crisis brought on by the costs of reunification and to help clear the way for a hugely beneficial GATT agreement. Though initially opposed, France ultimately accepted the proposed price cuts thanks to support from the AGPB, an acceptance that reform had to happen in order to preserve the CAP, and a recognition that the reforms on the table favored the existing French production profile. Finally, Ireland's stake was only in the beef sector- it did not grow cereals, and its cattle were all grass fed. As in France, support from the Irish Farmers Association led to support for these measures from the country's representatives.

The second major issue under discussion concerned the measures to redirect support to small farmers. The support of the pro-market countries, Denmark, the Netherlands, and the UK, was won with two key concessions. While none of these countries opposed price cuts, they all opposed modulation. Home to some of the largest farms in Europe, these countries felt that their farmers would be disproportionally punished by a system that reduced compensatory payments for large farmers and redirected those savings to smaller farmers. The Commission ultimately dropped all systems that would modulate income payments to the benefit of small farmers.

This concession was necessary for reasons that again echo welfare state reform. Under modulation, it was very clear which farmers would be subjected to financial loses but it was far more uncertain which farmers would benefit, how much, and when. With certain losers but uncertain winners, it was easy to rally opposition to the program. The lackluster defense of the program was exacerbated by the wide variation in production size and style in the member states. The clear losers could rally their leaders against the reform, but winners, not knowing who they would be, did not mobilize. Finally, it was broadly understood that the inclusion of modulation was a deal breaker for Denmark, the Netherlands, and the UK. In order for negotiations to proceed, it had to be dropped.

Denmark, the Netherlands, and the UK also won a concession over their other major sticking point. They objected to the compulsory land set-asides, which would require only farmers with the largest holdings to remove land from production. Under the proposal, farmers would not receive any compensation for this set-aside land. As they were home to some of the largest farms in the EU and thus also the farmers who would be subjected to this set-aside policy, Denmark, the Netherlands, and the UK staunchly opposed this program, arguing that it was unfair to their farmers. To quell these objections over compulsory land set-asides, and the "inequity" of small farmers being exempted from them and thus being eligible to receive some form of income support for all of their land, the Commission offered a further concession that all set-aside land would be eligible to receive compensatory payments.

The third core issue in the negotiations was the milk quota. While the proposed reform called for a reduction in milk quotas, Italy, Spain, and Greece demanded an *increase*. This demand was strongly opposed by Belgium, Denmark, Luxembourg, the Netherlands, and the UK. These "northern bloc" countries were upset that the southern European countries were not respecting the system already in place (Kay 1998). These countries, and Italy in particular, were singled out for demanding an increase its quota while not respecting the existing quota. Italy, for example, had still not implemented or adhered to the quota system adopted by the EU in 1984. An agreement was reached that included a guarantee not to cut quotas and an offer for a quota "adjustment" once the previous quotas had been applied satisfactorily (Kay 1998). Though not directly specified as such, an "adjustment" was understood to be an increase.

The final reform package included four central components. The first component was price cuts for the three sectors most affected by overproduction: cereals, beef, and dairy. These sectors were subjected to price cuts of 29%, 15% and 5% respectively. These cuts were to be lagged, coming into effect gradually over a period of roughly five years. Within dairy, milk production, which is regulated via quotas rather than price controls, was not subjected to any alteration of quota amounts, despite proposals to reduce their levels.

The second component of the agreement was the adoption of a series of payments to compensate farmers for revenue lost due to the price cuts. Instead of being paid based on output through a series of high, fixed prices and export subsidies, farmers would now be paid a direct payment that had no connection to current production levels. The direct income payment would be calculated based on the historic yield of a given crop for that region. At this stage, the direct payment based on historic regional yields would only be applied to a portion of the farmer's land. The portion of land affected varied by type of production. Financial support for the rest of the land would come as before, via a system of (now lower) guaranteed prices. In other words, direct income payments were only partially decoupled from production.

The third component of the agreement was a mandatory land set-aside program, to remove land from production with the objectives of reducing output and improving the health of the land. Reducing output would also in the long run reduce CAP expenditures, as costs for storage and dumping would decrease. While long-term savings was an oft-repeated refrain of the reforms, details of exactly when these savings would come and how much they would be were murky at best. Contrary to the stipulations of the initial proposal, in the final agreement, land that was required to be set aside was eligible for compensatory payments for price cuts.

The final component of the agreement was a set of three non-binding accompanying measures. These measures sought to improve the environmental health of the land via a series of programs, including agri-environmental initiatives, afforestation, and early retirement. These measures were significantly watered down from the initial proposal circulated by Agricultural Commissioner Ray MacSharry. A fifth major proposal, modulation, which would redirect money from the biggest CAP beneficiaries to the smallest farmers, was defeated and thus did not make it into the final agreement. Table 3.1 below presents the initial and final form of each key measure included in the agreement.

Table 3.1: Comparison between Initial MacSharry Proposal and Adopted Reform

Initial Proposal	Final Agreement	Change
35% price cuts for cereals	29% price cut for cereals	Cut is 6% *lower* than proposed
15% price cut for beef compensation via headage payment	15% price cut for beef, headage compensation plus compensation via premium payments	*More compensation* than proposed via premium payment
15% cut for butter; 5% for skim milk powder	5% cut for both products	Price cut for butter 10% *lower* than proposed
Reduction of milk quotas	No reduction of quotas; extended until 2000	Quota reduction *abandoned*
Compensation[18] via direct payments, modulated to favor small farmers	Compensation via direct payments, no modulation	Modulation plan completely *eliminated*
15% mandatory and uncompensated set aside, small farmer exemption	15% mandatory set aside, fully compensated, with small farmer exemption from set asides	Set-aside land receives *full compensation* (as opposed to none at all)
Three accompanying measures	Three accompanying measures	No change
Expected expenditure increase: 2.24 billion ECU	Expected expenditure increase: 8+ billion ECU	*Additional* 6+ billion ECU in spending

As Table 3.1 indicates, every measure of actual substance (essentially everything other than the non-binding accompanying measures to which no member state objected) was watered down. Price cuts were smaller than desired for all the main sectors, cereals, beef, and dairy. Milk quotas remained unaltered despite desires to lower them. Moreover, the beef and dairy sectors actually received an additional benefit from cuts to cereals. As grains are a major input for the beef and dairy sectors in the form of animal feed, livestock farmers' costs were lowered by the price cuts to the cereals sector.

Not only were price cuts much smaller than initially proposed, but compensation was extended further. Specifically set-aside land, which was not supposed to be eligible for a compensation payment, was included in that scheme. Beyond having smaller than proposed price

[18] Amount of compensation varies because it is based on the historical yield of the given crop in the region in which the farm is located.

cuts and a broader extension of compensation, beef and dairy producers benefited from an additional, hidden form compensation in that price cuts to cereals lowered their input costs related to animal feed. In addition, efforts to redirect additional compensation to small farmers and to reduce the payments of the largest CAP beneficiaries via modulation were completely thwarted. As a *Financial Times* editorial noted, "the more muscular reform that MacSharry had originally envisioned was sapped by the fierce outcry of the EC's farm lobbies, echoed and targeted by their agricultural ministers" (22 May 1992).

The MacSharry Reform fits a broader pattern observable across CAP reforms. Changes to CAP policies and programs rarely if ever take money away from farmers; instead, they change *how* farmers are paid. In the case of the MacSharry Reform, price cuts did not ultimately take money away from farmers. While EU farmers had previously been supported by the CAP through a system of high prices, that support was transitioning to a direct income support system. In the end, farmers were still being paid the same money; it was merely coming from a new pot. This pattern holds up across other CAP reforms. In CAP reform, there is never direct retrenchment, only recalibration. In other words, spending is not cut, but the operation of the program, including how funds are delivered, is reformed.

Of the twin goals of lowering spending and reducing production levels and overall output, most progress was made toward achieving the latter. Mandatory set asides removed land from production, a direct initiative to counteract out of control commodity production. The introduction of partial decoupling through a system of price cuts and compensatory payments also worked to reduce at least the incentives for production. It replaced a system that previously encouraged and rewarded farmers for extracting as much as they could from the land.

While the reforms included major strides toward reducing production, the MacSharry Reform failed to decrease overall spending. Although the reform was undertaken with a major objective of reducing CAP expenditure, and proposals were written with this goal in mind, the end result was a reform that actually increased CAP costs in the short run and, due to the lagged implementation of price cuts, would not actually deliver cheaper prices to consumers until the mid-to-late 1990s (Keeler 1996). On top of the lack of savings related to smaller price cuts and the broader than anticipated extension of compensation, the accompanying measures targeted for early retirement, rural development, and other agri-environmental concerns added an additional 6 billion ECU to CAP spending. The failure to include modulation in the final agreement, which would have limited the maximum payment earnable by the largest farmers, and thus reduced total payment output levels, added another 6 billion ECU in CAP spending. Savings could be expected only in the long term as production levels fell and the EU would no longer have to finance the purchase, storage, and dumping of vast stocks of excess goods.

Conclusion

The discussion of the MacSharry Reform in this chapter elucidates four major components of my approach for understanding agricultural policy reforms. First, the case of the MacSharry Reform, particularly when compared with the Agenda 2000 Reform which followed, illustrates how important events and crises, such as collapsing trade talks, ballooning surpluses, or a budget spiraling out of control, disrupt agricultural politics as usual and may allow for reforms that are more far reaching than would be possible otherwise. Second, this case illustrates that even when other factors and influences combine to create an opportunity for major policy change, CAP reform still resembles the logic and process of welfare state retrenchment. The changes that are adopted are more limited and less dramatic and far reaching than initially proposed, and are often slow to take full effect. Third, this case highlights three tactics commonly employed by reformers seeking to retrench the welfare state: 1) implementing small changes, including even non-binding agreements that allow for deeper structural change in the future; 2) introducing reforms that correct programs functioning inefficiently or unfairly (as opposed to eliminating programs and replacing them with entirely new initiatives); and 3) marshalling support for the reform package by extending concessions that reduced savings, such as offering compensation in exchange for cuts or changes to programs or offering special policy exemptions and alternatives to those opposed to particular aspects of the reform package.

Finally, the MacSharry Reform is consistent with my central assertion that it is virtually impossible to cut spending on farmers. Production-based subsidies were replaced with direct income supports. Farmers were essentially receiving the same money, but from a different pot. In addition, full compensation was extended to land set asides, despite the initial proposal's intention to offer no such compensation. Modulation, which is a policy for redistributing money amongst farmers and member states, completely failed. Proposals that would decrease the farmers' bottom line were defeated at every turn.

The biggest achievement of the MacSharry Reform was the introduction of partial decoupling of payments from production and the imposition of mandatory land set asides. This change was achieved by constructing the reform around correcting a malfunctioning existing program, rather than dismantling support for farmers. The existing CAP system had become financially unsustainable. Production had long outstripped consumption yet there was no reason to expect production to fall off. On the contrary, the existing system incentivized farmers to produce more and more. By lowering prices, the incentive to produce at all costs was ostensibly removed, which would in turn reduce the financial burden placed on the EU for the storage and dumping of excess product.

Even with the extraordinary circumstances that opened the political ground for more reform, the costs of marshaling the support necessary to enact change were high, so high in fact that the reforms failed to meet one of the two overarching goals: reducing CAP spending. While the reform did introduce some changes to how farmers were supported, directly removed land from production, and enacted additional program changes designed to lower incentives to produce, it did not actually reduce CAP expenditures. Instead, the budget grew even larger. The negotiating process resulted in a complete reversal of the land set-aside program. To further corral spending and production, the largest farmers were to be required to remove a portion of their land from production, for which they would receive no compensation. After objections led by the member states whose farmers would be most affected by this program, the Commission extended a major concession, offering these farmers full compensation for land that they would be required to remove from production under the set-aside policy. These concessions were necessary to wrangle the support needed to pass the reform. The MacSharry Reform demonstrates that even when the conditions were ripe for major change and the CAP was facing major production and budgetary crises, spending could not be tamed.

While the immediate outcome of MacSharry's effort to reform the CAP might seem lackluster, the MacSharry Reform positioned reformers to make broader and deeper changes in subsequent reforms. Indeed, the MacSharry Reform was the genesis of several important shifts that would echo through the next rounds of CAP reform. Future agricultural commissioners, including Ray MacSharry's immediate successor, Franz Fischler, used the openings created by MacSharry to gradually push through changes that resulted in a fundamental reshaping of the way the CAP operates. While the 1992 CAP reforms included fundamental changes to the operation of the CAP, future agricultural commissioners were unable to use this opening to engage in structural retrenchment of the CAP. Like MacSharry future agricultural commissioners would be able to recalibrate, but not retrench, the CAP.

The clearest area in which MacSharry's reforms created opportunities for broader and deeper change in the future is in the domain of farmer income payments. MacSharry's reform introduced a partial decoupling of the CAP. Decoupling was applied to only a portion of a farmer's land and only for those farmers who grew particular crops. Just under a decade later, MacSharry's immediate successor, Franz Fischler, succeeded in extending MacSharry's decoupling initiative to cover not only more crops, but also 100% of a farmer's holding. While it proved impossible to change the entire system at once, the early, small, and narrow but ultimately fundamental structural changes that MacSharry made to the operation of the CAP payment system allowed Fischler to make deeper changes that would further shift the operation of income payments. Rather than having to attempt to reform the CAP from the outside, Fischler would be able to use systems and programs already in place in the CAP to enact change from within. This type of change, systemic retrenchment, is much harder to oppose and is a manner of reform also employed by welfare state reformers.

Another important legacy of the MacSharry Reform was the successful conclusion of the Uruguay Round of GATT negotiations, facilitated by the reaching of an agreement on agriculture. Once the MacSharry Reform was adopted, the EU could participate in the GATT negotiations with more leeway. The EU had already been assured that its compensatory payments would be considered legal subsidies (not trade distorting) under GATT rules. Moreover, the changes brought about by the MacSharry Reform resolved some of the biggest complaints about the trade distorting nature of the CAP by the US and the Cairns Group. These changes, coupled with the assurance that the compensatory payment program was GATT compliant facilitated an agreement between the US and the EU, leading to a final agreement for agriculture and the conclusion of the GATT Uruguay Round overall.

The next chapter of my dissertation examines the second major effort to reform the CAP, Agenda 2000. This reform was intended to build on the work that MacSharry had started, the decoupling of prices from production, the deepening of the CAP's commitment to the environment, and the modulation of benefits to reduce disparities between the largest and smallest farmers. Unlike the MacSharry Reform, however, Agenda 2000 was not negotiated during a time of disruptive politics. Instead, negotiations occurred under politics as usual and thus focused on the CAP alone. As a result, proposed CAP reforms would be largely stymied.

Chapter 4

Agenda 2000: New Millennium, Same CAP

Introduction

The CAP reform agreed to in March of 1999 was one part of the EU-wide Agenda 2000 initiative. The scheme, formally called "Agenda 2000: For a Stronger and Wider Europe" was intended to prepare the EU for the new millennium, including the adoption of a common currency, the Euro, enlargement towards Eastern and Central Europe, and challenges related to globalization and the continued spread and development of new technologies. The Commission intended for Agenda 2000 to consider "how to develop the European mode of society in the 21st century and how to best respond to the major concerns of citizens" including unemployment, social exclusion, and the environment (European Commission 1997). In specific reference to agriculture, the report acknowledged that the 1992 CAP reform had been successful but suggested that "the time has come to deepen the reform and to take further movement towards world market prices coupled to direct income aids" (European Commission 1997). More broadly, the Commission's guiding document for the Agenda 2000 reforms suggested that the EU had to modernize and reorganize its structures while also concentrating on the essentials and those areas where Europe could provide real added value. Despite the ambitious agenda, the end result was a CAP reform whose major proposals were either defeated outright, or, at best, made optional for member states to adopt.

A key factor explaining the failure to adopt meaningful reform is that there were no major crises that exerted pressure on the CAP. The next round of the WTO had yet to commence. Enlargement was still several years down the road, and the formal terms of CAP accession had not yet been determined. CAP spending was running high, as was normal, but there was no major spending threat, especially since the MacSharry reforms, combined with global price and production yields, seemed to be achieving their intended goal of reducing production. Ultimately, there was no powerful crisis that could credibly be used to justify truly dramatic change or to force an agreement. Unlike his predecessor Ray MacSharry, Agricultural Commissioner Franz Fischler was leading this reform during politics as usual conditions. Fischler thus had little mandate for reform.

The purpose of this chapter is to account for the content of the 1999 Agenda 2000 CAP reform and to explain why the reform proposals were largely gutted. The Agenda 2000 CAP agreement contained no landmark reform. Instead previous reforms were preserved and the Commission's major initiatives in the areas of greening and balancing payments were either made optional or entirely defeated. First, decoupling was preserved and further extended through a series of market reforms (price cuts matched with compensation) to the three most important (and heavily supported) areas of production: arable goods, beef, and dairy. The cuts were overall somewhat smaller and slower and with greater compensation than reformers had hoped. Beef prices, for example would be cut by 20% as opposed to the 30% proposed and price cuts for milk would be delayed by 6 years, beginning in 2006 instead of 2000 as the Commission hoped. More importantly, these cuts were expected as part of the agreement reached in 1992 to move to decouple the CAP; they do not constitute a new change to CAP policy.

Second, the new environmental measure, called cross-compliance, that sought to link direct payments to good environmental practices was made optional instead of mandatory with the member states given virtually complete discretion over if and how to implement the program. If a member state actually chose to participate, it would also be allowed to use its own environmental standards. Modulation, a program to account for payment imbalances across member states by redistributing CAP funds, was likewise made entirely voluntary. Finally, a cap on farmer income payments over 100k ECU was entirely rejected.

To the extent that any change was made, CAP reform mirrored the process of welfare state retrenchment, with reformers employing a variety of tactics to slip through any reform possible and hopefully position themselves to achieve more substantial retrenchment in the future. While the environmental programs introduced under Agenda 2000 were voluntary, their inclusion in the CAP agreement positioned policymakers to make more significant reforms in that direction in the future. In this way, the path of these environmental reforms is quite similar to how systemic reforms occur in the process of welfare state retrenchment. As is typical, the final package included a number of side payments, concessions, and exemptions in order to facilitate the agreement. For example, the measures to cut prices and further decouple payment from production included smaller cuts than initially proposed, with implementation delayed by a number of years and substantial income supports provided to farmers.

Limited Pressure for CAP Reform

Agenda 2000 illustrates the importance of disruptive politics for achieving meaningful CAP reform. It demonstrates what reform efforts look like when there are no crises to drive forward major change: major proposals are substantially watered down, made optional, or entirely defeated. The far-reaching reforms that bookended Agenda 2000 were driven by disruptive politics: failing trade negotiations and a CAP system that would be unsustainable in a newly enlarged Europe. In these cases, disruptive politics allowed for fundamental change to CAP programs. The situation surrounding the Agenda 2000 reform was vastly different, with Fischler attempting to lead negotiations during politics as usual.

While at first glance it might seem that enlargement, a powerful source of disruptive politics might be at play in the Agenda 2000 reform, a closer look at the circumstances reveals that no such pressure was brought by enlargement. In 2004, ten new member states were scheduled to join the EU. All the new member states, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, were from Central and Eastern Europe, and were comparatively poorer and less developed than the existing member states. In addition, these countries had agricultural sectors that were much larger and less efficient than the current member states. For this reason, it was projected that it would be difficult and expensive to transition the new Central and Eastern European countries into the CAP. One, albeit narrow, area where enlargement did exert some pressure on reformers was in the domain of price supports. Studies conducted suggested that, without price cuts, the costs of integrating the new member states to the CAP would be “unacceptably high” (Moyer and Josling 2002). Specifically, a 1997 DGVI study estimated that the accession of the ten new Central and East European countries to the CAP would cost between 10-12 billion ECU, with roughly half of that, or 5-6 billion ECU needed to cover direct payments (Garzon 2006). The study suggested that, if the CAP remained unreformed, these costs could even increase further, as the new member states would exacerbate existing stock build up problems. In addition, if existing EU prices were not brought closer to the lower levels in the new member states, analysts warned that these prices might trigger a new surplus problem, which the MacSharry Reform had worked so hard to combat, and could also result in higher domestic food prices, which would place further financial strain on a population that was already comparatively poorer (Moyer and Josling 2002).

Enlargement was ultimately not a significant pressure for reform, however, because member states and the Commission were operating under the (ultimately incorrect) assumption that farmers in the new member states would not be eligible for the direct income payments introduced under the MacSharry Reform. Their exclusion was based on the grounds that farmers in these countries had not faced the price cuts for which the direct payment scheme compensated and were actually likely to see prices for their goods increase (Knaster 1999). Under these operating assumptions, it was difficult if not impossible to make the argument that CAP payment schemes needed to be reformed so that they were both functional and financially viable once ten new member states from Central and Eastern Europe joined the EU. Excluding the new member states obviated what would have otherwise been a clear need for reform. Finally, because the terms of accession to the CAP had yet to be negotiated or agreed, the Commission and the Agricultural Council ignored the effects of enlargement on the CAP on the grounds that it was not yet known how new member states would be integrated into the CAP (Cunha and Swinbank 2011). Indeed, if anything enlargement mitigated *against* far-reaching reform; why make major changes to the CAP designed to facilitate accession if it is unknown how and to what extent the new member states would be incorporated into the program?

A second potential source of pressure for reform during Agenda 2000 came from trade related issues. The direct income payments created under the MacSharry Reform were compatible with the GATT Uruguay Round (UR) due to their inclusion in the specially created "blue box". The GATT/WTO used a "subsidy stoplight" system, containing green, amber, and red boxes, to evaluate and classify member country subsidies. Permitted subsidies, meaning those that do not distort trade and do not include price supports, are in the green box while the red box refers to subsidies that are forbidden. Subsidies in the red box must be eliminated or offending GATT/WTO members can be made subject to disciplinary action. The amber box refers to all domestic subsidies that distort production and/or trade. Examples of amber box subsidies are production-based subsidies and price supports.

The "blue box" was added as a category for domestic support under the GATT UR agreement. Essentially, this category served to exempt the US deficiency payments and CAP direct income area- and headage-based payments from these reduction commitments (Daugbjerg 2008). EU officials considered it highly likely that these payments, since they were not fully decoupled from production, and thus remained trade distorting, and the blue box more broadly, would come under fire in future negotiation rounds, with some speculating that the blue box might be eliminated entirely. Adding to the concern over the survival of the "blue box" was the United States' adoption of the Federal Agricultural Improvement and Reform (FAIR) Act, also known as the Freedom to Farm Act. The FAIR Act introduced a system of direct payments, completely decoupled from production, that replaced the existing deficiency scheme. In addition, the FAIR Act stipulated that these payments would be reduced over a period of seven years (Cunha and Swinbank 2011). With the passage of the FAIR Act then, the blue box existed only to provide special status and exemption for the CAP payment system.

Despite concerns about what future rounds of WTO negotiations might mean for some core components of the CAP, it was not enough to push the member states into undertaking meaningful reform. The MacSharry Reform negotiations were concurrent with actual GATT talks, while Agenda 2000 began, was negotiated, and concluded before the new WTO round was even launched. For Agenda 2000, trade-related concerns had ultimately little impact because they were all hypothetical: the special status of CAP payments *could* disappear; partially decoupled payments *might* not fit within the new WTO scheme; the US's FAIR Act *might be* a sticking point between the US and the EU. In addition, the trade conflicts between the US and the EU at this time were not really about the operation of the CAP as they had been in the GATT UR.

In sum, the major events and issues that disrupt politics and allow for extensive reform to be achieved did not operate during Agenda 2000. Enlargement was thought to be a non-issue, and any potential trade issues were, at best, hypothetical. As a result, Fischler had to negotiate his reform under politics as usual. The importance of disruptive politics to achieving meaningful reform is clearly illustrated by the case of Agenda 2000, since no major adjustments to CAP policy were achieved, with major initiatives either being made optional or rejected outright.

Initial Proposal

Fischler and the Commission had four main objectives for the Agenda 2000 reform: 1) to extend the systems of price cuts and direct income compensation started under MacSharry in 1992; 2) to reduce the CAP budget and improve financial discipline, particularly in light of the transition to the Euro and the financial strictures involved with that transition; 3) to rebalance the distribution of CAP benefits across member states and sectors of production; and 4) to overhaul and simplify the CAP's rural development and environmental schemes by putting them into a single framework, the so called "second pillar" (Garzon 2006). The first objective was particularly important with Guy Legras, still head of DGVI, stating, "you might call [the new reform proposal] MacSharry Mark II" (Moyer and Josling 2002).

To extend MacSharry, the Commission sought to continue to reduce price supports, in order to bring prices closer to the world level, and to increase direct income payments. Objectives 2 and and 3 followed the same model as they had in previous negotiations- cut CAP costs to the extent possible and attempt to adopt a system that would limit the payments received by the largest farmers, facilitating better distribution of payments across countries while also improving support for small farmers. This latter point, directing more support to small farmers, was seen as important to preserving the social acceptability of the CAP to the broader public. Finally, the fourth objective, like the first, was part of a continuation of a bigger project, begun under MacSharry. Fischler and the Commission wanted to reinforce the role the farmers played in maintaining the countryside. They sought to direct more funds to agri-environmental measures so as to better support sustainable rural development and better meet the growing environmental demands of the broader public (Lowe et al 2002).

A major discussion of a potential CAP reform occurred in the late summer and early fall of 1997, after the Commission had formally launched Agenda 2000 in a document called "Agenda 2000: For a Stronger and Wider Europe". In reference to the CAP, the general document on Agenda 2000 called for compensated price cuts to arable crops, beef, and dairy, a commitment to rural development and agri-environmental measures, and ceilings on income payments in an effort to mitigate perceived inequalities in the system (Knaster 1999). Reform along the lines proposed by Agenda 2000 would, the Commission argued, increase the EU's agricultural competitiveness, improve food safety and quality, advance the fundamental CAP goal of stable farm incomes (including through the creation of alternative income and employment opportunities), promote sustainable agriculture, and simplify EU legislation (Schwaag-Serger 2001). Under this initial Agenda 2000 announcement that set the scope for the negotiations, agriculture would remain the single largest program in the EU, consuming roughly 45% of the budget, with structural funds remaining the second largest, accounting for just over 35% of EU spending (Moyer and Josling 2002).

Agricultural Commissioner Franz Fischler publicly defended the need for reform, arguing in an editorial in the *Frankfurter Allgemeine Zeitung*, (a strategic choice, as Germany was the staunchest opponent of CAP reform) that: “acting as though everything would stay the same as in the past without reform is verging on a lie” (Moyer and Josling 2002). He further stated that the reform’s main objective was protecting farmer incomes, and predicted that Agenda 2000 would improve farmer welfare. Beyond making this public defense of the CAP in the German press, Fischler also undertook a tour of the member state capitals, much like MacSharry did before the 1992 reforms. In so doing, Fischler hoped to get some sense of the political acceptability of his reform goals. In addition, he began to negotiate some elements of the reform in the hope of making the general Commission proposal more acceptable and limiting negative reaction. At the end of the tour, despite some divergent opinion, Fischler found that the balance of support was in favor of “maintain[ing] the status quo, with only slight modifications to the CAP” (Moyer and Josling 2002).

The Commission formally made its proposals for Agenda 2000 in March of 1998. The package consisted of four main components: 1) intervention price cuts for arable goods, beef, and dairy, with partial compensation in the form of direct payments, 2) a system of modulation and price ceilings; 3) cross compliance; and 4) a package of rural development policies. The following table summarizes the main proposals:

Table 4.1: Agenda 2000 Starting Proposal

Area	1998 Commission Proposal
Price Cuts	
Cereals	20% intervention price cut in one step; increase in direct payment by the equivalent of 12 ECU per ton (multiplied by regional yield)
Beef	30% cut in market support compensated by increased direct payment premiums for suckler cows from 145 to 215 ECU per head; increase in the one-time payment for bulls from 135 to 368 ECU, and an increase in payments for steers from 109 to 232 ECU, paid in two installments
Dairy	Extension of quotas until 2006; 2% quota increase; 15% intervention price cut for butter and skim milk powder starting in 2000; and compensation in the form of a direct payment of 145 ECU per cow
Modulation and Payment Ceilings	Allow member states to "modulate" (ie adjust) payments to their farmers based on total employment on the farm; impose EU-wide limits on payments where payments between €100k-€200k would be reduced by 20% and payments over €200k would be reduced by 25%
Cross-compliance	Mandate that member states condition direct income payments on meeting environmental standards, set by EU
Rural Development	Provide support for young farmers, early retirement, training, and farming in "less favored areas" in addition to compensation for agri-environmental activities.

Overall, the reforms sought to continue MacSharry's legacy by cutting prices and maintaining quotas in exchange for increased direct compensation. For beef and dairy, these cuts would come in one step, but would be offset by increasing the amount that farmers received via their direct payments. In an effort to continue MacSharry's objective of keeping milk production under control, the Commission proposed extending quotas for a further 6 years, while also allowing a 2% increase in a farmer's production limit. Other dairy products like butter and milk powder would follow a program similar to that for beef and cereals, with the price cut offset by an increase in compensation.

The Commission once again attempted to address the issue of inequality in payments and to respond to the public criticism of CAP payment operations and spending levels by introducing payment ceilings and other mechanisms to reduce the amount of funds directed towards Europe's largest farmers. The Commission sought to impose a 20% cut on all payments over 100,000

ECUs and a 25% cut on all payments over 200,000 ECUs. The other payment-related initiative, modulation, was intended not to reduce the CAP budget but rather to redistribute aid among farmers and member states and also to reinforce the second pillar, as a portion of the money collected would be earmarked specifically for rural development and environmental programs and policies. Specifically, member states could make some adjustments to the amount of financial support a farmer received based on the number of persons employed on the farm. Those savings would then be redistributed to those farmers and member states that were disadvantaged and to support second pillar goals and programs.

The Commission attempted to improve environmental accountability and to advance the perception of the CAP as promoting the multifunctional role of farmers, as both producers of food and stewards of the environment. The main tools through which the Commission sought to achieve these goals were cross-compliance and a series of reforms designed to direct funding and support to issues related to rural communities. Cross-compliance would tie the receipt of direct income payments to adherence to a set of basic environmental standards. This program was to be mandatory, applying to all farmers. Finally, a series of smaller reforms were designed to provide support for young farmers, to fund early retirement, to support training programs and opportunities, and to provide additional support for those farming in "less favored areas" and to provide compensation for farmers engaging in approved agri-environmental activities.

Reaching a Final Agreement: Member State Reactions and Negotiations

Three broad camps emerged after the publication of the Commission's formal proposal. The first group, the pro-reformers, was led by the UK and Sweden but also included the Netherlands and Denmark. These countries welcomed the reform, but felt that the Commission had not gone far enough. They preferred a bigger reduction in intervention prices and the eventual elimination of subsidies and income support payments. These countries favored the development of a more market-oriented European agricultural sector. In addition, the UK expressed opposition to modulation.

The second group, led by Germany, and also including Austria, Belgium, Ireland, Luxembourg, and Portugal, all had some significant problems with the reform as it was proposed. Germany was among the most staunchly opposed, preferring the status quo. The German agricultural minister Jochen Borchet stated that he could see "very few positive things" in the proposal (Moyer and Josling 2002).

The third and final group included the remaining member states who, rather than take a strong position for or against the reform proposal, "emphasized the specific interests of their national agricultural sectors, and declared their firm intention to defend these interests in the upcoming reform negotiations" (Schwaag-Serger 2001). For example, Spain was concerned that increasing spending on the CAP would make it more likely that structural funds would be targeted as a way to find more resources. Italy wanted an end to milk quotas, Greece and Portugal desired reform for Mediterranean products, and Finland and the Netherlands preferred changes to formulas for compensation (Cunha and Swinbank 2011; Katranidis and Vakrou 2002). The French supported a reform that would continue along and expand the reform path started by MacSharry by lowering prices in exchange for a transition to direct payments, but were dissatisfied with Commission proposals for compensation. Specifically, France sought to protect and increase compensation for small, particularly livestock producers.

France's position in these negotiations was particularly interesting given that it was a period of cohabitation, with Jacques Chirac and the right-leaning *Rassemblement pour la République* controlling the presidency while Lionel Jospin, a member of the *Parti Socialiste* (PS), was the prime minister. This configuration arguably strengthened the farmers' hand, as neither side wanted to tip the balance in favor of their political opponent. The left wanted to find a way to distribute CAP money more equitably but was confronted with a president who, according to a former minister, was "united with the FNSEA. Chirac was their spokesman. He was most concerned with the cereal farmers from the grand Parisian basin and was forgetting everyone else[19]" (personal interview; Paris, France; 11 April 2017). The *co-habitation* government agreed on France's other major priorities aside from how best to distribute income support. The former government minister identified three other priorities. The first was to defend the economic interests of France in agriculture on the grounds that "the CAP was France's program. Germany and France are the core of the EU. Industry was for Germany and agriculture was for France. France was the number one beneficiary and the CAP was the largest program. We needed to defend this status". The second priority was to channel more money to the second pillar and rural development and environmental objectives. The third and final priority was to extend the MacSharry reforms by getting rid of price supports and transitioning to direct payments[20] (personal interview; Paris, France; 11 April 2017). France was arguably in a stronger negotiating position compared to Germany because the German finance and agricultural ministers were constantly at war with each other. The former sought to slash the CAP in an effort to reduce Germany's EU financial contributions while the latter opposed spending cuts in an effort to protect German farmer benefits. France's position was strengthened because an overall bi-partisan unity emerged from the divided government on matters related to the CAP.

Despite these divisions, there was some agreement among the member states. The ministers broadly concurred that a reform should happen before the next round of enlargement, that the 1992 reform should be continued and extended, and that the intermediate strategy was the most favorable (Cunha and Swinbank 2011). More specifically, the ministers agreed that reform of the beef and dairy sectors was inevitable as at the time there were surplus problems with both of these sectors. However, they (perhaps unsurprisingly) disagreed over the size of the cuts and degree of compensation. Germany wanted small cuts, while Sweden and the UK wanted cuts to be large. In terms of compensation, the UK and Sweden preferred to phase out compensation, while Austria, Finland, Germany, and Spain insisted on full compensation, and Greece, Italy, the Netherlands, and Spain claimed that compensation was discriminatory (Moyer and Josling 2002). Similar technical squabbles also broke out over how to handle the dairy and cereals sectors.

Four other issues divided the EU member states. The first was dairy. The quota regime was set to expire in 2000. In order for it to continue, an agreement to extend it would have to be voted on by a qualified majority within the agricultural council. A majority of the member states, led by France and Germany, favored the Commission proposal allowing for the continuation of current price and quota policy on the grounds that it ensured a stable market and kept production in check. These member states also recognized that the compensation that would have to accompany reform would push CAP spending beyond its limits. They argued that delaying the removal of quotas even further than the Commission had proposed, until 2006, would save the

[19] Translated from French by the author

[20] Translated from French by the author

EU €8 billion in compensatory payments that it would not have to distribute if the system was left in place (Schwaag-Serger 2001). The UK, Sweden, Denmark and Italy, however, all supported an end to the quota regime. They favored a more market-oriented dairy sector. Together, these four countries formed a blocking minority meaning that, *if* they stayed united, they could prevent a vote from passing under qualified majority rules. Problematically for this blocking minority, however, Italy was also a member of a group of countries, including Greece, Ireland, and Spain, that were willing to support the Commission's proposal in exchange for an increase in their quotas (Cunha and Swinbank 2011).

The Commission ultimately gave into the demands of Greece, Ireland, Spain, and Italy, offering them an increase in their dairy quota in exchange for their support, thus breaking the blocking minority. After Austria, Belgium, France, Luxembourg, the Netherlands, and Portugal argued that this quota increase was special treatment, the agreement was amended to increase the quotas for all member states, coupled with an additional specific increase for Greece, Ireland, Italy, and Spain. The remaining members of the now defunct blocking minority were promised only that dairy policy would be analyzed and evaluated as part of a mid-term review of the CAP, with the goal of allowing the quota system to expire after 2006.

Unlike with dairy, the member states were largely in agreement that reform was needed for cereals and beef. Efficient cereals farmers in particular were confident in their ability to compete on the world market, and also knew that they would fare better within the EU because they would not be losing market share to smaller and less efficient cereals farmers surviving on inflated prices. Beef producers would benefit from the declining costs of inputs from the cereals sector, once those prices were brought closer to world-market levels. For that reason, discussions concerned the level of cuts and compensation as opposed to whether or not reforms should occur at all. Germany, for example challenged the Commission's cereal price forecasts, arguing that world cereals prices would soon rise to EU levels, rendering significant price cuts unnecessary. In addition, Germany and France supported price cuts for beef, but only so long as framers were offered full compensation. France, however, was firmly in favor of cereals price cuts. Unlike in Germany, French cereal farmers do not need to rely on price supports for survival; indeed, the French view these supports as exposing French grain farmers to unfair competition by "encouraging production in other regions which could not produce without price support" (Schwaag-Serger 2001). During Agenda 2000, the FNSEA, dominated by the large grain farmers, had a particularly powerful ally in French President Jacques Chirac, described by one high-level government official as "the spokesman for the FNSEA[21]" (personal interview; Paris, France; 11 April 2017).

The UK position on both beef and cereals was in line with their desire for greater market liberalization. More broadly, the UK remained opposed to essentially subsidizing the agricultural sectors and paying compensation to the farmers of other countries. For beef in particular, they asked that price cuts be increased to 30% and any compensation payments made temporary as opposed to permanent increases to the direct payment scheme (Schwaag-Serger 2001). Ultimately, for beef the price cut was reduced from 30% to 20%. For cereals, the Agricultural Council agreed to keep the cut at the same 20% level, but to delay the full implementation with the cut being imposed in two steps instead of all at once. A buyout, increasing the beef premium, was needed to secure France's support for the reform as well (Garzon 2006).

[21] Translated from French by the author.

A third area of significant debate was the set of horizontal measures: cross-compliance, modulation, and payment ceilings. The countries with the largest farms, the UK and Germany, continued their staunch rejection of modulation or any ceiling on payments imposed. Their objection rested on the grounds that these policies "discriminate against large, efficient farms, thus undermining the objective of making European agriculture more competitive" (Schwaag-Serger 2001). There was also widespread resistance to cross-compliance. The member states argued that they should decide environmental aims at the national level rather than having the EU attempt to set common environmental objectives for 15 member states, each with their own particular agricultural situations.

In the end, the Commission gave in to every major demand on the horizontal regulations: payment ceilings were dropped, modulation was made optional at the member state level, as was cross-compliance, and member states were allowed to determine their own environmental standards under the program. While these concessions may seem like a major loss for reformers, by including these policies in the reform, even if only optionally, Agenda 2000 reformers positioned their future counterparts to build on and extend the program, setting themselves up for systemic retrenchment in the future. These policies, while at this point not mandatory, had at least become part of the CAP system. The addition of these small, and seemingly unimportant optional new policies opened the door to deeper, structural changes in the future.

A final area of debate concerned rural development and the drive toward further establishing the CAP's second pillar[22]. Austria, Finland, France, Portugal, Sweden, and the UK were all in favor of significantly strengthening the CAP's second pillar. Despite a common preference for a stronger second pillar, these member states did not agree on what that should entail. Sweden, the UK, and to a lesser extent, Finland, advocated for a radical reform under which the second pillar would constitute the bulk of the CAP, with market measures and direct payments phased out over time. The others favored a more even distribution of spending between the two pillars while also working towards making the two pillars and their policies more complementary. One notable way the Commission sought to more tightly join the two pillars was through cross-compliance whereby environmental standards, traditionally the domain of the second pillar, would be tied to direct payments, the purview of pillar one.

France's support for the second pillar marked a shift away from its staunch defense of the traditional CAP programs and was crucial in helping to secure increased financial commitments for rural development. The French government had recently adopted a new *Loi d'Orientation Agricole* and a major part of it, the *Contrats Territoriaux d'Exploitation*, was essentially targeting the same objectives as many of the rural development programs supported under the second pillar (Cunha and Swinbank 2011). Specifically, the new *Loi d'Orientation Agricole* was designed to preserve the smaller-scale family farms while also promoting high food quality standards and the preservation of the environment in rural and agricultural areas (Schwaag-Serger 2001). An increase in funding for the second pillar would essentially allow France to co-finance its new domestic policy.

In order to push forward progress toward reaching a final agreement and to illustrate the difference between reality and what the member states wanted the Commission distributed a table, within the Agricultural Council, that reported that if all of the outstanding demands of the member states were included in the final CAP agreement, the annual budget would be exceeded by €25 billion, or roughly 8% over the course of the six-year budgetary period (Schwaag-Serger

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[22] As explained in previous chapters, the first pillar of the CAP concerns market measures, including direct income payments, while the second pillar encompasses rural development and environmental policies and programs.

2001). A compromise was reached and shortly thereafter, and the agreement was officially approved by the Agricultural Council. Importantly, this agreement was still subject to final approval by the European heads of state and government when the European Council met in Berlin a few weeks later to approve the entire Agenda 2000 package.

The agreement reached by the Agricultural Council contained changes to the Commission's proposal for all three of major sectors under discussion: beef, dairy, and cereals. For the beef sector, as a concession to Italy and France, a higher slaughter premium was approved. In addition, the price cuts were reduced from 30% to 20% and would take place in three stages, not one. Reforms for both dairy and cereals were delayed. Dairy reform would not begin until 2003 and would occur in three stages while the cuts to cereals prices (and accompanied by increases to direct payments) would take place in two steps (Moyer and Josling 2002). Both of these changes were necessary in order to finance the increased expenditure in the beef sector.

The financial question, however, remained unresolved; no agreement on a method for budget stabilization was reached. More problematic was that the compromise reached and approved by the Agricultural Council exceeded the spending limits the Economic and Financial Affairs Council (ECOFIN) proposed for the CAP by €7 billion. In the final agreement on this compromise within the Agricultural Council, Portugal was outvoted (it lacked partners in a blocking minority) and France issued a *reserve d'attente*[23] on the grounds that the financial problems had yet to be resolved (Cunha and Swinbank 2011). The lingering financial issue and France's *reserve d'attente* facilitated the re-opening and further amending of this agreement by the European Council at the Berlin Summit. The Agricultural Council knew that although their agreement concluded negotiations for the CAP amongst the ministers of agriculture, further revision was still possible by their heads of state or government. They acknowledged as much in their formal press release to outline their compromise stating "the reform of the CAP is part of the Agenda 2000 package and that no part of this [agreement] can be considered definitively agreed until final agreement is reached on Agenda 2000 as a whole" (Agricultural Council 1999).

The European Council, which is comprised of the heads of state or government for all the member states, met at the Berlin Summit 25-26 March 1999 to reach a final agreement on Agenda 2000. As part of these negotiations, the CAP deal reached by the agricultural ministers was re-opened by Jacques Chirac. As a former minister of agriculture who maintained close ties with the farming community, Chirac was considered an expert on the subject, and was arguably more knowledgeable on the agricultural policy and the inner workings of the CAP than any of his colleagues on the European Council, including Gerhard Schröder, Germany's newly elected Chancellor from the left who chaired the Berlin summit.

As it was a period of co-habitation in the French government, Chirac was particularly concerned with appeasing a core right constituency, the agricultural community, specifically those in the beef and cereals sectors (Moyer and Josling 2002). Fischler was aware that Chirac was willing to go to great lengths to cater to these interests. As one high level Commission official recounted, Chirac made Fischler well-aware of his displeasure with Fischler's reforms to the beef sector when Chirac visited Fischler in the middle of the night during the negotiations and told him, (in English no less), "I am the father of beef intervention and you are trying to destroy my scheme" (personal interview; Vienna Austria; July 2016). Ultimately, Chirac was

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[23] A member state issues a *reserve d'attente*, or waiting reserve, when it believes more time is needed to examine a given text.

able to combine his agricultural expertise with a situation ripe for revision: a CAP agreement that was over budget, with no country willing to increase their contribution to the EU in order to close the gap.

At the Berlin Summit, Chirac was both willing and well positioned to go all in to push forward his preferred CAP outcome. Indeed, as a high level member of the French government who was party to the negotiations explained:

> There were many important issues being discussed in Berlin. Common defense, foreign affairs, trade, economic policy, and another major international crisis [the NATO bombing of Yugoslavia]. But Chirac made no comment on any of these. Then he stopped everything and made a big statement about an issue that was essential to France. That was crucial for France. He said it was worth billions of euros to France. And it turned out to be a matter of a cereal premium and also a livestock premium! This is what he chose to finally comment on- not anything else, but this CAP issue. Later the other ministers spoke to me, and asked me about Chirac, 'is he crazy?!'. Chirac was the President of France and all he talked about was the CAP, not any of the other important issues.[24] (Personal Interview; Paris, France; 11 April 2017).

Chirac's personal rewrite of the CAP agreement faced little resistance as he stood firm and the other major member states relented due to other considerations which France in turn did not oppose. The main changes imposed by Chirac included a smaller cut for grain prices, increased compensation for beef, and the extension of the milk quota regime by a further two years including an additional delay in price cuts. The UK was concerned with both protecting its rebate and, like Spain and the Southern countries, ensuring access to and increasing their share of cohesion funds. Chirac left Italy's milk quota increase in the package, thereby ensuring their continued support for CAP reform. The biggest source of opposition should have come from Germany, but it was facing political crises domestically and also in its role in the rotating EU presidency. Schröder's government was in disarray after finance minister Oskar Lafontaine's abrupt resignation. Lafontaine had long been at odds with Schröder over economic policy (BBC 12 March 1999).

At the EU-level, in its role in the rotating presidency, Germany was dealing with the crises in the Balkans, which had now escalated to a NATO bombing campaign and also with the stunning resignation of the entire European Commission, under pressure from the European Parliament (Moyer and Josling 2002). An independent investigation revealed widespread fraud, misconduct, mismanagement of financial systems, and suggested that "[the Commission] had lost control of the administration" of the EU (The Guardian 16 March 1999)[25]. A failure of the European Council to act decisively and to successfully conclude Agenda 2000 would be a major embarrassment for Germany and the entire European Union, which it was struggling to lead. With Germany politically weakened, the other major member states distracted by other priorities,

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[24] Translated from French by the author.

[25] While the French commissioner, Edith Cresson, was one of the most sharply criticized in the report, Fishcler was among a smaller group of Commissioners who were not implicated in any wrong doing. As a result, he returned to serve out the remainder of his term in a caretaker Commission and was confirmed again by the European Parliament to serve a second term as Agricultural Commissioner.

and the EU struggling to appear decisive under the shadow of both an international and an institutional crisis, Chirac was able to amend Agenda 2000 to be more in line with his personal preferences after threatening to leave Berlin without concluding the negotiations.

In the end, the overall reform was diluted even further largely by reducing the size of price cuts and delaying the timing of reform. This point is essential: the CAP budget was brought under control *not* by slashing farmer compensation, but by delaying cuts and reforms that would result in further market liberalization. Savings were generated not by reducing compensation packages but by delaying and/or reducing market reform. Price cuts were lowered from 20% to 15% for cereals and the delay of dairy reform was extended a further two years, until 2008. By making cereals cuts smaller than initially proposed and maintaining the dairy quota system the EU reduced and/or delayed the amount of money it would have to pay out as compensation in the form of direct payments. Instead, consumers would continue bear the cost of the price supports.

Alternative solutions that would work within the budget, such as reducing the level of compensation or imposing payment ceilings, were rejected (Garzon 2006). The final agreement formally rejected both alternatives for budget stabilization (co-financing and degressivity) though it did permit member states to apply modulation, if they so desired (Cunha and Swinbank 2011). In the end, all the key players left Agenda 2000 with their key interests protected: France avoided co-financing and protected the high levels of transfers it received from the CAP; Germany avoided further increasing its contribution to the CAP budget; the Southern countries protected their current level of structural funds (but failed to increase them, as they had preferred); and the UK protected the Thatcher rebate.

Table 4.2: Agenda 2000 Final Agreement Outcome and Comparison, Part 1

	Initial Proposal	**Commission Compromise**	**Berlin Summit Agreement (Final)**	**Difference Between Initial and Final**
Arable Crops				
Price	20% cut	20% cut, two steps	15% cut, two steps	Cut is smaller and full effect delayed
Compensation	50%	50%	50%	Same
Beef				
Price	30% cut	20% cut, three steps	20% cut, two steps	Smaller cut
Compensation	80%	80%	Higher, depending on type of cow	More compensation
Dairy				
Quota System	Extended until 2006	Extended until 2006	Extended until 2008	Delayed
Quota Level	2% increase	2.4% increase	2.4% increase beginning in 2003. Immediate increase for ES, IT, IE, UK[26]	Total increase for all, more quota and implemented earlier for ES, IT, IE, UK
Price	15% starting in 2000	15% cut in three steps, beginning in 2003	15% cut, beginning in 2006	Same, but delayed
Compensation	70%	70%	70%	Same

[26] Spain, Italy, Ireland, UK

Table 4.3: Agenda 2000 Final Agreement Outcome and Comparison, Part 2

	Initial Proposal	**Commission Compromise**	**Berlin Summit Agreement (Final)**	**Difference Between Initial and Final**
Horizontal Regulations				
Modulation	Modulation of payments based on employment	Optional, up to member state discretion	Optional, up to member state discretion	Optional, not mandatory
Cross-Compliance	Payments conditioned on meeting EU-set environmental conditions	Optional, member states use own environmental standards and schemes	Optional, member states use own environmental standards and schemes	Optional, not mandatory. Governed by individual member state standards
Ceilings on Individual Payments	Payments between 100k and 200k ECU reduced by 20% and payments over 200k ECU reduced by 25%	Rejected, theoretically possible via optional modulation	Rejected, theoretically possible via optional modulation	Rejected
Rural Development	Includes support for: young farmers, early retirement, training, farming in "less favored areas" and compensation for agri-environmental activities.	No changes	No changes	Same

Overall, the cuts in the final agreement were smaller and took effect at a later date than in the initial proposal. Reducing the size of a proposed cut and/or delaying the time at which it will come into effect are strategies used by welfare state reforms. Reducing the size of a proposed cut is one way to buy off support for a reform while delaying the date of implementation allows the current policymakers to distance themselves from the negative consequences of the reforms they have adopted. The risk, of course, is that these reforms may never actually take place, as the delay affords future actors the opportunity to amend or entirely eliminate the reform before it takes place. Also similar to the process of welfare state retrenchment was the Commission's use of targeted concessions, like increased milk quotas for some member states. Reform is achieved after support is bought from a key actor, in this case Italy, whose support was crucial to breaking the blocking minority on dairy reform.

The Commission's initial proposal was effectively watered down twice, once in order to reach a compromise in the Agricultural Council and a second time by French president Jacques Chirac at the Berlin Summit several weeks later. Chirac's watering down of the proposal included reducing the price cut for grain from 20% to 15% and increasing the compensation paid to the beef sector. In addition, dairy reform, by way of finally removing the quotas, was delayed even further. The round of price cuts and compensation continued in the vein of the MacSharry Reform. Yet despite the cuts, EU prices for goods, particularly cereals, still remained well above world prices. As a result, the EU had to continue using export subsidies (Knaster 1999). The compensation specified in this reform was to be added on top of the compensatory payments already received under the MacSharry Reform. While these cuts would allegedly help reduce the problem of surplus production by lowering price guarantees, the CAP still had yet to achieve the full decoupling of payments from production.

Modulation was ultimately left up to the member states. If they desired, they could modulate payments to farmers for specific reasons such as, "below-average employment density, above-average profit level" or the total level of payments to the farm (Schrader 2000). The agreement required that any savings collected by the member states through this optional modulation had to be spent on rural development or environmental programs.

Cross-compliance was adopted, but only as an optional measure. Member states that choose to impose cross-compliance on their farmers were also allowed to set their own environmental standards so long as they did not distort competition between the member states (Schrader 2000). While implementing cross-compliance in an optional, non-binding form with no universal environmental standards was a weak outcome, it did position the Commission well for future reform along the same lines. Moreover, it mirrored patterns observed in welfare state retrenchment, where seemingly small changes implemented early can smooth the way for more fundamental change, or systemic reform in the future. Indeed, in the 2003 Mid-Term Review of the CAP, Fischler was able to use the inclusion of cross-compliance in Agenda 2000 as a sign of tacit approval of the program and to successfully push for its adoption as a mandatory CAP program.

Conclusion

The process of the Agenda 2000 CAP negotiations, particularly in contrast to the MacSharry and Fischler Reforms which bookended it, illustrates how CAP reform is more limited without the presence of disruptive politics to open space for broader reform. While trade was a driving factor for the MacSharry Reform, it exerted little pressure on shape or content of the Agenda 2000 CAP agreement. The MacSharry Reform negotiations took place not only while the GATT Uruguay Round was underway, but after agriculture (and the CAP in particular) had been identified as a major stumbling block in reaching an agreement. For Agenda 2000, there were no concurrent GATT/WTO talks (the agreement was reached before the ill-fated Seattle meeting to launch the Millennium Round), and the threat of a new round potentially beginning in the near future was not enough to push the CAP towards further liberalization and away from existing trade-distorting programs. Similarly, enlargement towards Eastern and Central Europe was far enough in the future that it had yet to become a critical issue for the CAP. Moreover, the Commission and the member states were operating under the (ultimately misguided) belief that the new member states would simply be excluded from the direct payments system, meaning that it was not necessary to reform the CAP in preparation for enlargement.

The Agenda 2000 agreement serves as a clear example of what happens when negotiations occur during politics as usual. In such cases, reform outcomes are mostly narrow, limited, and/or non-binding. Emboldened by the sense of urgency lent to the CAP reforms by trade negotiations, impending enlargement, and/or other crises, both MacSharry (in 1992) and Fischler (in 2003) were able to make, and more importantly, deliver on bold proposals, resulting in a major reworking of the core operations of the CAP. Without these disruptive politics during the Agenda 2000 negotiations, the Commission was unable achieve the such systemic reforms.

The process of reaching an agreement on Agenda 2000 CAP highlights three tactics commonly employed by reformers seeking to retrench the welfare state: 1) implementing small changes, including even non-binding agreements that allow for deeper structural change in the future; 2) using delayed implementation for cuts as a way to reach an agreement; and 3) marshalling support for the reform package via a number of tactics, including offering compensation in exchange for cuts or changes to programs, buying off member states (and, by proxy, farmers), and offering special policy exemptions and alternatives to those who are opposed to particular aspects of the reform package. The first tactic is best illustrated by the greening policies, which were adopted but left to the member states to decide how they would implement them. In his 2003 reform, Fischler would use the fact that member states had previously agreed to greening standards (even if they were left to member states to decide how to implement) as grounds for making these standards mandatory.

The second tactic, delaying the initiation of cuts and reforms, was seen in the reforms for all three major sectors: cereals, beef, and dairy. While delays were ostensibly undertaken for the purpose of budgetary feasibility, they also helped politicians avoid blame, as they may no longer be in office when the cuts arrive. Finally, the third tactic, attempting to buy countries' support with side payments is illustrated most clearly in the dairy sector, with the Commission offering Italy an increase in its milk quota in exchange for supporting the reform and thus eliminating the blocking minority that was preventing an agreement.

While Agenda 2000 did not have a landmark initiative like MacSharry's partial decoupling of payments from production and introduction of direct income payments, Agenda 2000 at least protected MacSharry's legacy by continuing to cut existing intervention price supports. It also maintained the system of direct income payments for decoupled production. The compensation for price cuts was added to the existing direct payment scheme, as reformers continued to slowly push the CAP away from system based on market intervention to one that was constructed around income supports. Agenda 2000, also continued to develop the CAP's second pillar which concerns rural development and greening.

Overall, and particularly in comparison to the subsequent Fischler reforms of 2003, Agenda 2000 was unremarkable. It lacked any landmark initiative. Environmental measures, while included, were non-binding and left to member state discretion for the standards. Both options to fundamentally reshape how the CAP is funded, degressivity and co-financing, were abandoned. So too were a number of proposed reforms and cuts in the effort to bring the CAP package in line with the new budget. Many of these reforms were eliminated by Jacques Chirac when he re-opened the already watered down reform agreed to within the Agricultural Council at the Berlin Summit. With Agenda 2000 being not just a CAP reform, but a broad package of reforms designed to orient the EU towards, and prepare it for, the challenges of the new millennium, most proximately enlargement, the member states had to pick where to place their influence. While France used its political capital to go all in on reshaping the CAP to align with French preferences as much as possible, other countries defended different interests: Germany sought to prevent an increase in its budgetary contributions, Spain and the southern countries fought to protect cohesion funds, and the UK defended its rebate.

The next chapter examines the third major effort to reform the CAP, the 2003 Mid-Term Review also known as the Fischler Reform. Fischler intended to use this reform to push forward and extend the decoupling of the CAP, first begun by MacSharry in 1992. In addition, the Mid-Term Review (MTR) became tasked with making the CAP financially viable in an enlarged Europe, particularly once it was accepted that the new member states simply could not be excluded from receiving CAP income payments. The MTR then, unlike Agenda 2000, would be undertaken in a context of disruptive politics, permitting both the proposal and consideration of deeper and more fundamental reforms of the CAP than was possible during Agenda 2000.

Chapter 5

The 2003 Fischler Reform: Reforming the CAP to Save the CAP

Introduction

The previous chapter examined the Agenda 2000 Reform, led by Agricultural Commissioner Franz Fischler. Agenda 2000 affirmed bold objectives but ultimately introduced limited change. Decoupling was not extended any further, and the most ambitious initiatives, such as environmental protection and a shifting of money from market support to rural development, were strictly voluntary. Little was expected to change with the 2003 Fischler Reform, sometimes also referred to as the Mid-Term Review (MTR), because it was intended only to check and respond to the implementation of Agenda 2000.

Instead of being only a review, however, the 2003 agreement resulted in a major overhaul of the CAP. The most striking reform was the decoupling, in most sectors, of CAP payments from production, continuing and extending the policy first introduced by MacSharry. Instead of production-based income support, the MTR switched farmers to a direct income subsidy, which is the same whether they grow millions of tons of grain or nothing at all. The new payment system, called the Single Farm Payment (SFP), was designed to compensate farmers for income lost from decoupling and to provide a source of income in the years to come. Finally, the voluntary environmental and rural development policies first introduced in Agenda 2000, cross-compliance and modulation, were made mandatory. Receipt of the SFP was conditioned on meeting certain environmental standards (cross-compliance), and member states were required to direct 5% of direct payments for farmers earning over €5,000 to support the environmental and rural development initiatives of the Second Pillar (modulation).

The purpose of this chapter is to account for the content of the 2003 MTR, and to explain specifically, why, despite the fact that the MTR was supposed to be only a review of Agenda 2000, major change was achieved. Because the MTR was only intended to check the implementation of the Agenda 2000 agreement, the member states did not expect to see any initiatives of significance. At most, the MTR was expected to produce comments on the status of Agenda 2000 and minor corrections to existing policies. Indeed, French President Jacques Chirac summoned Fischler to Paris and told him bluntly, "Just so we are clear, the MTR is just a report, not a reform. You can make a proposal in 2007" when Chirac was scheduled to leave office (personal interview; Vienna, Austria; 13 June 2016).

Fischler, however, had grander ambitions for the MTR. These ambitions would be aided by a series of important challenges that were coming to a head. Fischler had already made ambitious proposals during the Agenda 2000 negotiations, but the CAP was operating under politics as usual, with no significant extraordinary circumstances or crises that could generate disruptive politics. As a result, Fischler's big ideas were either watered down or shot down entirely. At the time of the MTR, however, bigger changes were afoot. Fischler was able to link his proposals to key challenges, raising the stakes for reform, and compelling the member states to consider changes that were more far reaching and dramatic than they would have entertained during a regular round of CAP reform, let alone a mid-term review. Disruptive politics made it possible for Fischler to propose and reach agreements on more dynamic reforms than would be possible under politics as usual.

The impending accession of 10 largely agrarian new member states posed the most direct and disruptive challenge to the CAP. Once these countries joined, the number of farmers who could claim CAP support would more than double, and agricultural land area, which is also supported and maintained through CAP programs, would increase by nearly 50%. Projections suggested that in order to extend existing support programs to the new member states, the CAP budget would need to double. The CAP was already the EU's largest program, consuming 40% of the budget. Given that the CAP was routinely targeted for budget cuts, there was simply no way financial commitments to the program could expand to the extent necessary to accommodate the new member states. The CAP needed to be reformed so that it would be financially sustainable in an enlarged Europe. An added incentive to move quickly was that the new member states would render the decision making process even more complex in future, when there would be 25 Ministers of Agriculture attempting to support and defend the unique agricultural preferences of their respective home countries.

The CAP was also under pressure from international trade negotiations. In previous rounds of GATT/WTO negotiations, European agriculture had been the stumbling block. A significant problem in the Uruguay Round was that CAP programs were in direct conflict with GATT rules. European manufacturing and services representatives were now signaling to their agricultural counterparts that they would no longer tolerate complications and delays due to agriculture that damaged their ability to defend their sectors' interests. Officials representing these sectors made it clear that they were willing to sacrifice Europe's agricultural policy preferences in order to forge the best deal possible for manufacturing and services. Taken together, all of these challenges and time-sensitive circumstances confronting the CAP meant that the reform took place during disruptive politics, making more reform possible under the MTR than had been achieved in Agenda 2000.

Despite the urgent need for change, the CAP reform process again shared many features in common with welfare state retrenchment. The most ambitious and far reaching reforms were significantly watered down, and some (like placing a ceiling on direct income payments) were defeated outright. Many reforms ended up following a "vice into virtue" logic: rather than introducing entirely new initiatives, existing programs are adjusted to fix inefficiencies and inequalities. Finally, the entire package was filled with side-payments and special agreements in order to defuse opposition. The ultimate reform package in the MTR is consistent with my central claim that it is difficult if not impossible to reduce farmer support.

Disruptive Politics and the Mid-Term Review

At the time of the MTR, the basic ability of the CAP to continue to function was under threat from WTO negotiations, a looming round enlargement, food safety scares, and public frustration with existing policies. The MTR would, like the MacSharry Reform, be developed and negotiated at a time of disruptive politics. Existing programs were now unstable due to the rapidly approaching accession of new member states from Central and Eastern Europe. Food safety scares, and more importantly, continued trade negotiation issues related to agriculture potentially introduced new actors into negotiations that typically concerned agricultural interests only.

These challenges created an opportunity for Fischer to propose and advocate major reforms. They also informed the content of the proposed reforms. WTO pressures facilitated the consideration of policies that made the CAP less trade distorting. Enlargement allowed for deliberations over policies that would improve the financial sustainability of the CAP in the expanding Union. Concerns related to food safety and perceived public dissatisfaction allowed policies to be considered that increased environmental and animal welfare standards and that improved the equity of existing programs.

Though these pressures were critical, the MTR was not launched in response to them. Rather, a provision requiring an MTR had been included in Agenda 2000 at Fischler's insistence. Fischler had been frustrated by the tepid Agenda 2000 agreement and wanted another chance to enact meaningful reform. The MTR was a concession to Fischler in return for Chirac's last-minute revisions to Agenda 2000 at the 1999 Berlin Summit[27]. The purpose of the MTR was to assess the status of the implementation of Agenda 2000 and to offer improvements, if necessary (Botterill 2005). While Fischler hoped that the MTR would be his avenue for more far-reaching reform, he was careful to only refer to it as a review, and not a reform (personal interview; Vienna, Austria; 13 June 2016). Most member states assumed that the MTR would be merely a review and that no substantial changes would result.

Still, pressure was building to overhaul the CAP, starting with the recently launched Doha Development Round. Fischler wanted to avoid a repeat of the Uruguay Round of GATT negotiations when stalemates in the agricultural sector had caused negotiations to drag out four years longer than planned. European manufacturing and services were angry at agriculture for the difficulties they faced in their negotiations because the structure of the CAP was a major obstacle to reaching a final agreement. Specifically, the EU, with its trade-distorting price supports and production-based payments, was at the center of the controversy over how to structure the agricultural component of the GATT. The European Commission and several member states concluded that entering the WTO negotiations with the CAP in violation of WTO rules once again would weaken the chances that EU representatives would be able to both defend the European Union's vision for agricultural policy and also extract competitive agreements for services and manufacturing.

In the run up to the Doha Round, European manufacturing and services sectors made it clear that they would not allow their bargaining position to be weakened or their interests threatened by European agriculture. These sectors signaled their intention to push aggressively for open markets "regardless of the price paid in terms of additional access to the EU agricultural market, which would presumably have to be borne by their fellow farmers" (Pirzio-Biroli 2008). In order to gain access to new markets, representatives for manufacturing and services stated their willingness to trade away core components of CAP policy. In addition, the European Commissioners for Trade, Competition, and Industry routinely challenged agriculture's share of the EU budget and sought to diminish the prominence of the agriculture portfolio. Struggles and delays at the Doha Round caused by agriculture would provide additional ammunition to their efforts to siphon money from agriculture and into their own budgets.

Given the clear signals sent by European manufacturing and services, Fischler wanted to enter the Doha Round with the ability to pursue and defend European agricultural interests without the sector being a stumbling block for progress towards Europe's goals in other domains. The most important and fundamental way to position European agriculture for negotiation success was to ensure that CAP subsidies complied with existing WTO regulations. The WTO

[27] This incident is reviewed in the section entitled, "Fischler and Lessons from Agenda 2000".

used a "subsidy stoplight[28]" system, containing green, amber, and blue boxes, to evaluate and classify member country subsidies. Permitted subsidies, meaning those that do not distort trade and do not include price supports, are in the green box. Examples of green box programs include decoupled subsidies and rural development supports. The amber box refers to all domestic subsidies that distort production and/or trade. Examples of amber box subsidies are production-based subsidies and price supports. As subsidies in the amber box are considered trade and/or production distorting, they are subject to strict limitations, including an agreement to reduce them over time. In developed countries, only 5% of a country's subsidies can fall into the amber box. Countries that exceed that limit must reduce their subsidies accordingly. The Uruguay Round agreement included a specific commitment by the 30 WTO members whose subsidies exceeded amber box limits to bring those subsidies in line with the 5% rule. The last category is the blue box, which is also referred to as the "amber box with conditions". It contains, "any support that would normally be in the amber box [which] also requires farmers to limit production" (WTO). It was developed as a way to help states move away from trade and production distorting amber box subsidies without causing too much hardship.

Compliance in the agricultural sector was important because it meant that EU could press for market access for goods and services in emerging markets without being told that it first needed to get its agricultural policy in order. Keeping agriculture from hamstringing the pursuit of EU objectives for goods and services was also important for Fischler because it weakened the arguments often used by the EU Commissioners for Trade, Competition, and Industry to call for a reduction in the CAP budget. Speaking about his Doha Round strategy, Fischler noted, "we needed to change the conversation for the WTO. We couldn't have a Uruguay Round repeat. We needed to be on the offensive. Decoupling was a good start because those types of subsidies [direct income support not linked to production] are already defined as in in the green box" (personal interview; Vienna, Austria; 13 June 2016).

Fischler's goal was to have the EU enter the round with its system of payments already in the "green box". In order to do so, payments would have to be fully decoupled from production. Fischler felt that the EU would be better positioned in the negotiations if it came in with its agricultural subsidies already in compliance with WTO standards, rather than having to play catch up. Fischler was thus able to use the Doha Round to press the member states for more dramatic reform than they might have considered otherwise.

Finally, Fischler knew that reform would be easier to pass if it occurred during an already scheduled CAP review, rather than in response to WTO negotiations (personal interview; Vienna, Austria; 13 June 2016). If reforms came during WTO negotiations, it would seem as though the CAP was caving into the demands of external actors. Fischler anticipated that the perception that non-EU actors were driving CAP reform would not play well with the public and would make reform even harder (personal interview; Vienna, Austria; 13 June 2016). Indeed, MacSharry's approach to the 1992 reform was driven by this concern, as his reform overlapped with the GATT Uruguay Round. For this reason, MacSharry went to great lengths to present, explain, and justify his reform proposals as responses to internal EU needs and as improvements to CAP functionality rather than concessions to GATT officials, or, even worse, the United States.

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[28] A red box also exists (hence the subsidy stoplight name) but this box is not applied to agriculture, and a blue box is used instead. As the WTO admits in its explanation of their system, "in agriculture, things are, as usual, more complicated" (WTO).

Enlargement, like WTO negotiations, was placing pressure on the CAP. The accession of ten new member states, all poorer and less developed Central and East European countries, posed a serious threat to CAP spending. A CAP that remained coupled (payments based on total output) would be completely untenable under enlargement, when millions of new farmers would join the CAP. These new member states, where 26% of employment was in farming, were far more agrarian than the EU 15, which employed only 2-3% of the population in agriculture, and agriculture accounted for a much higher share of GDP (3 to 4 times the EU average) (Kryn 2003; Olper 2008). According to some estimates, the number of farmers in the EU would increase by 120% and the area of land under agricultural cultivation would increase by 42% after enlargement (Swinnen 2001). The CAP would be responsible for providing income support to these farmers and rural development assistance for all agricultural land. Projections of the financial impact of enlargement suggested that, if the CAP remained unreformed, the budget would need to double. At the time of the MTR, the CAP was already the EU's single largest program, consuming approximately 40% of the total EU budget. A doubling of CAP spending was political and financially unfeasible.

At the time the member states agreed to the Agenda 2000 program, it was thought that the accession countries would not receive direct payments. The prevailing belief was that the new member states had no right to payments that were compensating current CAP farmers for price cuts they had been forced to accept in past reforms. The new member state farmers had not been part of the CAP at the time of these price cuts, and thus had no right to compensatory payments. In 2002, however, the Commission, anticipating that a two-tier CAP would be politically unsustainable, reversed course and decided that the accession states would be allowed to receive direct payments. The new member states would be allowed to access these payments gradually, not reaching payment levels commensurate to the existing EU-15 until 2013. Direct payments were to be phased in starting in 2004 from a base of 25% of the EU level upon accession and increasing by 5% per annum until 2007. Then, in 2008, the EU base payment would increase by 10% annually until 2013 at which point direct payments received by the new member states would be equal to the level of those received by the EU-15 (Gorton et al 2009).

The graduated plan of access to the CAP bought EU reformers a small window of relief, but did not solve the fundamental problem of reconciling the existing CAP budget with the addition of ten new, largely agrarian, member states. Even though the new member states would not be integrated fully into the CAP payment system until 2013, Fischler needed to adopt change quickly because the new member states would be party to CAP negotiations upon formally joining the EU in 2004. Reform needed to happen before these new member states could enter and block changes that threatened to reduce the amount they received. The MTR was thus the last opportunity for reform before the new member states would be included in CAP negotiations.

Enlargement's threat to the budget gave Fischler a real, time-sensitive justification to push for massive and immediate changes in the operation of the CAP. These financial concerns allowed Fischler to construct a narrative that reform was not only desirable to improve the operation of the CAP, but necessary to save the CAP itself from total collapse. In addition, by arguing (accurately) that decisions could be taken more easily now than after ten new member states joined the EU, he was able to make reform an immediate priority.

Another problem facing the CAP was food safety. Consumer advocates were critical of the CAP in light of recent outbreaks of food-borne illnesses, and the apparent failure of the CAP to do anything to address or control them. Agenda 2000, the most recent CAP reform, did nothing to assuage these concerns, and on top of that inaction, new crises continued to emerge. In 1999, there was a dioxine crisis in Belgium and in 2001 an outbreak of foot and mouth disease in the UK (Cunha and Swinbank 2011). The UK's second bovine spongiform encephalopathy (BSE) crisis broke out in 1998 (the first was in 1986), concurrent with Agenda 2000 reform discussions. Logically, the BSE crisis in the UK should have compelled reformers to realize that existing environmental, animal welfare, and food safety standards were not sufficient. Making matters worse, new cases of BSE were detected in Belgium, France, Germany, Italy, and Spain. These crises also coincided with increasingly heated debates over the presence of GMOs in food for both human and livestock consumption (Cunha and Swinbank 2011).

Reactions in the member states to the appearance of Mad Cow were varied but swift. All of the member states with confirmed cases of BSE moved to quarantine areas near the infection and culled herds containing cows that tested positive. In France, officials also tripled funding for the study of BSE, ordered a review of slaughterhouse practices, banned the use of animal feed containing meat, and extended an import ban on British beef for a further three years beyond the EU-imposed ban. Germany also took action, replacing its SPD (Social Democratic Party) farm minister, Karl-Heinz Funke, with Green Party member Renate Künast, a Fischler ally and vocal advocate of CAP reform. Künast advocated strict standards for animal welfare, tough environmental regulation, and greater oversight of and limitations on industrial farming.

Prior to the MTR, commitments to meaningful environmental measures were tepid at best. Environmental policies were optional, and implementation was left to the discretion of member states, who mostly ignored them due to farmer resistance. The series of food scares increased pressure on the CAP from consumers, environmentalists, and animal welfare advocates. Public opinion of the CAP in these matters was quite negative. While 90% of respondents in a 2001 Eurobarometer poll expressed a belief that the CAP should "ensure that agricultural products were healthy and safe", only 36% thought that "food bought could be safely eaten" and just 34% felt that "food bought is of good quality" (Eurobarometer 2001). As a result, Fischler saw an opening to push for meaningful, mandatory reforms that would increase food safety and security, including the adoption of environmental and animal welfare regulations.

There was also a growing recognition among the public that farmers were significant polluters (Pirzio-Bioroli 2008). According to Eurobarometer surveys in 2001 and 2002, just under 90% of respondents stated that the CAP should be used to "promote respect for the environment" while only 41% of respondents across the EU 15 felt that the current version of the CAP actually "promoted respect for the environment" (Eurobarometer 2002). The environmental goal was second (by one percentage point) only to the objective of "ensuring the agricultural products are healthy" (Eurobarometer 2002). The CAP bore the brunt of the blame for agricultural pollution, given that it allowed for (and arguably encouraged) the industrialization of agriculture and by extension tacitly promoted the use of environmentally damaging farming practices, designed to extract the highest possible yields.

A final problem confronting the CAP concerned the distribution of benefits. The CAP directed most of its support to only a small number of farmers. For example, in France, 40% of all aid went to fewer than 10% of French farmers, overwhelmingly the large cereal cultivators (Lowe et al 2002). This problem, known variously as the 80/20 problem (because 80% of CAP payments were going to 20% of Europe's farmers) or the "Queen of England Problem" (because Queen Elizabeth II was the UK's largest CAP payment recipient) had plagued the CAP for a number of years. Reformers were under pressure to, if not correct this imbalance in support distribution entirely, at least attenuate it. The unequal allocation of CAP benefits, and reports in the press about disparities in payments received by large and small farmers, led Fischler and his associates to be concerned that public opinion would turn against the CAP. Declining public support was a real worry because EU officials, particularly other Commissioners, already questioned why such a large sum of money was being spent on an increasingly small faction of the population.

The challenges and opportunities posed by enlargement, WTO negotiations, and poorly operating CAP programs offered Fischler and his associates an opportunity to propose far-reaching reforms of the CAP under the auspices of the MTR. Such reforms were seen by Fischler and his team as necessary to “reduce the ammunition of those demanding large budget cuts and [to] create a new support base for the CAP” (Swinnen 2008). If the CAP remained unreformed, unsustainable spending and environmental destruction would make it an easy target for other commissioners and member states who preferred a much slimmer CAP budget. Their case would be helped by increasingly negative attitudes from the general public. As Pirzio-Biroli, Fischler’s deputy, noted, “[we] concluded that, if we wanted to preserve the CAP, we needed to change it” (Pirzio-Biroli 2008).

Fischler’s agenda was not just about cutting spending (personal interview; Vienna, Austria; 13 June 2016). Rather, he sought to reform the CAP to save the CAP- most notably by making it financially sustainable, viable under enlargement, compatible with WTO rules, and responsive to public concerns about food safety and the environment. Some critics saw Fischler as a bean counter, looking to make cuts wherever he could to get CAP spending under control. While it is true that Fischler was attempting to radically restructure CAP spending, these critics misread the motives behind his actions. Fischler was himself a former agricultural minister. He was seeking to reform the CAP and to make cuts not to please his colleagues in Brussels, but rather to make sure the CAP continued to be viable. Fischler truly viewed his task in these reforms as saving the CAP from collapse.

Fischler and Lessons from Agenda 2000

Fischler benefited from a high degree of personal credibility within the Commission, having been a minister of agriculture and the leader of Austria’s accession negotiations. He was considered to be both an expert on agricultural policy and a reform-minded official, who was willing to pursue the tough changes necessary for preserving the overall health of the CAP, no matter the criticism he might face from farmers or their member state representatives. As evidence of the high regard in which Fischler was held, Commission President Romano Prodi completely devolved agenda-setting competency to Fischler and reportedly “had no firm ideas one way or the other about agriculture and issued no directive to Fischler about how or whether to reform” (Syrrakos 2008).

Although the MTR was intended only to be a health check and not a revision of existing CAP policies, Fischler believed that the CAP needed much more than a status report on the functioning of existing programs. A program that could neither work within the EU budget nor meet basic environmental and health standards ran the risk of being cut drastically by European technocrats, if not entirely eliminated. In addition, without reform, the CAP would stand to be an anchor inhibiting the EU’s ability to negotiate in the Doha Round of WTO negotiations. Fischler thus constructed his reform objectives around making those changes necessary to ensure the CAP’s long-term survival. If he did not reform the income payment system, new member states would explode the budget beyond sustainability. If the CAP remained an obstacle for European services and manufacturing in trade negotiations, these external actors would force deep and unpleasant changes to CAP programs such that European agriculture no longer tied their hands. In other words, failure to reform the CAP could spell the end of the CAP.

Fischler's central goals were to decouple CAP payments from production and to expand the environmental scope and standards of CAP policy (personal interview; Vienna, Austria; 13 June 2016). The first goal, decoupling, would help reduce the vast disparity in CAP income payments, whereby 80% of CAP income payments went to only 20% of eligible farmers. It would also put CAP spending into conformity with WTO rules. The second goal, improving environmental standards, would address growing public dissatisfaction with the effects of CAP policy on food safety and the environment. Decoupling would go a long way towards ensuring that the CAP remained financially viable in an enlarged Europe, while mandatory environmental standards and regulations would make certain that newly-added agricultural land was protected as well as guarantee that food produced in Eastern Europe would meet the higher quality and safety standards already in place in the West. While there had recently been high-profile incidents of food-borne illnesses, overall safety and quality standards and rules in the West were much higher than those in the East. Without these changes, the CAP would be overwhelmed by the financial strain of supporting the new member states, would be challenged by Europe's trading partners, and would lose public support due to its social and environmental consequences.

Fischler had learned several lessons from the Agenda 2000 negotiations. During Agenda 2000, the early publication of reform proposals allowed vested interest groups the opportunity to mobilize and undermine initiatives before they could even be launched (Swinnen 2008). Farmers in particular, once tipped off about the contents, had moved to lobby their governments to oppose reforms before any discussion or formal presentation and explanation of the proposals could occur. Fischler, therefore, resolved to develop the MTR behind closed doors, like MacSharry had done with his 1992 reform. By working first in secret, Fischler would be able to propose a reform that called for dramatic and far-reaching change—more than was expected under the MTR. A more open development process would leave the agricultural directorate susceptible to interference from the member states. Given that a number of member states wanted the MTR to be nothing more than a review, Fischler opted to keep his proposals under wraps until the time was right.

Secrecy also gave Fischler and the Commission a research advantage: they could collect and gather evidence so that when the reform proposal was presented, Fischler would be able to provide data to support his proposals (personal interview; Vienna, Austria; 13 June 2016). The member states would then be forced to play from behind in order to mount specific, evidence-based criticisms of the Commission's reform package. Because the content of proposals would be a surprise to the member states, they would be unable to make specific, detailed claims about the effects of reform, and any general reactions, like claiming the reforms would hurt farmer incomes, could quickly be refuted by the Commission, armed with data and evidence.

Another key and more personal lesson that Fischler had learned was to be wary of French President Jacques Chirac. When speaking about his adversaries in CAP negotiations, Fischler stated, "my biggest opponent was Mr. Chirac" (High-level Commission official; Vienna Austria; 13 June 2016). The two had tangled multiple times in the past. Fischler described Chirac as an "intelligent and crafty politician who knew a great deal about agriculture and could manipulate political rules to his advantage" (High-level Commission official; Vienna, Austria; 13 June 2016). Fischler recounted that at the Berlin Summit, where Agenda 2000 would be formally adopted by the European Council (after the Council of Ministers had already approved the text), Chirac "used a trick" to reopen and revise the agreement (High-level Commission official; Vienna, Austria; 13 June 2016). First, Chirac exploited his personal relationship with German Chancellor Gerhard Schröder who held the rotating presidency at the time. Because the CAP was part of the new Multiannual Financial Framework (MFF), the summit chair could open any component of the MFF for debate and reform. Second, Chirac used a complicated rule in the operation and calculation of the CAP budget to compel other member states to abandon a dairy reform that Chirac did not like[29]. Fischler "was furious because the reform was already agreed to, but Chirac went back and undid the work" (High-level Commission official; Vienna, Austria; 13 June 2016). Fischler learned the hard lesson that even when the agreement was concluded in the Council of Ministers, he still needed to make sure the holder of the rotating presidency did not reopen the CAP portion of the MFF at the European Council summit meeting.

Fischler's rocky relationship with Chirac continued after the Berlin Summit. Following the Agenda 2000 reform, Chirac unsuccessfully appealed to Commission President Prodi to not renew Fischler's post as agriculture commissioner for a second term. When asked specifically about the MTR, Fischler again identified Chirac as one of his biggest adversaries (personal interview; Vienna, Austria; 13 June 2016). During the MTR negotiations, Fischler, however, benefitted from the lessons he had learned from the Agenda 2000 reform process and was better positioned to manage and respond to Chirac.

Initial Proposal

Fischler's initial plan was sent to the Commission on 10 July 2002 after months of study and work conducted largely in secret by Fischler and a small group of associates, including his Deputy Director, Corrado Pirzio-Biroli. The small group included only the top officials at DGVI. These officials relied on studies and analyses by experts within the DGVI administration, who conducted preparatory analysis and calculated potential effects of the reforms but were not fully informed of overarching agenda. Otherwise, Fischler and his associates preferred to keep the civil servants in the dark. Because CAP reform would force DGVI civil servants to change how they worked and adopt new, often complex and cumbersome systems, Fischler thought it unwise to reveal the extent of the plan to them. Fischler was also concerned that the civil servants might leak aspects of the program to their permanent representations, allowing the member states to begin to mount a defense before he could announce his reform package (personal interview; Vienna, Austria; 13 June 2016).

Retrenchment-minded welfare state reformers are also known to work in secret. Keeping potential reform proposals out of the public debate and masking the costs of new policies and reforms are strategies commonly used by welfare state reformers to avoid resistance from those who stand to lose. As with Fischler's strategy in articulating agricultural policy reform, keeping the proposals secret allows the reformers to conduct research and compile data and evidence to justify the proposed changes. These data, on issues such as expected savings, distribution of benefits across groups, or overall change (or lack thereof) in total support, allowed reformers to support their proposals with evidence, while those who oppose the initiatives are caught flat-footed. Finally, secrecy prevents welfare state beneficiaries from marshalling opposition to reform before the proposals can be fully presented and explained.

[29] This maneuver is described in detail in the Agenda 2000 chapter.

The plan developed by Fischler and his associates contained three core elements: decoupling of income payments, modulation, and cross-compliance. The first element called for the full decoupling of direct supports to farmers. Payments are coupled when the amount of money a farmer receives depends on how much he or she produces. Coupled payments were the original backbone of the CAP. When the CAP was created, Europe was struggling through its post-war recovery and food shortages were still a concern. Incentivizing production was essential for overcoming these challenges. Over time, production-based (or coupled) payments got out of hand, resulting in the milk lakes and butter mountains that plagued the CAP in the late 1980s and early 1990s. As previous chapters explain, Ray MacSharry was able to take major steps toward managing the surplus problem by implementing, among other reforms, a partial decoupling of payments from production. In the 2003 reform, Fischler sought to complete the work that MacSharry had started, and completely decouple payments from production.

Full decoupling was also a crucial and necessary step towards strengthening the EU's bargaining position in the next round of WTO discussions. Coupled payments are market distorting and thus an object of particular ire within the WTO. In addition, coupled payments were exacerbating problems that Fischler feared would diminish public support for the CAP. Production-based payments incentivized farmers to produce at all costs, with no concern for resulting damage to the land. Production-based payments also skewed the distribution of support. The largest farmers were able to produce the most, ensuring that they got the most money. Finally, production-based subsidies, particularly in times of surplus, were wasteful and increasingly costly. Prices remained high for the consumer, yet expensive, massive stockpiles existed that the EU had to spend a considerable amount of money to buy, store, and dump.

By fully decoupling the payment scheme, Fischler would be able to address two of the biggest challenges facing the CAP: compliance with WTO rules and the persistence of unequal and environmentally harmful CAP policies. Decoupling would allow CAP payments to be classified as in the WTO's green box. The EU would thus be able to offer a key concession of sorts in the Doha Round negotiations by moving its agricultural subsidies into the box that is least trade distorting. As a result, the EU would be in position to press its interests across all sectors, as opposed to being targeted by other counties for having an agricultural policy that did not comply with WTO rules and regulations.

Decoupling would also reduce the gap in support across the farming community, and diminish incentives for environmentally damaging farming practices. Payments tied to production had resulted in a dramatic disparity in how income support funds were distributed, with less than one fifth of farmers receiving fourth fifths of the support. The largest farmers continued to produce more and more, widening the gap between themselves and smaller or less productive farmers. Moreover, production-based payments incentivize farmers to produce as much as possible, no matter the costs or consequences for the environment. When these payments are decoupled, the income gap between the most productive and the rest can be contained, and the environment is spared the harmful effects of farmers who attempt to grow as much as possible.

Most farmers would not stand to lose much in this change from coupled to decoupled payments. The Single Farm Payment (SFP), calculated with reference to size of holding and historical yields, would replace the coupled payment system. Specifically, the amount of aid received between 2000-2002 (the historical reference period) would be divided by the number of hectares actively farmed during that reference period. The resulting figure would be the farmers' new income payment under the SFP. Under this system, farmers would also gain "complete farming flexibility", allowing them to grow any crop they desired (except for fruits and vegetables, which were not among the crops that received direct payments and thus were not incorporated into the SFP). Receipt of the full SFP would be subject to meeting stringent environmental, food safety, and animal welfare standards (Cunha and Swinbank 2011). In the end, decoupling was a way of paying farmers the same money, but from a new pot. This outcome is consistent with one of my core claims, that it is difficult if not impossible to cut support for farmers.

The second component of the proposal was dynamic modulation. Modulation is a mechanism employed by the European Union whereby income payments are gradually reduced and the funds collected are distributed to support other initiatives. In other words, this program "modulates" or modifies and controls the flow of funds to farmers and uses the savings to increase spending on other programs or member states. The program was called dynamic because the redeployment of funds was not fixed but instead could respond to those areas most in need of additional financial support. The policy entailed not only a gradual reduction of income payments, but also the redeployment and distribution of the funds collected under the program. Most of the revenue collected would be retained by member states, but earmarked for rural development programs. The rest was to be redistributed to other member states in an effort to reduce existing disparities in the allocation of CAP support.

Fischler's dynamic modulation proposal entailed a progressive reduction in direct income payments, beginning with 3% in 2005 and increasing in 3% increments annually, until it reached 20%. Exemptions were to be made for farms that received less than €5,000 annually. Farms that were labor intensive, thus providing jobs in the local community, could have up to €8,000 exempted from dynamic modulation, at the member state's discretion. Though this program seemed to be cutting overall levels of spending, the money garnished from farmer income payments was not leaving the CAP but rather being redirected into other CAP programs. Member states would keep a portion of the money for rural development and environmental programs, while the rest would be re-distributed among member states "on the basis of agricultural area, agricultural employment, and prosperity criteria to target specific rural needs" (Cunha and Swinbank 2011). Through this system of redistribution, and by garnishing the payments of the farmers who earned the most, dynamic modulation would contribute to achieving the twin goals of reducing the disparity in payments between large and smaller farmers and improving the distribution across member states.

Dynamic modulation is an example of using the welfare state tactic of turning vice into virtue in the context of agricultural policy reform. Specifically, the dynamic modulation reform revised an existing program (the system for the allocation of direct income payments), reorienting this CAP program to operate more equitability. As with vice into virtue in the world of the social welfare state, an existing program that was operating inefficiently and inequitably was corrected through reform, rather than eliminating the policy entirely and attempting to replace it. Payments for all farmers above a certain threshold would be reduced, and collected funds would be redeployed to other areas of need. This objective of reducing the disparity in payment levels within and across countries was taken increasingly seriously, as inequality in the operation of CAP support payments was beginning to garner attention beyond EU technocrats. The Commission noted that dynamic modulation would "allow some redistribution from intensive cereal and livestock producing countries to poorer and more extensive/mountainous countries, bringing positive environmental and cohesion effects" (Cunha and Swinbank 2011). The redirection of funds from income payments to rural development programs was also a tangible way for EU officials to signal a stronger commitment to the CAP's social and environmental objectives. These social and environmental objectives had been identified by the public via Eurobarometer surveys as both the most important objectives of the CAP and areas where the CAP was failing to meet existing expectations.

Also included in the dynamic modulation package was a proposal to cap the amount of direct aid any individual farmer could receive at €300,000 a year. This proposal was motivated by the desire to prevent large farms from receiving what many considered to be exorbitant sums of money. Specifically, it would address public concerns over the inequality in the operation of CAP payments. The payment cap was also intended to help correct the problem of an inequitable distribution of support within and across countries. This limit would reduce the overall gap between the largest and smallest recipients. In addition, it would begin to correct for payment imbalances among member states, as most of the farmers who would be subjected to the income cap were concentrated in a few member states. The inclusion of a cap on income payments is another example of CAP reformers employing the vice into virtue technique, which has been similarly used by welfare state reformers to correct welfare programs that are operating inefficiently or producing unequal outcomes.

The third and final reform (along with decoupling and modulation) was mandatory cross-compliance. In Agenda 2000, cross compliance was adopted only in voluntary form. In the MTR, Fischler sought to make this program compulsory. Under cross-compliance, direct payments could be made conditional on achieving certain environmental goals. The income payment could, for example, be reduced if a farmer failed to comply with a given environmental rule. Farmers who met the standards would receive the full amount of direct payments for which they were eligible, but would not receive a bonus for full compliance. Farmers who received direct payments would be required to maintain all of their land in good agricultural and environmental condition; if not, payment reductions were to be applied as a sanction (Gohin and Latruffe 2006).

The inclusion of cross-compliance in Agenda 2000 positioned Fischler to make further reforms in the MTR, because he had already softened the ground in the previous agreement. As Fischler noted, "all the components of cross compliance [in the MTR proposal] were things that were already in place since Agenda 2000, but the member states had been responsible for implementing them. However, most members didn't do it, or did a lousy job of implementing them" (personal interview; Vienna, Austria; 13 June 2016). Leading Commission officials argued that the member states had already approved and accepted the concept of cross-compliance, so there was no reason that it should be rejected during the MTR. In reality, the vast majority of member states had chosen not to implement any of the standards or rules because cross compliance was an optional program. Still, Fischler was able to put them on the defensive for "failing" to implement Agenda 2000. As Fischler explained, "farmer ministers were put in a hard spot because now they had to account for failure to implement all of these measures in the past. They couldn't oppose the concept of cross-compliance because they had already agreed to it, so they made the usual complaint that it would hurt farmers, but that's always their line" (personal interview; Vienna Austria; 13 June 2013).

Fischler saw cross compliance as a legitimacy-boosting technique because it tied eligibility for support to compliance with environmental conditions and standards (Potter and Lobley1998). Cross-compliance would help address public criticism of the CAP by strengthening the greening component and further developing the image of the farmer as a provider of not just food, but broader public goods and services. Mandatory cross-compliance could also attenuate the image of the farmer as a polluter.

Fischler's proposal for the MTR was sent to the College of Commissioners for formal discussion, revision, and approval. The proposal was well received by the Commission overall. Fischler was respected within the Commission as an agricultural expert and a reformer (Pirzio-Biroli 2008). The way for his proposal was further smoothed, thanks to an October 2002 agreement engineered by Chirac and Schröder at the Brussels European Council meeting, which guaranteed that the agricultural budget for direct-market supports would not be cut before 2013, when a new budget would be drafted (Pirzio-Biroli 2008). Even though Commission President Romano Prodi had previously expressed a desire to cut the CAP by up to 30%, the Chirac-Schröder deal prevented him from doing so, despite the fact that he was supported by other Commissioners who hoped to use these CAP cuts to direct more support into their own portfolios. The deal to not cut the CAP budget was extracted by France in exchange for supporting enlargement, and allowed the budget to increase by 1% each year until 2013 (Nedergaard 2008). This agreement was a major victory for France and the CAP, as the EU's multi-annual financial framework at the time called for an automatic annual cut in the CAP budget (Nedergaard 2008).

The proposal designed by Fischler and his team was also well received by the Commission because it addressed several of the main issues that provided the impetus for reform: food safety and quality, environmental impact, imbalances in the distribution of CAP support, and the CAP's impeding of trade negotiations. Food safety and quality issues were addressed by cross compliance. Decoupling of payments and cross compliance handled the issue of environmental impact, while dynamic modulation confronted the problem of inequities in CAP support distribution. Finally, decoupling brought the CAP support payments into the WTO green box, and thus into compliance with existing WTO rules on agricultural subsidies.

The core components of the proposed CAP reform were also structured so that they would directly address the challenge posed by enlargement. Doing away with payments tied to production and instead basing income support on historical yields tied to holding size would save the CAP money in both the short and long term. Farms in the East were, on balance, much smaller and less productive than those in the West. As a result, their calculated income support payment would be comparatively low. In addition, there was no risk that, as these farmers gained access to improved resources and technology enabling them to improve their output, the CAP would have to fund larger payments. Instead, income payments would be tied to a low historic yield. Cross-compliance would serve as a further check on the amount of funds dispersed to the new member states. Eastern Europe already lagged behind the West in terms of existing environmental practices. Farmers in new member states would have difficultly meeting and adhering to these new standards, resulting in reductions in the funds paid to them. Countering some of these effects, modulation would allow some funds to be redirected from richer to poorer countries

The MTR was the last opportunity to reform the CAP before the candidate countries would be full members of the European Union, and thus party to CAP negotiations. Unlike previous reforms, it would be much risker to put off or delay making reforms to the operation of the CAP. Even adopting reforms that were optional but not binding, as had been done in the past, was risky. If these changes, ones that were necessary to save the CAP but were deeply unpopular in the East, were not taken immediately, they would not be in the future because the new member states would band together to block them.

The only component of Fischler's proposal that was significantly revised by the Commission was dynamic modulation. The Commission altered the rules governing eligibility for modulation and income payment limits. Though the revised proposal maintained an exemption for farms earning less than €5,000, it added a provision stating that only those farms earning over €50,000 would be subjected to the full 19% reduction in direct income payments prescribed by modulation in order to ensure that small holders would not be targeted. In addition, the final version of the Commission proposal removed the €300,000 limit on total income payments.

The Commission also revised how the money collected under dynamic modulation would be redistributed. The new version significantly reduced the amount of money that would be directed to general rural development objectives and increased the amount that was to be set aside to fund future CAP reforms. This change was made in order to accommodate the rules that emerged from the Chirac-Schröder deal at the Berlin Summit in 2002. Specifically, it ensured that there would be some funds in reserve to uphold the agreement from the deal that allowed for a 1% annual increase in the CAP budget. These amendments to the Commission's proposal were important victories for both larger and small farmers. Larger farmers avoided a cap on how much support they could receive and small farmers were granted important exemptions and protections from reductions in their income payments under dynamic modulation.

Negotiation, Reform, and Adoption

After review and revision by the Commission, the official package of proposals was sent to the European Council on 23 January 2003. Among the member states, France and UK were the key players. France led the effort to block the reform while the UK was the primary member state that Fischler worked with to achieve the necessary votes to pass his reforms via Qualified Majority Voting (QMV). France was the leader of the anti-reform camp and used its relationship with Germany to cement a blocking minority, while the UK proved central to breaking the French-led blocking minority.

Three groups emerged after the reforms were announced. The first group, the pro-reform coalition, consisted of the Denmark, the Netherlands, Sweden, and the UK. This group of countries favored reforms that would make the CAP more market-oriented. Sweden was a vocal new partner of the pro-reform club. Upon joining the EU, Sweden had been required to reintroduce subsidies, which the government had removed in the early 1990s after a period of substantial agricultural policy reform (Swinnen 2008). Sweden was thus a strong supporter of reforms that would move the CAP in a market-oriented direction. Other members of this group had long been proponents of market-oriented reforms.

Agriculture in each of these countries was marked by the predominance of large holdings and/or highly efficient farming. Agricultural and political elites expressed the belief that their farmers, in general, would benefit from freer competition and the removal of support programs that served to prop up inefficient competitors in other member states. Within this group, the UK also objected to modulation. As one of the member states with the largest farms, the British felt that this policy, if adopted, would disproportionately negatively affect its farmers.

The second group was the anti-reform alliance consisting of France, Germany, Ireland, Italy, and Spain. These countries took issue with nearly every aspect of the reform package, in particular decoupling and modulation. Germany, with large farms in the east and highly efficient farms in the west, opposed a limit being placed on total CAP payments. Both of these sets of farmers would be adversely affected by a limit on the total payment a farmer could receive. German farmers in both the east and west were already receiving more in direct payments than the proposed payment cap would allow. These member states also opposed the timing of the reforms, arguing that Agenda 2000 should be fully implemented before any further reforms were adopted (Cunha and Swinbank 2011). France's position became even more staunchly anti-reform after a leftist cabinet was replaced by a center-right government in 2002, and Hervé Gaymard, a member of Chirac's own party, was installed as minister of agriculture.

Several agricultural lobbies posed three main reform critiques of their own. The lobbies argued that the new system of payments would not allow farmers "in the least-favoured regions, where low productivity and lower competitiveness" predominates to earn a livable income (Cunha and Swinbank 2011). The result, they argued, would be land abandonment and an increase in unemployment. Second, they voiced the concern that paying farmers regardless of production would negatively affect public opinion (i.e. farmers being paid not to work) and could ultimately result in the complete termination of direct payments to farmers (Cunha and Swinbank 2011). Third, the proposal to base the direct payment on historical yields would serve to perpetuate past discrimination in favor of certain products, producers, and regions (Cunha and Swinbank 2011).

The third group represented those countries in the middle that, while not completely opposed to the reforms, had some specific objections. Countries in this group were Austria, Belgium, Greece, Finland, and Luxembourg (Swinnen 2008). Finland and Austria were traditionally protectionist agricultural countries and thus supported subsidies as a means to help their farmers. However, because Austria and Finland each had an agricultural sector that was predominantly small-scale and high value added, they favored strategies for rural development, greening, and multifunctionality, as opposed to production-based subsidies that favored large-scale cultivation of commodity crops (Swinnen 2008).

At a meeting of the Council of Ministers on 8 April 2003, decoupling was discussed for the first time. Only the UK, the Netherlands, Sweden, and Denmark expressed support for Fischler's proposal to completely disconnect payment from production (Nedergaard 2008). Most of the other member states preferred partial decoupling, whereby a portion of a farmers' income payment would continue to be linked to how much he or she produced, but no member state offered any concrete ideas or proposals for how partial decoupling could be carried out (Nedergaard 2008).

While many countries were neither fully opposed nor fully in favor of the reform, no agreement could be reached without breaking the French-led blocking minority. Under the rules of QMV, a blocking minority consisting of a minimum of 4 countries that represented at least 35% of the population could prevent the passage of a proposal. Given the existence of this blocking minority, member states in the middle had no incentive to officially back reform, particularly since their formal support might provoke the ire of the farming community at home. There was no incentive to express support or even negotiate on the terms if the blocking minority could thwart the whole package.

Though the Commission preferred to pass reforms with unanimous support, with the continued expansion of the EU, it was no longer feasible to pass reforms only with unanimous support. The adoption of QMV facilitated a faster negotiation process than was possible under unanimity rules, and ensured that a single country could not use a veto to stymie reform. Ireland ended up abandoning the anti-reform group early. Irish farmers' unions opposed the reforms, but their members did not. The farmers supported the reforms because they felt they would provide them with adequate income support while also giving them the freedom to farm a greater diversity of crops (Swinnen 2008). The Irish farm minister ultimately sided with the grass-roots farmers and against the farmer unions.

Even without Ireland, however, the other four countries, France, Germany, Italy, and Spain, could form a blocking minority on their own under the rules of QMV. In order to break this minority alliance of France, Germany, Italy, and Spain, Fischler targeted the Spanish delegation, as it was believed that "Spain joined the French to gain some breathing space" rather than because of outright objection to the reforms (Pirzio-Biroli 2008). Fischler asked British Prime Minister Tony Blair to reach out to Spanish Prime Minister Aznar (Pirzio-Biroli 2008). Spain was a crucial country to flip, because it would break the blocking minority led by France. Blair agreed but asked Fischler to drop the capping of direct payments in exchange. These caps, which would be applied primarily to big farms, would hit the UK especially hard (Swinnen 2008). Fischler agreed and Blair began working with Fischler to swing the other member states in support of reform.

One of Spain's central demands (which was also supported by France) was to amend the decoupling proposal to allow for partial decoupling in certain sectors, at the member states' discretion. Partial decoupling would allow the Spanish government to continue allocating a percentage of income payments based on production in sectors important to Spain, namely sheep and goat farming. Once that concession was made, Spain shifted in favor of the reform. With the blocking minority broken, France and Germany quickly followed suit, hoping to grab some concessions in exchange for their support of the reform (Pirzio-Biroli 2008) Similar to Spain, Germany and France also received a concession that allowed them to keep a certain percentage of income payments coupled to production for sectors of importance.

The French switch was also motivated by pressure from the *Association Générale des Producteurs de Blé* (AGPB), the cereals division within the FNSEA. Chirac's opinion was strongly influenced by that of France's national farming union, the *Fédération nationale des syndicats d'exploitants agricoles* (FNSEA), with some Commission officials describing Chirac as "entirely beholden" to the FNSEA (personal interview; Brussels, Belgium; June 2016). Chirac completely opposed decoupling until he was approached by AGPB leaders, who told him that they supported the policy change (personal interview; Vienna, Austria; 13 June 2016). The cereals farmers reasoned that Fischler's reform, with cuts to price supports being compensated for by direct income payments, was far better than the uncertainty of an unreformed CAP. They feared that if left unreformed, the CAP would be subject to dramatic price cuts in the future to bring it into alignment with budgetary standards, and that no compensation would be offered for the price cuts. In addition, given that the French cereals sector was highly efficient and competitive independent of inflated prices, they believed that the new system would allow them to conquer additional market share. Farmers from other member states would be less competitive without inflated prices to support them.

In exchange for its support for the reform, Germany was able to secure a concession that allowed for the SFP to be based on a regional calculation, as opposed to historic production receipts. The EU's proposed historical method of calculation tended to perpetuate past inequalities across products, producers, and regions (Cunha and Swinbank 2011). Under Germany's regional model by contrast, all farms in a region would be eligible to be paid the same amount, regardless of what they had produced in the past. This model was preferred by Germany in large part because of internal diversity in its farming community. Of course, there was a large gulf between the west and the east, but more importantly there was diversity within the same region depending on the type of farming undertaken and the location of a farm within a given region. The regional model, then, would eliminate the inequalities in payment perpetuated by the historical model and ensure that all farmers in a given region were paid the same.

The calculation for payments under the regional model was based on all eligible hectares of agricultural land in the region. This method allowed both grassland and arable land to be included in the calculation, potentially increasing the amount of support included in the financial envelope for each region. After calculating the amount each region was entitled to, member states using this calculation method could, if they wanted, move money from one region's financial envelope into the envelope of another region. For example, the government had the option of redirecting some of the money owed to farmers in the most fertile regions, such as Bavaria, to farmers in areas that would earn far less under the regional calculation, such as those farmers in the difficult to cultivate lands around the Alps and to the large but inefficient farms of the East. This modification of the regional calculation method was intended to help counties address disparities in farmer incomes within their country.

France, Italy, and Spain also extracted amendments to the decoupling proposal allowing member states to avoid full decoupling in certain sectors if the member state believed that "there may be disturbance to agricultural markets or abandonment of production as a result of the move to the single payment scheme" (European Commission 2003). In other words, if countries feared that the transition to full decoupling might result in many farmers abandoning their land or would "disturb agricultural markets", a vague phrase, left open to interpretation, they could avoid the transition to full decoupling. This concession essentially allowed member states to protect nationally important or favored sectors. The sectors where partial decoupling was permitted included: cereals and arable crops, sheep, goats, suckler cows, and slaughtered cows. In the end, the reforms passed with the support of every country but Portugal, which still wanted a higher milk quota (Pirzio-Biroli 2008).

The final agreement on the MTR achieved Fischler's goal of implementing the reforms necessary to save the CAP. The Single Farm Payment (SFP) changed the way farmers received income support, weakening the link between these payments and production. By implementing this reform, the CAP would be able to continue to function once the new member states were fully incorporated in the CAP income payment scheme. The level of production in the current EU was already financially unsustainable if support was coupled. Adding the new member states, with a larger percentage of the population employed in agriculture and higher levels of production, to the existing system would explode the CAP budget. The final agreement also included modulation and cross-compliance, two programs intended to strengthen the environmental objectives of the CAP, addressing public dissatisfaction over unsafe food, agricultural pollution, and inequalities in CAP spending. Modulation re-directed a percentage of a member state's income support funds into programs that supported rural development and environmental objectives. Some of the funds collected through the modulation system could also be re-distributed amongst the member states in an effort to correct inequalities in allocation of CAP support across the member states. Cross-compliance conditioned the receipt of income payments on meeting environmental standards.

Despite their importance for the long-term survival of the CAP, these policies were only agreed to after many concessions and revisions were made to Fischler's initial proposals. Table 5.1 highlights these concessions by comparing Fischler's initial proposal to the final outcome.

Table 5.1: Comparison Between Initial MTR Proposal and Adopted Reform

Initial Proposal	Final Agreement	Change
Full decoupling of payment from production; payment based on historic yields	Full decoupling adopted, however, exemptions allowed if "market disturbances", land abandonment resulted; additional method of payment calculation allowed based on regional production	*Exemptions* offered, *additional* method of payment calculation
Dynamic Modulation: a progressive reduction in direct income payments, beginning with 3% increasing in 3% increments annually, until reaching 20%. Exemptions for small and labor-intensive farms.	Program adopted, lower rate of reduction, less redistribution, more exemptions.	Modulation rate *lowered*, level of redistribution *reduced*, exemptions *expanded*
Payment Ceiling of €300,000	No payment ceiling	Completely *defeated*
Mandatory Cross Compliance; income payments made conditional on compliance	Cross Compliance made mandatory, but with payments for compliance and lower standards overall	Standards *lowered*; *compensation* provided for compliance

A new system of income support payments was agreed to, but payments were only partially (instead of fully) decoupled from production and member states were offered numerous opportunities for exemption and delays in implementation across multiple sectors. Modulation was adopted, but at a much lower rate than Fischler hoped. As a result, little money would be directed toward environmental initiatives. Member states would also be allowed to keep a higher percentage of modulated funds than initially proposed, meaning that little redistribution among the member states would result from the program. Finally, new environmental standards were imposed under cross-compliance, but only at a lower level than initially proposed and with financial incentives attached to induce farmer cooperation.

Conclusion

The discussion of the Fischler Reform in this chapter demonstrates four major claims in this dissertation. First, the case of the Fischler Reform, particularly when considered in comparison to Agenda 2000, illustrates how important disruptive politics, such as trade negotiations or enlargement, may allow for further-reaching reform than would otherwise be possible. Second, this case illustrates that even when other factors and influences combine to create an opportunity for major policy change, CAP reform still resembles the logic and process of welfare state retrenchment. The changes that were adopted are limited, are less dramatic and far reaching than initially proposed, and were often slow to take full effect. The finding also holds true for spending reduction, even under conditions of budgetary crisis. Third, this case highlights two tactics commonly employed by reformers seeking to retrench the welfare state: 1) introducing reforms that correct programs functioning inefficiently or unfairly (as opposed to eliminating programs and replacing them with entirely new initiatives) and 2) corralling support for the reforms by simply buying off member states (and, by proxy, farmers) or by offering special policy exemptions and alternatives to those who are opposed to particular aspects of the reform package.

The biggest achievement of the MTR, the introduction of an income support system that was not based on production, was achieved by constructing the reform around correcting an existing program that was inefficient and unfair rather than trying to get member states to agree to completely abandon the old system and support an entirely new policy. The old direct payment program was inefficient, environmentally destructive, and expensive. It incentivized farmers to produce as much as they possibly could (which was more than could ever be sold) no matter the cost to the environment and then stuck the EU with the bill for storage and dumping of surplus product. The old program was also unequal. Because payment was based on output, a small percentage of farmers received the majority of CAP payments. Moreover, those farmers who received the most payments were also those who were already internationally competitive and did not need CAP support. By ceasing to pay farmers based on how much they produced, the new income support system corrected the inefficiencies of the old program, eliminating incentives that encouraged environmentally damaging and wasteful over production, and made progress toward a more egalitarian system of support payments.

The MTR saved the CAP budget and strengthened the position of the EU in the Doha Round of WTO negotiations. Full decoupling (with some conditional exemptions) and a transition to area-based payments prevented the CAP budget from ballooning out of control once the ten new member states from Central and Eastern Europe joined the EU. The reform of the income support system also put the EU in compliance with WTO subsidy rules. By completing these reforms in advance of the Doha Round, the EU avoided a repeat of the GATT Uruguay Round when EU officials had to negotiate a trade deal under the burden of an agricultural support system that violated existing rules.

Even with the extraordinary circumstances that opened the political ground for more reform, the costs of marshaling the support necessary to enact change were high. While the SFP was a dramatic change in *how* farmers were paid and marked a stronger commitment to the greening components of the CAP, this reform had little effect on the *total amount* of support received by farmers. For example, the proposal to cap the total amount of annual support any individual farmer could receive at €300,000 was defeated. Some version of this initiative has been put forward by agricultural commissioners since at least the 1980s and has been defeated in every round of reform. Even when conditions were ripe for major change, a pet policy of agricultural commissioners failed. Even in the best conditions, it is difficult if not impossible to retrench farmer support.

These reforms to the payment system neither significantly affected the total level of support received by farmers nor resulted in much change in allocation of support between countries and across farmers (Olper 2008). Under the Fischler reforms, inefficient farmers benefited from the decoupling of support from production; they would now be paid no matter how much (or how little) they produced. While large and highly efficient farmers would no longer be able to drive up their support payments through (often environmentally reckless) efforts to produce as much as possible, they successfully avoided a limit being placed on their overall annual income payments. This victory was especially important for those farmers with the largest holdings. Historic yield based payments meant that these farmers still stood to earn a hefty payment, and with the proposal to limit total CAP support defeated, those payments would not be garnished. Finally, while all farmers earning above the €5,000 threshold lost some money directly though modulation, these funds stayed almost entirely in their own member state's rural development program, and could be channeled back to the farmers though other programs and initiatives. Ultimately, offering exemptions, exceptions, and monetary incentives was a crucial component in successfully concluding the reform negotiations. In order to wrangle the cooperation of farmers who were leery of the effects of new programs, including the costs and burdens imposed by newly adopted environmental standards, reformers repeatedly relented, offering them monetary compensation for compliance and lowering expectations for meeting environmental standards.

The next chapter of my dissertation examines the most recent reform of the Common Agricultural Policy, agreed to in 2013. This reform, which established the framework of the CAP until 2020, is more similar to that of Agenda 2000 than the Fischler or MacSharry reforms. With no major outside pressures or crises, CAP reform reverted to politics as usual, and little change was made.

Chapter 6

CAP for 2020: Grand Vision, Little Change

Introduction

As part of the Europe 2020 strategy, the 2013 CAP reform sought to make big changes to the CAP, bringing it in line with the modern, dynamic, and innovative European Union that the Commission envisioned. These reforms endeavored to address long-standing complaints that the CAP was too complex, unfair, and environmentally destructive. To that end, the oft-repeated mantra by CAP reformers was that they desired a CAP that was fairer, simpler, and greener. In reality, the 2013 CAP reform fell well short of these objectives. It made some progress on improving fairness, but also made the CAP far more complex and did little to improve environmental standards.

A major factor in explaining the limited changes that resulted from this CAP reform is that, other than the need to continue adjusting the CAP to operate in the enlarged European Union, there were no exogenous forces pushing for reform. Both MacSharry in 1992 and Fischler in 2003 used pressing concurrent challenges, such as stalled trade negotiations, to achieve major change. The same option to tie CAP reform to crises and/or concurrent problems was largely unavailable to Agricultural Commissioner Daclan Cioloș in 2013. The budget was not in crisis and the EU was not involved in any WTO negotiations.

Enlargement was the one geo-political pressure that affected the 2013 reform. While enlargement to Eastern Europe had been concluded, the consequences for the CAP still required some management. The main issue lingering from the most recent enlargement was the imbalance of payments across countries. This issue proved to be the only source of disruptive politics, providing Cioloș an opportunity to call for changes to the direct payment system. Indeed, the only major component of the final reform would be the provision that addressed the fallout from enlargement.

The purpose of this chapter is to account for the content of the 2013 CAP reform and to explain why the reform was so underwhelming[30]. Cioloș had a very limited mandate for reform, given that he was operating largely under politics as usual. In addition, the new CAP reform was being sorted out at the same time as the 2014-2020 Multiannual Financial Framework (essentially the EU budget). The MFF delayed CAP reform while the budget was being negotiated. In addition, it undercut the ability of reformers to call for spending cuts or to use the threat of them to leverage reform because once the budget had been set, spending cuts were off the table. The result was a watered down reform, with changes much more circumscribed than initially proposed or abandoned entirely.

The final agreement contained two main components. The first and most significant change (and not coincidentally the only one linked to enlargement) involved the direct payment system. In order to address vast inequality in the payments received by Western and Eastern

[30] In the wake of the Lisbon Treaty, CAP reforms would now be subjected to co-decision, affording the European Parliament (EP) a more prominent role in the negotiations. While the EP's participation made the negotiations far more complex, in part due to the 7,000+ amendments submitted by the MEPs, the amendments mainly served to slow down the negotiations. The form and content of the final agreement was driven by the member states and the negotiations and compromises reached among them. For this reason, this chapter emphasizes the political processes and negotiations that took place between the Commission and the member states, as represented within the Council of Ministers.

farmers, all member states would transition, over a 7-year period, to using the same system for calculating the amount of direct payments owed to their farmers. The program for this transition was ultimately made much more gradual and included far less redistribution than initially proposed. In addition, a proposal to cap income payments was rejected.

Greening was the second component of the agreement. While new rules for permanent pasture, mandatory crop rotation, and other measures intended to protect and improve the environment were adopted, they ultimately had very little applicability, with nearly of 88% of farmers exempted. Smaller components of the agreement allowed member states to have more flexibility in directing money towards rural development and modified rules on who counted as a farmer, though the definition remained quite permissive.

Once again CAP reform mirrored the process of welfare state retrenchment, with reformers employing a variety of tactics to slip through any reform and hopefully position themselves to achieve more substantial retrenchment in the future. Nearly every proposal was significantly watered down, and some, like placing limits on the amount of money individual farmers received, were defeated outright. The core reforms, most notably changes to the direct payment system, followed a "vice into virtue logic". The existing payment system was operating unequally. To address this problem, rather than creating a new program from scratch, reformers worked within the system, amending the method of calculating payments to decrease the gap between new and old member states. Finally, as is typical, the final package included a number of side-payments, concessions, and exemptions in order to facilitate the agreement. For example, greening measures designed to impose stricter environmental standards on a portion of a farmer's land ended up including so many exemptions that only 12% of European farmers were ultimately subjected to the rules. In the end, this round of CAP reform amount to little more than tinkering around the edges.

Limited Pressures for Reform

The 2013 CAP Reform illustrates the importance of disruptive politics for achieving meaningful CAP policy change. The only significant alteration to CAP policy in the 2013 reform was directly linked to the sole source of disruptive politics: enlargement. While no new rounds of accession were looming, the CAP confronted lingering problems from expansion to Eastern and Central Europe. Owing to different available methods for calculation and the rules governing the new member states' accession to the CAP, the average payment per hectare in the old, Western member states was much higher than in the newer member states in Central and Eastern Europe. In 2013, the average payment per hectare across the EU was €269 (Atkin 2011; Matthews 2011). Farmers in Latvia, however, received on average €95 per hectare compared to €458 in the Netherlands (Atkin 2011; Matthews 2011). This inequality was politically unsustainable, with Central and Eastern European member states complaining about their second-class status. EU officials, specifically those outside of DGVI (the Directorate General for Agriculture), had also taken notice and were increasingly critical of a policy that was badly out of step with the core EU value of equality among members.

The other issues that had generated the disruptive politics in 1992 and 2003, economic crisis and stalled trade negotiations, did not drive reform in 2013. Europe did experience an economic crisis, but the crisis actually weakened the hand of reformers and budget cutters. The period immediately before and during CAP negotiations was marked by significant economic volatility. In 2008, agricultural prices peaked, then suddenly dropped as a consequence of the global economic crisis, which caused upheaval and uncertainty in government budgets and commodities markets.

Concerns about falling prices increased the pressure on CAP policymakers to return to market intervention and regulation to help hard-hit farmers. In addition, the volatility in the markets induced calls to lessen or eliminate greening requirements so as to not overburden farmers and also to increase support for emergency relief. These proposals would require an increase in spending. Thus, instead of disrupting politics and providing Cioloș with an opening to call for change, the crisis buttressed politics as usual.

Stalled trade talks, which were a key pressure for the MacSharry Reform, were not entirely absent from the 2013 CAP Reform. The difference between these two circumstances, however, was vast. At the time of the MacSharry Reforms, the GATT Uruguay Round was struggling to reach a conclusion. The problem was in the agricultural portion of the negotiations, with the design and operation of CAP programs preventing Europe and the United States from reaching an agreement. At the time of the 2013 CAP negotiations, the Doha Round was stalled. This time, however, the negotiations were failing in multiple sectors and agriculture, though one of the points of trouble, was not to blame for delaying the successful conclusion of the entire round. Perhaps most importantly, the CAP was not a sticking point within Doha agricultural negotiations, as its payment system had been brought into compliance with WTO rules.

In the 1992 reform, MacSharry was able to advocate for and achieve systemic CAP reform by connecting the reform to the GATT Uruguay Round negotiations. If the CAP was not reformed, he argued, the GATT would fail, the CAP would be blamed, and external actors would force drastic and unpleasant changes upon the CAP. This argument was credible (and indeed successful) because it was widely known that agriculture was the reason for the delay in concluding the round and that European agriculture, and CAP policy in particular, was the source of the impasse in agricultural negotiations. Cioloș simply did not have the same opening to call for far-reaching reform because the CAP, thanks to MacSharry, and later Fischler, was comfortably in compliance with WTO policy.

Another potential disruption was EU budgetary policy. The 2013 CAP reform occurred at the same time as negotiations over the new Multiannual Financial Framework (MFF), known colloquially as the EU budget. While the 2013 reform was not the first time MFF negotiations coincided with CAP reform, it was the first time they occurred simultaneous to CAP reform under the rules of co-decision. Unlike past CAP reforms, then, the EP and the European Council refused to move forward with CAP reform discussion until the budget was fixed. These negotiations could have been just the sort of disruptive event that strengthened the Commission's hand. Indeed, the Commission had called out the CAP, saying that future reform "must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up space for new EU priorities" (CEC 2009). These growth priorities included: "innovation, the digital economy, employment, youth, industrial policy, poverty, and resource efficiency" (Matthews 2015).

The Commission's proposal for the MFF included a small decrease in real terms but a small increase in nominal terms for the CAP budget over the period of 2014-2020. Maintaining the CAP budget, even if only in nominal terms, was an important (and unexpected) victory for farmers as the financial crisis meant there was a real need for budgetary austerity at all levels of government and across virtually all sectors (Matthews 2011). The Commission's surprising support for agricultural spending stemmed from the priority given to fixing the payment imbalances. Had the Commission proposed to shrink the CAP budget while also demanding that old member states shift money to the new member states, the member states would never have gone along. Preserving the CAP budget was the necessary price for direct payment equalization. The resulting MFF agreement made retrenchment more difficult, however. Once the MFF was agreed to in February 2013, and thus the CAP budget set, reformers could not threaten to reduce the budget if their proposals were not accepted. Indeed, the status-quo-oriented actors relied on the argument that the scale of greening preferred by reformers was simply not possible without a larger CAP budget and therefore could not be adopted (Matthews 2015). Thus the concurrence of MFF negotiations and the delaying effect it brought to the CAP discussions supported the member states and other actors who favored the status quo. In the end, the Commission would not only fail to cut the CAP budget to support innovation but would redirect some €2.8 billion from growth programs to a reserve crisis fund for agriculture.

In sum, almost all of the major events and issues that disrupt politics and allow for far-reaching change did not operate during the 2013 reform. Economic crisis did not provide a consensus for change, instead reinforcing defenders of farmer interests. Previous reforms had brought the CAP into WTO compliance, eliminating stalled trade talks as a prod to reform. Enlargement (in this case managing enlargement that had already occurred) provided the only source of disruption for Cioloș to exploit. Making the case for reform and retrenchment even harder, reformers could not threaten to cut the budget if their proposals were not accepted, as a new multi-year budget had just been set. As a result, Cioloș was forced to negotiate his reform largely under politics as usual. The importance of disruptive politics for reform is illustrated by the case of the 2013 CAP reform, when the only significant change in this (largely failed) reform, the adjustment to the payment system, had a clear link to the only source of disruptive politics.

Initial Proposal

In October 2011, the Commission released its official legislative proposal for CAP reform. The proposal contained three main components: a reform of the direct income payment system; new greening initiatives; and a call, once again, to place limits on income payments. In addition, there were two smaller proposals which included an adjustment of rural development measures and a new definition of who is a farmer[31]. The Commission's proposals are summarized in the following table:

[31] The bulk of the discussion and analysis in this chapter will focus on the three core reform proposals. Tables with additional information about the two more minor components of the reform are located in the appendix.

Table 6.1: Major Components of the Commission's October 2011 CAP Reform Proposal

Area	2011 Commission Proposal
Direct Income Payments: Calculation and Distribution	• Overhaul direct payment system to eliminate inequalities within and across member states. • Transition to a system with uniform regional (or national) payments, determined by a single formula. • Adopt mandatory top-up payments for young farmers. • Incorporate optional top-ups for farmers in disadvantaged areas and in instances of crisis.
Direct Income Payments: Thresholds and Limits	• Place a cap on direct income payments of €300,000. • Introduce progressive reduction in payments over €150,000.
Greening	• Raise greening standards. • Introduce more greening initiatives into Pillar 1 (i.e. direct payment systems). • Include mandatory greening standards for receiving the basic direct income payment. • Offer top-up payment for meeting additional "enhanced" greening standards.

The centerpiece of the proposal was a revision to the operation of the direct income payment system. It was intended to reduce the disparity in the distribution of payments both between the member states (external convergence) and among the farmers within each individual country (internal convergence). This approach, adjusting an existing policy to correct for inefficiencies and inequalities in outcome instead of trying to create an entirely new program, is a clear example of the traditional social welfare state strategy of turning "vice into virtue".

Under the new proposal, existing methods[32] for calculating direct payments would be replaced by a single, common program called the Basic Payment Scheme, or BPS. All member states would move toward a uniform payment per hectare, fixed either nationally or regionally. Whether the payment was fixed at the regional or national level, the important change is that a single method of calculation would be used to determine this payment, which would aid in reducing disparities both within and across countries. The assumption was that it would take time to close the gap in payments among the member states because, as the Commission (2011b)

[32] The Single Payment Scheme (SPS) had various methods of calculation for member states to choose from and was available to all member states in the Union prior to the 2004 enlargement. The new member states joined a simplified system, called the Single Area Payment Scheme (SAPS), with less lucrative options for payment calculations.

acknowledged, the degree of redistribution needed between national direct payment envelopes was such that "it is likely to make it politically unacceptable for many member states to agree to such a redistribution". Initial redistribution would be minimal, targeting those member states that were receiving less than 90% of the EU average payment per eligible hectare and would aim to close one-third of the gap between what member states had been receiving and 90% of the EU average per hectare payment (Matthews 2011).

The second major component of the plan concerned the oft proposed and always defeated effort to cap CAP payments. The Commission proposed to cap payments under the BPS at €300,000 annually. In addition, the Commission called for the progressive reduction of payments, by 20% for the part from €150,000-€200,000, by 40% for the part from €200,000-€250,000, and by 70% for the part from €250,000-€300,000 (Atkin 2011). Additional payments received for greening would not count against these reductions, however. What is more, in an effort to reward farms with many employees, farmers would be allowed to deduct salaries, taxes, and social security contributions from their CAP payments before any reductions were applied[33].

The third major Commission proposal concerned greening and cross compliance. Under the proposal, the new BPS would still be linked to basic requirements concerning the environment and animal welfare, known as cross compliance. For purposes of simplification, the number of rules would be reduced. The new proposal also included another greening payment, which farmers would receive on top of their base payment per hectare. This greening component would require farmers to adhere to an "enhanced" form of cross compliance (Atkin 2011). Any farmer who wished to receive even the base BPS would be required to adhere to the rules for this "bonus" greening payment. Specifically, this initiative was intended to be a way to forcibly apply stricter greening and environmental standards to farmers. Those certified as organic and small farmers would be exempt from these requirements. The payment was thus not truly a bonus payment but rather a set of mandatory greening standards that must be met to receive the BPS. For their trouble, farmers would be given an additional greening payment award for meeting these now required standard. This payment was a way for the CAP to impose more basic greening requirements into Pillar 1, which had long been a goal of the most environmentally concerned.

Two other smaller components of the reform[34] covered rural development and definitions of who counted as a farmer. The rural development component sought to provide greater flexibility to the member states for providing resources to farmers, particularly in the area of risk management[35] by giving member states more autonomy in deciding where to allocate resources and emphasis among the three broad objectives of fostering competitiveness, protecting the environment, and improving the diversity and quality of life in rural areas. The rural development proposal also addressed the broader concerns about internal and external convergence by proposing that member states be allowed to move 10% of their Pillar I (direct payment and market measures) funds to Pillar II (rural development) while member states whose direct payments were below 90% of the EU average would be allowed to move 5% of funds from Pillar II to Pillar I. The farmer definition proposal aimed to exclude payments to those

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[33] So, for example, if a farm had 10 workers earning €30,000 annually, that €300,000 of total salary expenditure would be deductible, allowing the farm owner to receive up to €600,000 in EU direct income payments (Matthews 2011).

[34] See Table 3 in Appendix.

[35] Risk management functions as an insurance-type system, where member states can offer emergency relief to farmers affected by price volatility, natural disasters, or other crises.

individuals who no longer engaged in real, tangible, agricultural activities. For example, it is not uncommon for some farmers to turn their land into resorts, golf courses, sports clubs, or even airports. Under the Commission's proposal, those individuals who failed to meet minimum activity standards (as defined by their member state) or those farmers for whom CAP payments amounted to less than 5% of their total receipts for non-agricultural activities would no longer be defined as active farmers, thus losing benefit eligibility.

Reaching a Final Agreement

The initial reaction from French officials to the proposal was lukewarm at best, and patently negative at worst. Among France's most important preferences and priorities for the CAP were: preserving as large of a CAP budget as possible, retaining a large first pillar (which is the pillar that funds direct income payments), maintaining the current allocation of subsidies among member states, and increasing the amount of support for ailing sectors (like livestock and dairy) and for risk and crisis management more broadly (Zahrnt 2011). On the issue of working to re-allocate income support funds among the member states, French Minister of Agriculture Bruno Le Maire suggested that this reallocation must be sustainable and fair. For Le Maire, reallocation could be, at most, only marginal, as more substantial redistribution would affect some farmers and member states disproportionately, which, for Le Maire, was unfair. On the matter of greening, while Le Maire confirmed France's support for the principle in general, he argued that greening initiatives must be both simplified and developed and adopted with the economic realities of the farmer in mind (Chatellier and Guyomard 2012). In other words, the initiatives could not impose financial costs on farmers. Such restrictions would severely limit the range of possible greening initiatives that could be adopted.

Germany's position on CAP reform was conservative, even more so than France's. Like France, Germany favored maintaining a strong first pillar continuing the current allocation of icome payments among the member states, supporting safety net subsidies, and simplifying the CAP (Zahrnt 2011). As a major net contributor to the overall EU budget, the German government opposed reforms that would increase CAP spending.

Denmark, the Netherlands, Sweden, and the UK formed a block of member states that supported CAP reform, particularly in a market-liberalizing direction. They preferred reforms that would cut prices and offer limited, if any compensation. The UK and the Netherlands also supported budgetary discipline.

The Eastern European member states, led by Poland, wanted as large a CAP budget as possible. Like most of the other member states, they preferred a strong first pillar. However, they (unsurprisingly) supported the redistribution of these funds among the member states to correct existing imbalances. They were opposed to measures and programs that relied on co-financing or that included nationally funded top-ups since they lacked the money for such initiatives. (Zahrnt 2011). In addition, given that Eastern Europe was already lagging behind the West in terms of distribution of direct payments and that several of these new member states, most prominently Slovakia and the Czech Republic, were home to exceptionally large farms, these countries opposed any efforts to place a cap on direct payments. The Eastern European bloc wanted to protect the second pillar (which funds rural development programs) since they received a larger share than the older, Western member states. Finally, like the rest of the member states, the Eastern European countries expressed a preference for the simplification of CAP programs. This preference was particularly important for the Eastern member states as they had less efficient bureaucracies and more generally struggled to find the administrative capacity necessary to implement the CAP. The Eastern Europe bloc therefore focused most of its political capital on pushing for a system that would redistribute direct payments while opposing a hard upper limit on those payments (Swinnen 2015b).

The issue of limits on direct income payments was particularly contentious. This time, the new member states were involved, offering potential allies to both sides of the battle. The agricultural ministers of the Czech Republic, Romania, and Slovakia joined Germany, Italy, and the UK in signing a position paper that pledged to reject any agreement that included a cap on direct income payments (Sahrbacher et al 2015). The paper argued that a cap on income payments contradicted CAP rules by discriminating against a set of farmers, in this case large farmers. It further argued that this policy would lead farms to split up or fail to merge. Preventing merges and compelling farms to split apart would reduce efficiency and result in more money being spent "administering the collateral costs of capping" income payments rather than supporting agriculture and advancing environmental goals (Sahrbacher 2015). Though they were not signatories to the position paper, the Netherlands and Sweden also opposed capping.

There were also new member states on the other side of the table. The main member states in favor of capping were Bulgaria, Poland, Austria, and the Baltic states. Bulgaria predicted that, unless capping was implemented, 4% of its farmers would receive 80% of the country's direct payments. The situation in Poland was not as skewed, but there were still some farmers who received far more than others. Poland supported the plan because it viewed it as a way through which the vast disparities in payment levels between the member states could be addressed. The Baltic states received among the lowest amount of direct payment per hectare, and thus also supported a payment limit. As very few Austrian farmers would be affected by capping, it was not costly for Austria to support the initiative. Finally, the French tacitly supported a payment cap (as long as it would include a redistributive payment to benefit the small French farmers who would lose out due to external convergence), but did not wish to expend political capital on this soft preference against the far more vociferous "contra capping coalition" (Sahrbacher 2015).

One point of unity among all key actors was opposition to greening proposals[36]. COPA-COGECA[37] (2011), the EU-wide farmer lobby, was particularly critical of the greening component that required farmers to set aside 7% of their land for ecological purposes. COPA-COGECA warned that "it would imperil food security, require farmers to find ways of increasing production on remaining land, and damage the ability of farmers to respond to market signals". Within the Council of Ministers, the general consensus was that the proposals were complex enough to lead to more red tape and bureaucracy and yet insufficient to actually meet the major environmental challenges at hand.

The member states as a whole also expressed concern to the Commission that the proposals were too rigid and needed to be made more flexible, so they could be adapted to the circumstances and needs of each member state (Hart 2015). Some also argued that the proportion of Pillar I committed to greening was too high at 30%. Here though, there was less consensus, and some thought that environmental matters should be left to Pillar 2, which concerns rural

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[36] Criticisms were offered even from the major environmental lobbies who found the proposals too timid and unlikely to yield any outcome, and from economists who found the proposals to be inefficient and in tension with the economic goals of the CAP.

[37] *Comité des Organisations Professionnelles Agricoles* (COPA) and *Confédération Générale de la Coopération Agricole de l'Union Européenne* (COGECA)

development, while Pillar 1 retained its focus on production and incomes. With respect to greening, the member states shared three goals or preferences: to increase flexibility in order to allow member states to tailor the policies to their own circumstances; to minimize the extent to which the measures would increase bureaucratic and administrative requirements; and to ensure that the greening measures not conflict with or impede production objectives (Hart 2015).

A first hurdle to tackle in reaching a final agreement was the greening proposals, all of which were widely condemned by the member states. Beyond their overall negative reactions to the greening proposals, member states were concerned about how to make these policies work in their particular national contexts. As a result, the Commission relented and gave extensive concessions and exemptions in order to forge an agreement. The mandatory Ecological Focus Area (EFA) was reduced from 7% to 5% of land. This reduction was made even though it was generally believed that most farmers already met EFA standards for 3.5% of their land. Thus they would only need to bring another 1.5% of their land into compliance to meet the new requirement. In addition, changes to rules on compliance and exceptions for certain groups of farmers resulted in 48% of arable land and 88% of arable goods farmers being exempted from the EFA requirement (Hart 2015). For those roughly 12% of farmers who would be subjected to the EFA requirement, there was a long list of possible ways to meet this requirement[38], some of which permitted the continued use of land and even fertilizers, essentially entirely undermining the idea behind requiring farmers to maintain ecological focus areas in the first place. Similar exemptions were achieved for permanent grassland measures.

Concerning crop diversity, the initial proposal stipulated that farmers with more than 3 hectares of arable crops would be required to maintain three or more different crops simultaneously, with the largest crop not to exceed 70% of land and the smallest to represent at least 5% of the land. The proposal was revised, such that the rules applied only to farms over 10 hectares instead of 3 hectares. These farms are required to grow two crops, while those over 30 hectares must grow three, with the main crop not exceeding 75% of land (Anania and Pupo D'Andrea 2015). While this change to the minimum threshold for the holding size (from 3 to 10 hectares) may seem like a minor change, it actually served to drastically reduce the number of farmers who were required to comply with this policy. As of 2013, two-thirds of farms in the EU consisted of 5 or less hectares of eligible land and one-fifth of member states reported an average holding size of under 10 hectares (European Commission 2015).

Another point of contention in the proposal was the method and process for achieving both internal and external convergence. The Western member states were amenable to external convergence, as they admitted that an unequal CAP would be politically unsustainable in the long term. Despite this admission, there remained divisions between the old and new member states about how convergence should take place. The new Eastern and Central European member states preferred rapid convergence while the older and predominately Western European member states preferred that the transition take place gradually. A compromise was reached between the old and new member states with the former accepting eventual convergence and the latter a gradual transition period that would not be complete until after 2020, projected to be in 2028. The Commission was able to forge an agreement, with both camps agreeing to some changes in

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[38] The options for forms of land management or features that fulfill EFA requirements are: land lying fallow; terraces; areas with nitrogen fixing crops; strips of eligible hectares along forest edges; previously afforested areas that are still eligible for direct payments; buffer strips' landscape features adjacent to but not included in the eligible area of the holding; areas of agro-forestry that receive support from rural development forestry programs; areas with short rotation coppice; and areas with catch crops or green cover (Hart 2015b)

how the policy would operate. While the new member states agreed to less redistribution at a slower rate than originally proposed, the older member states agreed to transition away from the payment schemes, available only to older member states, that were the source of the growing inequality. In addition, the older member states were afforded “hardship payments” to help farmers adjust to the changes in their income.

Under the design of the external convergence program, only €738 million out of a total direct payment budget of €42.8 billion would be redistributed over the period 2014-2020 (Matthews 2011; Atkin 2011). As a point of comparison, €4.5 billion would have been needed if the plan had been to bring current payment levels up to parity immediately. The overall period of adjustment for external convergence would be gradual, beginning in 2014. Initially, farmers who previously received their payments based on a historical calculation would receive 50% of the new payment under that calculation while the other 50% would come via the new fixed payment per hectare system . Member states will have some discretion in how this shift takes place, with the expectation that the shift be gradual, and the requirement that by 2019, 100% of the payment be awarded according to the new model (Chantellier and Guyomard 2012; Matthews 2011).

Due to broad member state concerns about the effects of internal convergence, the Commission again relented, resulting in a process that would be slower and less abrupt for farmers. Under this compromise, the target for internal convergence was set at 60% for the “minimum level of average regional payment given to the individual beneficiary” (Erjavec et al 2015). In addition, in a concession to France, member states were permitted to top up these payments in a sort of reverse degressivity. This position was defended on the grounds that, if production levels were to be maintained, as was the intention, then income supports should not be redirected from more productive to less productive farmers.

Capping, in the form of a hard upper limit, once again went nowhere. The central problem was that the Commission was the only major actor in favor of the proposal. Among the member states, there was a coalition that was staunchly opposed, with the rest of the member states not having a stake in the matter and thus deciding to stay out of the conflict rather than antagonize other member states for whom the issue mattered a great deal. In order to move the negotiations forward, the Commission completely dropped its proposal to place a cap on direct income payments.

Degressivity, the other of the Commission’s main proposals seeking to manage payment thresholds, was included in the final agreement by way of a strategic concession by the Commission. Specifically, a final agreement on the issue of degressivity was facilitated by Germany’s acceptance of degressivity of 5% on all payments over €150,000. In exchange for this concession, the Commission allowed member states an additional way to meet the degressivity requirement. Member states were permitted to choose between 5% degressivity for all payments above €150,000, after employee and related costs were subtracted, or to apply a redistributive payment, accounting for at least 5% of the national envelope (Sahrbacher et al 2015). Essentially, instead of subjecting individual farmers who earned over €150,000 to this 5% reduction, member states could choose to take 5% of their total national allotment of direct payments and redistribute it amongst their farming community.

The final agreement ultimately watered down every element of the Commission’s proposal. For some proposals like external and internal convergence, the process was delayed. Others, like greening, involved the lowering of standards or weakening of requirements. Still others, like a cap on total payments, were defeated outright. The following table presents the initial proposal and final agreement side by side, and summarizes the main points of difference.

Table 6.2: 2013 CAP Reform Final Agreement Major Components Comparison [39]

	Initial Proposal	**Final Agreement**	**Outcome Difference**
Direct Income Payments: Calculation and Distribution	-Transition to a single, per hectare payment (national or regional). -Quick convergence of payments across member states, achieved **by** 2020. -Multilayer direct payment scheme.	-Transition to a single, per hectare payment (national or regional). -Gradual convergence of payments across member states, achieved **after** 2020 (expected to be 2028). -Multilayer direct payment scheme.	-Transition to a single, per hectare payment (national or regional) maintained. -Redistribution, takes place at lower annual rate[40] and over longer period of time. -Total commitment to redistribute €738 million out of €42.8 billion budget, resulting in only 1/3 of the gap between richest and poorest member states being closed. -External Convergence delayed by an estimated 8 years. -Multilayer direct payment scheme maintained.
Direct Income Payments: Thresholds and Limits	-Place a cap on direct income payments over €300,000. -Introduce progressive reduction in payments (degressivity) over €150,000, starting with a 20% reduction for payments between €150,000-200,000; by 40% payments from €200,000-€250,000, and by 70% for payments from €250,000-€300,000.	-No cap on direct income payments. -Degressivity at 5% for all payments over €150,000. -Alternative to degressivity is 5% reduction in total national envelope. -More degressivity possible at member state discretion.	-Income payment cap abandoned. -Degressivity rate decreased from 20% to 5% on the low end and from 70% to 5% on the high end. -Added alternative to degressivity where member states can choose to redistribute 5% of their national envelope to limit or avoid burden on large farmers.
Greening	-Farmers must maintain three different crops simultaneously on their land on farms with over 3 hectares of arable land. -Farmers must preserve existing meadows and pastures. -Farmers must dedicate 7% of land as an Ecological Focus Area (EFA).	-10-hectare minimum threshold for crop diversity. -Permanent pasture rules required. -EFA required for 5% of land.	-Crop diversity minimum threshold increased from 3 to 10 hectares. -EFA set aside lowered from 7% to 5% of land. -Ultimately 88% of farmers and 48% agricultural land exempted from greening standards.

[39] Some information on direct payment is drawn from a 2011 European Commission report on the rules for direct payment schemes.

[40] Rates will be progressively adjusted. The specific rate is determined at the member state level based on their national average annual direct payment compared to the EU average (Commission 2013).

Of the three central issue areas, nothing from the Commission's initial proposal remained intact. The greening initiatives and the plan for achieving external convergence were both heavily revised. The proposal to place an upper limit on direct income payments was completely defeated.

Regarding direct income payments, while the proposal to transition member states to a single formula for calculating direct payments survived, the plan for addressing the payment disparity between old and new member states was implemented more gradually, with a likely completion date of 2029 instead of 2020. The amount of degressivity was reduced to 5% for any farmer earning over €150,000 instead of a graduated system that would have seen up to 70% garnishment of payments for the largest earners.

The overall package of reform for the direct payment system is the only element of the reform that had a clear link to disruptive politics: enlargement. The disruptive politics of enlargement created an opening for the Commission to implement actual change in how this system operated. As with past reforms, lessons from welfare state retrenchment can help explain this outcome. Specifically, the reform of this system serves as a good example of engaging in "vice into virtue" style retrenchment. Reformers were able to achieve policy retrenchment, particularly in area of payments to the largest, richest farmers, by working to correct an existing program that was functioning both unequally. Rather than attempting to adopt an entirely new program that directly attacked the most generous of direct payments, reformers instead focused on fixing an existing program. As a result, policymakers were able to achieve some retrenchment in the realm of direct payments.

As with past reforms, the Commission's proposal to place a cap on direct income payments was completely rejected due to widespread opposition from the member states. The final result of the Commission's proposal income payment cap was a form of degressivity, under which payments over a certain threshold may be reduced. Degressivity was left to the member states as an option, with a very small level made mandatory (5%). Moreover, member states could choose to garnish their total national envelope, as opposed to applying degressivity directly to their largest earnings, allowing them to reduce or entirely eliminate the loss to large farmers.

Finally, greening measures were watered down, the end result being that most farmers were exempted from compliance, and overall standards were lowered. Essentially, anything that was contentious or in some way resisted by a member state was handled one of three main ways: the standards for the policy were lowered; the qualifications for an exemption were widened; or discretion for what standards to set and how to enforce the policy was given to the individual member state. In the end, nearly 50% of arable land covered by the CAP and just under 90% of arable goods farmers were exempted from the new greening rules and standards.

The remaining more minor elements of the initial reform proposal were also adjusted in the final agreement. Those member states whose direct income payments were 90% or more below the EU average were afforded more flexibility in transferring funds between Pillar 2 (which supports rural development) and Pillar 1 (which supports direct payments). The proposal to more rigorously define who counts as a farmer and thus what land can be considered agricultural (which is important for determining direct payment eligibility) was significantly weakened. The Commission's effort to restrict a base payment to individuals engaged in farming as their primary source of income was also completely defeated, meaning anyone with agricultural land could receive this payment, even if they were a non-farmer. A.2.3 which summarizes the changes for these small proposals can be found in the Appendix.

The MFF agreement, which fixed the budget and also included some CAP provisions shaped the course of the CAP negotiations that operated concurrently and ultimately subsequent to the battle over the budget. This effect was perhaps most profound in the area of greening. Greening measures to support the environment and battle climate change were, at least at one point, considered an essential part of justifying the increasingly criticized direct payment scheme. In the initial stages of the CAP reform, when the process began in 2010 before the MFF talks were underway, it was expected that farmers would be required to provide a direct, clear, "public good" in the form of following particular environmental practices in exchange for the receipt of direct payments. However, once the MFF was agreed, the greening push was fatally weakened. With the budget fixed, the threat of imposing cuts if greening standards were not raised was no longer credible. The greening case was hurt more broadly by the fact that there was general uncertainty of the extent to which these measures would deliver real, significant environmental benefits. In addition, many worried about the added financial costs for farmers (via the 3-crop diversity rule) and more broadly the bureaucratic cost of administering these programs.

In the end, the final agreement fell well short of initial proposals. A perhaps overly pessimistic view was expressed by multiple DGVI officials who lamented that rather than making the CAP fairer, greener, and simpler, reform left the CAP still unfair, barely greener, and far more complex (personal interviews; Brussels, Belgium; June 2016). This characterization understates the reform. In fact, there were meaningful (albeit slow-moving) changes to reduce systemic inequalities. That said, the reform did make the CAP far more complex and also did little to improve greening.

Conclusion

The discussion of the 2013 CAP Reform in this chapter elucidates two major components of my approach for understanding agricultural policy reforms. First, the case of the 2013 reforms, particularly when considered in comparison to the MacSharry and Fischler Reforms, illustrates how the almost complete absence of important events outside the CAP itself, such as trade negotiations or budgetary crisis, limits the scope of possible reforms, preventing path-breaking change. The only real source of leverage for Cioloș was enlargement. Demonstrating the importance of disruptive politics, the only component of the 2013 reform that included meaningful change, the adjustment of the direct payment system, was the one that could be linked to this disruptive reform pressure.

The 2013 CAP agreement serves as an example of what happens when negotiators are not able to push discussions to consider the broader context of the CAP but instead remained focused on the CAP alone. Consistent with the expectations of "politics as usual", the outcome of the 2013 Reform was underwhelming, with little real change, extensive modifications that weakened the proposed initiatives, and numerous exemptions granted to the already watered down policies. Rather than creating and adopting new initiatives, the biggest contribution of the 2013 Reform was fixing the malfunctioning direct payment system, a reform only made possible by enlargement. Otherwise, in the absence of events that forced the CAP to contend with disruptive politics, there was no sense of urgency like there had been for the CAP reforms of MacSharry (in 1992) and Fischler (in 2003). In each of those cases, the Commission had been able to press for a fundamental reworking of the core operations of the CAP. Without these disruptive pressures, the Commission was unable to push for bold reform.

To understand the final outcome of the 2013 reform of the CAP it is, like reforms past, useful to apply theories of welfare state retrenchment. Most prominently, reformers employed a vice into virtue style strategy in the realm of direct payments. The existing direct income payment program was functioning unfairly. Moreover, it was increasingly the target of criticism from EU officials, including those beyond DGVI, and some member state governments. Rather than scrap the entire direct payment program and attempt to create something completely new, a very difficult task, the final agreement amended the system of calculating direct payments. It eliminated those methods available only to the old member states, which were the source of the inequality, and introduced a calculation system that would be used by all member states.

As is typical in reforms of social programs, the final package included a number of side-payments, concessions, and exemptions in order to facilitate the agreement. For example, the rules for the Ecological Focus Area, what was supposed to be a major part of the greening component of the CAP agreement ultimately included so many exemptions that 88% of farmers were granted exemptions from it. In the end, nearly every proposal was significantly watered down, and some, like placing limits on direct payments, were defeated outright.

Though the changes to the direct payment system and to environmental policy were weaker and narrower than hoped, these did still constitute a change to the operation of the CAP and as such created the opportunity for deeper systemic retrenchment in the future. Systemic retrenchment has succeeded in the past, as reformers have slowly built upon changes to environmental practices and to the system of income support to bring about deeper changes further down line.

Overall, and particularly in comparison to the reform that preceded it, the 2013 agreement was an unremarkable reform. Some adjustments were made to the direct payment system, but the rate of redistribution would be low and slow. Yet again, reformers failed to place a cap on direct payments, ensuring that, despite redistribution efforts, the gulf between the richest and poorest farmers, within and between countries would remain large. Environmental measures, which were supposed to be a central component of the reform were gutted. Even the goal that every single member state and institution supported, to make the CAP simpler (both to understand and apply), was not really achieved. While the process for calculating direct payments was certainly streamlined, already overly complex greening policies were made even more complicated. In fact, the post-reform consensus was that the 2013 reform resulted in a CAP that was more complex than ever before. In the end, the only notable policy resulting from this reform, the change to the direct payment system, is the only one that can be tied to disruptive politics, this time in the form of enlargement.

Chapter 7

Conclusion: Policy Reform Beyond the CAP

Introduction

The previous four chapters have explored the major rounds of CAP reform, illustrating my claims about the conditions that affect policy reform, the nature of farmer power, and the links between welfare state reform tactics and agricultural policy reform, including the key strategy of pairing compensation with reform. These chapters have demonstrated that reforming agricultural policy is an exercise in navigating farmer power. Theories of welfare state retrenchment help to explain how and why the process of agricultural policy unfolds in the manner that it does. Most often, reformers rely on the kinds of strategies described by Paul Pierson in his analysis of welfare retrenchment: compensating farmers, making smaller adjustments to correct existing policies (rather than replacing them), and introducing changes that may open the door to more far-reaching shifts down the road (systemic retrenchment).

When CAP reform is initiated at a time of disruptive politics, like trade negotiations or enlargement, it is much more likely to succeed. The 1992 MacSharry and 2003 Fischler reforms occurred at times of disruptive politics and the end result was major reform to the operation of the CAP payment system. Of course, as my argument requires, these reforms 1) were paired with generous compensation and 2) largely consisted of recalibration, in which the modes of payment were changed, but the amounts remained the same.

Under politics as usual, reform proposals are almost always defeated. The 1999 and 2013 CAP reforms occurred in “normal” times- no trade negotiations were occurring and enlargement was not looming. In both cases, despite proposals for extensive change, the CAP remained virtually unchanged. Any minor reforms that did occur were either accompanied by extensive compensation or qualified by massive exemptions.

The previous four chapters have demonstrated how theories of welfare state retrenchment, combined with an awareness of the broader context of the reforms, can help explain the process and outcome of the CAP reform. The question remains, however, if the analytical efficacy of welfare state retrenchment theories stems from circumstances particular to the CAP and the EU or if this approach can be applied more broadly. In order to assess the analytic usefulness of my approach, I test it under a variety of different conditions and circumstances in three mini-cases: austerity-driven domestic policy in Europe, domestic agricultural policy reform in Japan, and agricultural trade policy negotiations in the GATT Uruguay Round.

The 2008 Financial Crisis: Agriculture and Austerity in Europe

My claims about the politics of agricultural policy reform and farmers’ influence over policymaking are not restricted to the CAP and the specific circumstances of EU politics. They can also explain agricultural reform at the domestic level. To make this case, I explore domestic politics and policymaking in the wake of the 2008 financial crises. The mini case proceeds in two parts. I begin with a close look at France, focusing on domestic policy reforms, which are not specifically agricultural in nature. An "eco tax"[41], proposed in France in 2013, that was to affect truck transport of goods, including agricultural products, was abandoned due to pressure in large part from farmers. Pension-related cuts, however, went ahead despite mass protests. The second part of the mini case looks at domestic reform in Europe more broadly, and confirms that the French case is not an outlier. Indeed, I find that at the domestic level, European governments largely did not cut national discretionary spending on agriculture, while they did impose significant cuts on pensions.

In the wake of the Great Recession and sovereign debt crisis, austerity programs were adopted across the European Union. Spending was cut, programs of support for those suffering financial hardship were canceled or suspended, and new taxes were created to help generate revenue for cash-strapped governments. One social group that would have appeared to be particularly vulnerable to austerity-imposed policies is the agricultural community. Farmers are a tiny population that is continuing to decline. Any spending cuts or new tax burdens would therefore apply to only a small portion of the population, in theory allowing politicians and policymakers to minimize the negative backlash faced by aggrieved constituents. Moreover, farmers already receive a disproportionate share of financial support, given their share of the population, making their programs and policies low-hanging fruit for retrenchment-minded officials. Yet, since the 2008 financial crisis, farmers have felt little if any of the budgetary pressure that austerity has brought to bear on communities across Europe. As is observed in EU policymaking, farmers at the domestic level successfully resist the imposition of new costs that are not paired with compensation.

The parallels between the ways that farmers defend their policies and thwart unwanted policy changes at the domestic and EU levels can be made clear by looking at a case in which a national government attempted to impose new costs on their agricultural community without offering compensation. In 2013, Socialist French President François Hollande attempted to implement the so called "eco tax" first put forward by his conservative predecessor, Nicolas Sarkozy. The eco tax was intended to promote greener commercial transportation by imposing a tax on heavy vehicles. Under the plan, any vehicle over 3.5 tons would be taxed a flat rate of .13€ per kilometer traveled on 15,000 kilometers of roads included in the scheme. The government expected the tax to generate over €1 billion in revenue annually. The eco tax was slated to come into effect beginning 1 January 2014.

The government's proposal was immediately met with criticism from the main French farmers' organization, the FNSEA. The organization described the tax as an "*usine à gaz",* a situation where pipes are going everywhere and the system is overly complex. Through thus turn-of-phrase, the FNSEA meant to convey that the eco tax was a complicated procedure with little actual value or payoff. The FNSEA argued that the tax would place a significant burden on the agricultural community, particularly farmers in Brittany, who had suffered significantly from the financial crisis, and demanded that it be suspended immediately. Other critics raised concerns that Breton farmers might be driven out of business as a result of higher transportation costs.

[41] This tax on trucks is distinct from the fuel tax that touched off the *gilets jaunes* protests that have rocked France since November 2018. While it appears the *gilets jaunes* protestors have copied some of the successful tactics, such as the use of symbolically colored clothing (florescent yellow vests vs the red hats of the farmers) the *gilets jaunes* unrest differs meaningfully from the ways farmers use protest to advance their policy goals. The farmer eco tax protests are a prime example of farmer organizations coordinating to shape policy. The *gilets jaunes* protests differ meaningfully from that model, lacking formal organization and institutional coordination.

In addition to the concerns about its effects on Breton farmers, the FNSEA warned that French goods would pass through the tax gates more often than trucks carrying foreign goods, putting French farmers at a disadvantage compared to farmers' goods arriving from abroad. Xavier Beulin, the leader of the FNSEA, promised immediate action against the proposal, directing members to target the "*portiques*" (electric scanners) that were intended to scan the trucks as they passed underneath. Beulin called on farmers from other parts of France, even from those areas without the tax scanners, to join the protests.

The call for action was successful, as a wave of angry protests erupted in Brittany and across France. In Brittany, the heart of the demonstrations, protesters gathered in main town squares, many wearing red caps, or *bonnets rouges* in a reference to a 17th-century protest against a stamp tax proposed by Louis XIV. Some protestors threw stones, iron bars, and potted chrysanthemums (meant to symbolize the death of French jobs) at riot police, while others destroyed the electronic scanners intended to collect the fee from passing trucks. The protesters included not just farmers, but also the broader public, who were rallying to oppose taxes, with some also supporting the farmers specifically. In addition to the violent actions in Brittany, farmers elsewhere blocked roads with their tractors, including around Paris. Despite the disruptions these protests caused to the daily life of the average French citizen, the farmers did not face any negative public backlash, a further indication of the deep support and connections between farmers and urban France. Indeed, public polling concerning the image of farmers revealed that the public has a strong, positive image of farmers. According to a 2014 survey, shortly after the mass protests by farmers, just 26% of respondents were willing to describe farmers as selfish and only 16% of respondents agreed that farmers were violent. A resounding 80% agreed with the statement that farmers were trustworthy[42] (IFOP 2018).

After Prime Minister Jean-Marc Ayrault met with local officials from Brittany, the government proposed to "suspend" the tax until January. This concession, though it was expected to cost the government €800 million in revenue, was seen as insufficient, and tens of thousands of protesters continued to gather in the epicenter of resistance to the proposal, the town square of Quimper in Brittany. The tax was finally suspended indefinitely, pending a new proposal from the government. France's eco tax then, like to efforts to change CAP income support systems or greening policies, demonstrates that it is nearly impossible to impose new costs on farmers, without some degree of compensation or widespread exemptions. For example, new CAP greening standards that are costly for farmers to adhere to are typically coupled with subsidies for compliance. When some form of compensation is not offered, the reform is almost certain to be defeated. Thus, the eco tax was had little chance of success, given that farmers were not offered any compensation in exchange for this new cost being imposed on them.

In June 2014, the Hollande government unveiled the final version of the eco tax plan, now called "truck tolls". The new plan applied only to trucks weighing 3.5 tons or more and included just 4,000 kilometers of road, as against 15,000 kilometers in the original plan. In addition, all proposed roads in Brittany, the epicenter of the protests, were exempted from the tolls. Trucks carrying agricultural goods, milk collection vehicles, and circus related-traffic were also exempted. As a result of the transportation exemptions and significantly smaller area of coverage, the toll is expected to generate only a third of the revenue (roughly €560 million annually) of the original plan.

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[42] Question text: "*Pour chacun des qualificatifs suivants, dites-moi s'il s'applique plutôt bien ou plutôt mal à l'idée que vous vous faites des agriculteurs? Egoïstes? Violents? En qui les consommateurs peuvent avoir confiance?*

The French eco tax example shares much in common with CAP reform, particularly in the area of environmental policy. Proposed environmental policies in the CAP often mean that new costs will be imposed on farmers who are forced to conform to stricter standards and modify their farming methods in some way. These attempted reforms are virtually always modified by farmers in one of two ways: by extracting a new or additional form of compensation for meeting these rules or by compelling reformers to adopt exemptions, often so extensive that barely any farmers are subjected to new rules. In the case of the French eco tax, farmers followed the latter course: when faced with a tax that would have imposed new financial burdens on producers, they successfully compelled the government to completely exempt agriculture. The victory is all the more significant since these exemptions cost the government badly needed tax revenue at a time of austerity.

The successful campaign against the eco tax highlights some of the new sources of power that farmers have developed. Organizations were one important source of power. The FNSEA demonstrated the ability to coordinate its membership and to rely on regional branches to place pressure on both national and local politicians. In the fight against this tax, the FNSEA deployed multiple tactics to exert influence on the policymaking process, mobilizing members for public demonstrations while simultaneously lobbying local and national political officials. The protesting French farmers also benefited from a sympathetic public that did not begrudge the massive disruptions and disturbances caused by demonstrations and blockades.

While French farmers were able to use their powerful organizations to avoid a new, uncompensated tax, the same cannot be said of other groups. At virtually the same time farmers were thwarting a new tax, a series of austerity-driven pension reforms went ahead. Unlike the case of the eco tax, protests did nothing to stop the reforms, and the policy changes were adopted despite widespread civil unrest.

In 2010, then-president Nicolas Sarkozy proposed a series of reforms to the French pension system. The reforms included raising the retirement age from 60 to 62 along with increasing the age at which one qualifies for a full pension from 65 to 67. In addition, the number of years of required social security contributions increased from 40.5 to 41.5 years. In response to the proposed reforms, nearly 3 million people took to the streets, with plane and train travel severely disrupted and other sectors of the economy virtually shut down as the major unions called for strikes. Fuel shortages were a perpetual problem during the protests, as dock workers went on strike, leaving petrol stranded at ports. In addition, schools, ports, and airports were blockaded by demonstrators. In this case, however, coordinated protest was not able to compel the government to roll back reforms. Just a few years later, in 2014, Sarkozy's successor, François Hollande enacted further reform to the French pension system. Contribution rates for both employers and employees were raised, a previously tax-exempt supplement for retirees who raised three or more children was made subject to taxation, and the number of years of required social security contributions was increased from 41.5 to 43 years.

While France is generally viewed as farmer-friendly, the French case is not an outlier. Looking at other Western European countries, a similar pattern emerges. Pensions cuts were imposed, while national discretionary agricultural spending remained virtually untouched. Indeed, across Europe, pensions were significantly reformed in the wake of the 2008 financial crisis, placing new financial burdens on the average worker. This contrast between pension policies and agricultural expenditure is all the more glaring when the broader context is taken into account: less than two percent of the population benefits from agricultural support policies while all citizens are current or future pensioners. Current spending levels are not a good indicator of reform, since much pension spending is locked in by decisions made decades ago. In the case of pensions, cuts are best identified by increases in the minimum retirement age or downward cost of living adjustments. Such reforms occurred in each of the four country cases, as summarized in Table 7.1.

Table 7.1: Pension Reforms

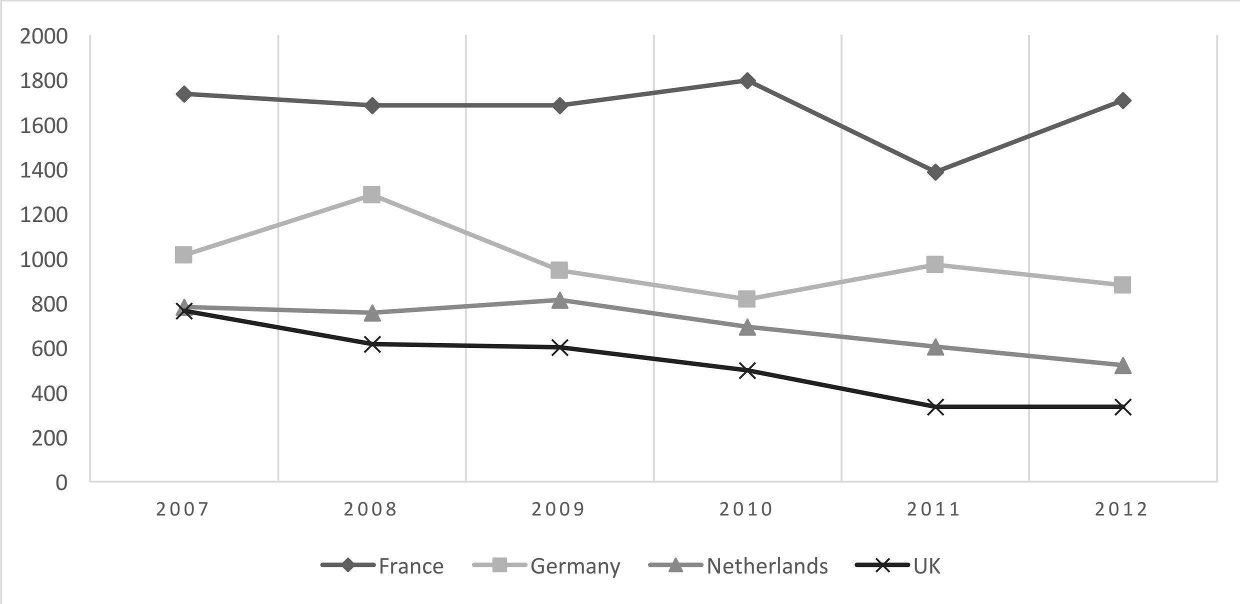
	France	**Germany**	**The Netherlands**	**United Kingdom**
Major Reforms of Pension Policies	-Raised retirement age from 60 to 62. -Quickened pace of retirement age increase. -Raised minimum contribution rate of employees and employers. -Increased minimum contribution years for a full pension.	-Raised retirement age from 65 to 67.	-Raised retirement age from 60 to 65. -Increased minimum contribution years for a full pension.	-Raised retirement age from 66 to 67. -Increased minimum contribution years for a full pension.

Germany reformed its pensions in 2007, just before the onset of the financial crisis, raising the retirement age from 65 to 67. In the UK, reforms raised the retirement age from 66 to 67. New reforms also increased the minimum number of years of contributions to qualify for a full pension from 30 to 35 years. A 2013 Dutch pension reform raised the minimum retirement age to 65 (it was previously 60) for workers currently under the age 55. The minimum number of years of coverage required to receive a full pension was also increased.

While pensions were being cut across Europe, farmers were spared. At the EU level, in the first CAP reform after the financial crisis, spending on the CAP was not cut, and instead money was taken out of other areas in order to channel more support to farmers. Indeed, this reallocation of funds back into farming happened despite a stated objective of directing more money away from agriculture and into other objectives, like improving the provision of high-speed internet.

Spending on farmers was also preserved at the domestic level. European national governments spend some money on agriculture outside the CAP. National financing of agriculture comes via three main avenues: top-ups of Pillar 1 direct income payments; co-financing of Pillar 2 programs (i.e. rural development initiatives); and additional state aid payments to farmers by their national governments. Figure 7.1 tracks national agricultural expenditure as reported by the European Union in its annual statistical yearbook.

Figure 7.1: National Expenditure on Agriculture, Millions of Euros, constant 2012 prices



Source: European Union

The data in Figure 7.1, focusing on the years immediately pre- and post-crisis, indicate that agricultural spending has remained largely stable throughout the financial crisis, despite the move towards austerity in social spending. Unfortunately, the EU discontinued the annual reports that provided the data in Figure 7.1. In order to continue my examination of these data, I use Classifications of the Function of Government (COFOG) figures from 2012 to 2015.

Table 7.2: National Agricultural Support (in constant 2012 millions of National Currency)

	2012	**2013**	**2014**	**2015**
France	4,482	4,107	4,518	5,199
Germany	5,736	5,822	5,830	5,876
United Kingdom	2,467	2,353	2,300	2,181

Source: Eurostat

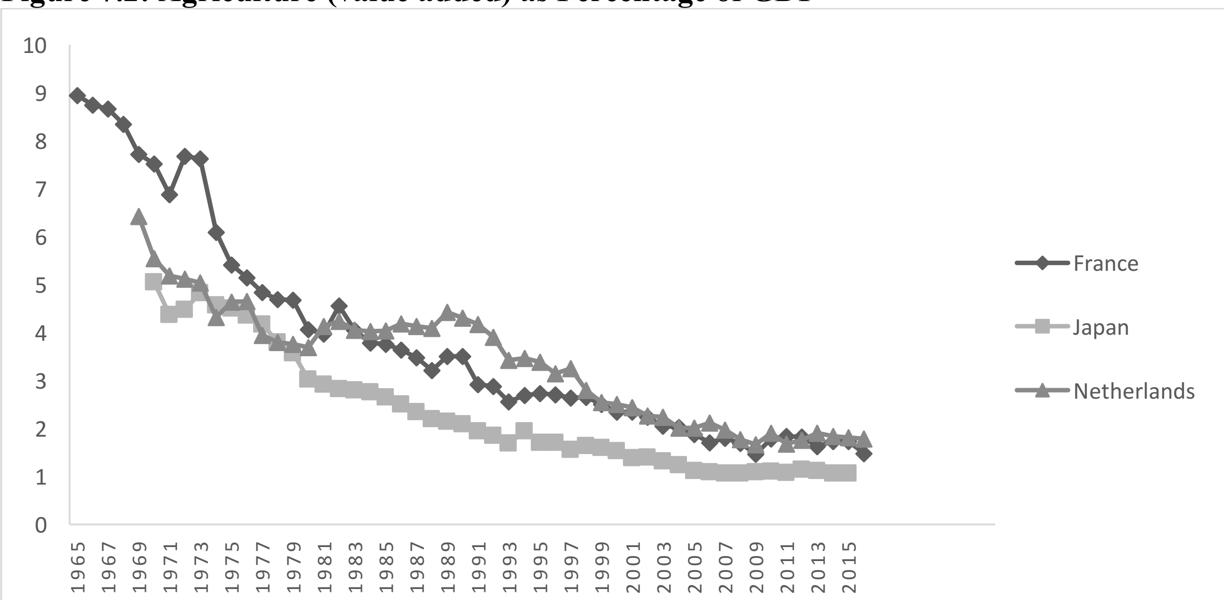
The numbers reported in Figure 7.1 are likely more precise than the COFOG figures reported by national governments, because COFOG combines agriculture spending with spending on forestry, fishing, and hunting. Spending and cuts made to forestry, fishing, and hunting sectors cannot be separated from pure agricultural spending. Even so, despite the added noise from spending on these other sectors, Table 7.2 shows the same stability or slight increase in agricultural spending as observed in the data reported in Figure 7.1.

These findings on domestic agricultural spending are consistent with observed outcomes in CAP reform. Even in conditions that necessitate spending cuts somewhere, such as financial crisis, looming enlargement, or runaway production generating massive surpluses, retrenchment-minded reformers are unable to impose cuts on farmers. Simply put, it is incredibly hard to take support away from farmers. A given policy or program may be cut or significantly reformed; but the same amount of funding (if not more) is simply directed to farmers through new or different programs.

Japanese Agriculture: The Agricultural Welfare State Beyond Europe

The second mini case in this conclusion extends my claims about the politics of agricultural policy reform and the influence of the farming community beyond Europe to Japan. Like Europe, Japan has long committed to providing generous economic support to farmers in the form of subsidies, direct income payments, and protectionist trade policy. As in Europe, this support has persisted despite near simultaneous declines in the sector's size and contribution to GDP. Figure 7.2 illustrates the decline in agriculture's share of GDP in Japan, France, and the Netherlands. The latter two countries are the European Union's top agricultural exporters.

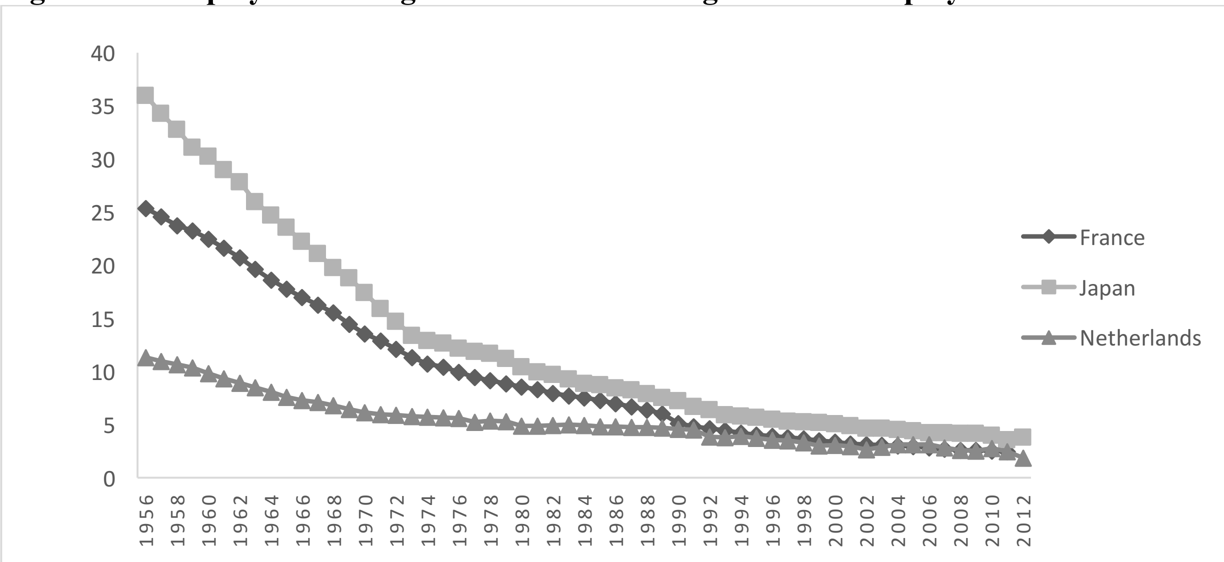
Figure 7.2: Agriculture (value added) as Percentage of GDP



Source: OECD

Like its European counterparts, agriculture's contribution to GDP in Japan has dropped rapidly over the past 50 plus years. The economic decline of Japan's agricultural sector has been quite similar to, if not more rapid than, the post-war economic decline of agriculture for Europe's leading exporters. The decline in employment in agriculture over roughly the same period was also dramatic, and even more so in Japan. In a half century the sector went from employing nearly 40% of the population to under 5%, as Figure 7.3 illustrates.

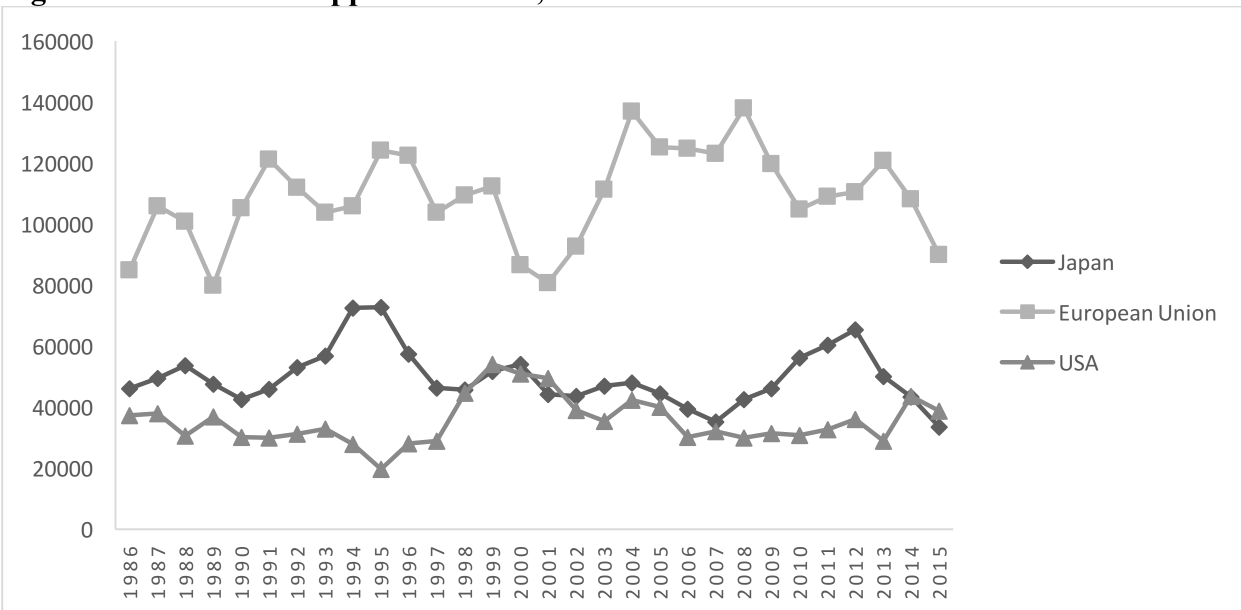
Figure 7.3: Employment in Agriculture as Percentage of Total Employment



Source: OECD

As in Europe, Japan's agricultural sector has shrunk in size and economic importance since the end of World War II. In both of Europe's top exporting countries and Japan, agriculture's share of GDP is under 2% and the percent of the population employed in the sector has long been below 5%. Yet despite this decline, agricultural support has remained robust in both Europe and Japan. Figure 7.4 reports the Producer Support Estimate (PSE) from 1986 (the first year data for this figure is available) to 2015 for Japan, the European Union and the United States, in millions of dollars. The OECD defines agricultural support as "the annual monetary value of gross transfers to agriculture from consumers and taxpayers, arising from governments' policies that support agriculture, regardless of their objectives and their economic impacts." The PSE, then, "represents policy transfers to agricultural producers…and is composed of market price support, budgetary payments and the cost of revenue foregone by the government and other economic agents" (OECD 2017). As the data below reveal, the paradox of farmers continuing to receive robust economic aid despite limited employment and negligible contributions to the national economy holds true beyond Europe.

Figure 7.4: Producer Support Estimate, millions of USD



Source: OECD

Farmers in Japan have enjoyed great success in imposing their policy preferences due in part to their homogeneity and highly organized representative associations. Small farmers dominate the agricultural sector, which makes it easy for farmer associations to promulgate a single, coherent message. In addition, a strong union that is well organized nationally, regionally, and locally, represents Japanese farmers. Finally, unlike Europe and the United States, there is little if any pressure from sectoral organizations.

The main farming organization in Japan is Japan Agriculture, referred to as JA or Nōkyō. The JA is a three-tiered organization, with national, prefectural, and local-level cooperative groups. The JA commands near universal membership of the Japanese farming community in large part due to the services and benefits it offers. It claims to have nearly 10 million members (JA publication). Its main businesses are banking, insurance, agricultural retail and wholesaling, and supply of farming materials. In addition to these benefits and services, which are not uncommon among agricultural cooperatives, the JA's scope of business includes real estate, travel agencies, supermarkets, and even funeral homes (Horiuchi and Saito 2010). Essentially, "within the villages, the JA is a one-stop service. Farmers and everyone else in the village use JA services" (personal interview; Tokyo; July 2015). An LDP politician explained that the JA has far-reaching influence and is a cornerstone of rural society, with even non-farmers depending on the JA for services, "No other organizations in Japan are like the JA with so much local organization and influence. The JA is crucial in local community because of the infrastructure it provides. As a result, even non-farmers in rural areas need and depend upon the JA" (personal interview; Tokyo; July 2015). Ultimately, this wide range of services means that the JA can forge a relationship with farmers and the broader rural community that extends beyond just agriculture. Indeed, the JA can assist rural communities in all their needs, even those that come after death.

Along with high membership levels, much of the JA's power derives from the fact that it has been in an official corporatist relationship with the state since it was formally created via legislation in 1947. This close relationship with the state has been quite beneficial for the JA, with the government at times heavily regulating and protecting the JA's banking and insurance businesses, even going so far as to bail out JA banking multiple times, both after 1980s economic bubble burst and again in 2008. For example, *Norin-Chukin* a major agricultural cooperative bank had invested extensively in real estate during the 1980s boom. When the bubble burst and the real estate market collapsed, JA affiliated banks, *Norin-Chukin* chief among them, sustained heavy losses. As a result of political lobbying, the JA was able to reach an agreement where it was only responsible for ¥530 billion out of a total of ¥5.5 trillion in losses (Sheingate 2000 and Mulgan 2001).

The state has also granted the JA exceptional status in antitrust law, which has afforded the JA monopolies on the supply of agricultural inputs (including machinery, pesticides, and fertilizer) to farmers (Horichui and Saito 2010; Mulgan 1997). Further exceptions are made for the insurance wing of the JA, "which is allowed to sell multiple kinds of insurance whereas other firms are traditionally limited to providing only one type of insurance" (personal interview; Tokyo; July 2015). As these examples suggest, farmers and the JA have been quite successful in their efforts to influence agricultural policymaking.

An important area of success for Japanese farmers has been in shaping Japan's trade negotiations, pressing for protectionism even when other groups seek greater trade liberalization. In these negotiations, Japanese agriculture is able to impose its preferences despite pressure from the Japanese business lobby, *Keidanren*, which stands to gain far more from liberalization than agriculture would ever lose. These victories for Japanese farmers have come at both the GATT/WTO and in Japan's bilateral trade agreements.

The GATT Uruguay Round (UR) sought to reduce if not eliminate agricultural subsidies and remove tariffs and trade barriers in an effort to liberalize agricultural trade. In these negotiations, Japan's position was largely defensive and was grounded in a desire to make as few concessions as possible. Its objectives were shaped primarily by the special position of rice producers and also by the overall high level of protection of agriculture. The LDP, whose political position was vulnerable at the time, promised farmers that no amount of foreign rice would be allowed to enter the domestic market (Paarlberg 1992). Fundamental incompatibility between GATT objectives and the policy preferences of major negotiating parties, including Japan and the European Community, resulted in the round grinding to a halt. In the end, although reducing tariffs was a major goal of the negotiations, a modification was negotiated specifically for Japan to allow it to delay tariffication (the conversion of non-tariff barriers into tariffs followed by the reduction of those tariffs) of rice in exchange for accepting more imports of agricultural products, but only in sectors that were unimportant to Japanese agriculture such as dairy production. In addition, farmer subsidies were protected, despite the GATT UR goals of eliminating them. By the end of the GATT UR negotiations, Japanese farmers walked away with an agreement that protected their core commodities and allowed them to largely avoid the removal of tariffs for key products, while also maintaining a system of income support for farmers.

Farmers have seen similar success in Japan's bilateral trade negotiations. In September of 2003, Japan was in the final stages of a free trade agreement with Mexico, which had been delayed by agricultural opposition. Frustrated with the delays, Prime Minister Junichiro Koizumi ordered his trade negotiators to "get it done" (Mulgan 2005). In the end, a tripartite coalition of agricultural representatives was able to extract considerable concessions for agriculture that finally allowed the agreement to move forward. The concessions included a reduction in the level of tariffs that had to be removed and special protection arrangements for "politically sensitive" commodities including pork, beef, chicken, oranges, and orange juice (Mulgan 2005b). Although this free trade agreement was concluded with Mexico, agriculture continued to block any progress on other free trade agreements Japanese officials desired at the time with the Philippines, Thailand, and South Korea.

One major reason Japanese farmers have been so successful in pushing their policy preferences and forestalling liberalizing trade agreements is that the main groups in other countries that traditionally challenge farmers by supporting liberalization, namely consumers, business, and the food industry, are either unwilling or unable to challenge the JA's preference for protection (Vogel 1999). Moreover, while farmers are united in their opposition to agricultural liberalization their opponents, most notably consumers and the food industry, are internally divided. Consumer organizations, for example, are dominated by concerns over food quality and prefer to restrict access to the Japanese market to ensure that the preponderance of available products are those of Japanese origin, in which they have a high degree of trust. Because of this strong preference among consumers for food of Japanese origin, many in the food processing and distribution industry are reluctant to push for agricultural liberalization. Their fear is that demand for their products will decline if they are made with or include the (ostensibly cheaper) imported agricultural goods. The result is that, despite their small share of the population, farmers are able to extract new policies, or preserve existing policies, that benefit a small share of the population and (potentially) inconvenience a much greater share of the population.

While these group preferences are indicative of the peculiarities of the Japanese case, the broader explanation of farmer influence and power tracks the European story. Japanese farmers, like those in Europe, have powerful and well-coordinated organizations. These organizations operate from the national level all the way down to the local level, giving farmers access to and influence over key actors at all levels of decision making. Tight control over members and impressive capacity for coordination allows Japanese farmer organizations to influence not only politicians concerned with re-election but also key actors, like business, that might challenge farmer preferences.

Boycotts are one common strategy employed by farmer organizations in Japan to shape policy by punishing other interests that challenge agriculture. For example, in the mid-1980s, *Nōkyō* led a boycott against Mitsubishi Kōgyō Cement because a company executive belonged to a *Nikkeiren* (Japan Federation of Employers' Associations) committee that pushed for agricultural policy reform. Since that incident, *Nikkeiren* has struggled to find executives willing to sit on the committee (Davis 2003). Farmers also executed a successful boycott of Sony, Daiei (a supermarket chain), and the food-maker Ajinomoto because their executives had pushed for agricultural policy reform as part of a *Keidanren* (Japanese Federation of Economic Organizations) committee. In these cases, the boycotts were ended only after the executives from the offending companies apologized to farmers and quit the committee (Davis 2003). So, farmer organizational power in Europe is often manifested through street protests, Japanese farmers often direct their organizational influence toward hurting the economic interests of their main policy opponents.

The JA's organizational strength allows Japanese farmers to exert significant electoral influence, rewarding politicians who commit to protecting and advancing preferred farmer policies, and punishing those who do not. As a Japanese official explained, "If JA doesn't like a candidate, they will do a smear campaign. Farmers are maybe not strong enough to make someone win, but they are strong enough to make sure someone loses" (personal interview;

Tokyo; July 2015). The farmers have long been a staunch ally of the Liberal Democratic Party (LDP), which governed Japan, uninterrupted from 1955 to 1993. Since its formation in 1955, the LDP has only been out of power from 1993 to 1994 and 2009 to 2012. The JA's ability to coordinate the voting of its membership played an important role of the LDP's defeat in 2009 and its return to power in 2012.

In the run up to the 2009 election, many farmers threw their support behind the Democratic Party of Japan (DPJ) as opposed to their traditional ally, the LDP. This shift appears to have been prompted more by the DPJ's aggressive campaign to win the farmers over than farmer anger with a specific LDP policy. In an effort to win farmers away from the LDP, the DJP announced a plan to transition agricultural policy from price supports to a system of direct income compensation. The policy was an extension of one offered in the 2007 Upper House elections that proved to be very successful in winning rural votes away from the LDP. These policy promises in 2009 lured numerous JA prefectural offices into tempering their commitments to the LDP, saying that decisions on whom to support would be made on a district-by-district basis, or, in the most extreme cases, that this election would be a "free vote" and no official candidate would be endorsed. The DPJ, thanks to their plan for supporting farmer incomes, won the support of the agricultural community and thus the election. After taking power, the DPJ adopted their new farmer income scheme, which provided a direct income subsidy for all commercial farm households, regardless of size. The scheme was also designed to compensate farmers for times when production costs exceeded sale prices. Under the policy, farmer incomes increased for the first time since 2003.

Despite these positive developments, the LDP took back farmer support and won the next elections in 2012. A central promise of the LDP was to increase public spending on the farm sector, which had been cut by the DPJ to pay for the new income support program. Under the DPJ, the budget of the Ministry of Agriculture, Forestry, and Fisheries (MAFF) had declined (though this trend had started over a dozen years ago during the LDP's tenure). In the run up to the 2012 elections, the LDP committed to reversing this decline. In addition, its agricultural policy platform promised to replace the "individual farm household income compensation scheme with enhanced direct payments to farmers for the multifaceted functions of agriculture" (Mulgan 2013). The way the direct income payment was handled by the DPJ also came under criticism: some viewed it as a way to separate farmers from the powerful farmer organizations by weakening the dependent relationship between the two. Essentially, a direct income payment from the government could weaken, if not break, the relationship between farmers and the JA because farmers would be paid independent of production and would thus be less dependent on JA services. Finally, and perhaps most importantly, the DPJ could not overcome the opposition of the farmers, and the JA more broadly, to the DPJ's position in support of the Trans-Pacific Partnership, aiming to reduce trade barriers. Farmers, protected by high tariff barriers, feared that an influx of low-priced agricultural goods would follow the adoption of the TPP. The JA stated an official position of opposition to the TPP and those who supported it, no matter their party affiliation. In the 2012 election, the JA published a list of the 177 candidates it endorsed, 162 of which were from the LDP. Of the 177 officially endorsed, 173 were elected (Mulgan 2013).

As these examples demonstrate, my framework for studying agricultural policymaking and reform can provide help provide a fuller understanding of decision making in domains outside of Europe. Japanese farmers have repeatedly shown the ability to defend preferred policies, defeat unwanted reforms, and even silence those who advocate economic liberalization, whether a powerful political party or a major industry. As in Europe, it is difficult if not impossible to take support away from farmers or even to challenge their policy preferences.

The GATT Uruguay Round: Agriculture Blocks Everything

This third and final mini case tests the applicability of my argument to cases that involve agricultural interests but are not agricultural policy proper. Additionally, this mini case tests my argument beyond the European/EU context. Decision making occurs at the supranational level, and, beginning with the 1986 Uruguay Round, agricultural interests are just one set of voices within a much broader set of voices. Essentially, in the case of world trade after 1986, agriculture cannot simply sort out its own situation in isolation, excluding all other interests. Because these negotiations are supranational, like CAP negotiations, farmer organizations and their influence are predominantly mediated through national representatives to the GATT meetings. Essentially, the task of this mini-case is to demonstrate that the major claims of my argument still hold under the conditions outlined above.

When GATT was created in 1948, agriculture received special treatment. It was thought that agricultural interests were so powerful and agriculture such a touchy national subject that its inclusion would render any negotiations dead in the water. So unlike manufacturing sectors, agriculture was exempted from the prohibition on the use of both quantitative import restrictions and export subsidies. In addition, agriculture was left out of the first three rounds of multilateral trade talks in the GATT (Dillon Round, 1962; Kennedy Round, 1967; and Tokyo Round 1972) in order to assure successful negotiations. As a result of agriculture's special treatment and its absence from GATT negotiations, domestic agricultural programs were allowed to develop unchecked. The resulting agricultural surpluses were one of the major factors that pushed agriculture to be fully included in GATT multilateral negotiations despite major concerns over the dilatory effects of powerful farming interests and the objections that would certainly be raised by negotiating parties in defense of their particular agricultural profile.

The centerpiece of the GATT Uruguay Round (GATT UR) negotiations was the section on agriculture. The GATT UR was launched in 1986 and was supposed to be concluded by 1990. Due to delays on the agricultural section of the negotiations, an agreement was not reached until 1993, almost doubling the length of the GATT UR. The declaration launching the Uruguay Round (UR) identified greater liberalization in agricultural trade as the fundamental goal of the round. Particular attention was to be paid to domestic support, market access, and export subsidies (Ingersent et al 1995). The specific goals for agriculture were to reduce import barriers, to order to improve market access, and to restrict the use of direct and indirect subsidies in order to improve the competitive environment. US Trade Representative Clayton Yeutter insisted on the inclusion of policies relating to domestic support over the strong objection of some EC member states, most notably France. In short, in the GATT UR, reformers wanted to remove protectionist trade barriers and dramatically cut, if not completely eliminate, subsidies for agriculture, including those designed to boost farmer incomes.

In a major break from previous GATT negotiations, the UR was to be treated as a "single undertaking" (Daugbjerg and Swinbank 2008). In other words, the round could not be concluded without an agreement on agriculture. By contrast, the Tokyo Round was described as "GATT *à la carte*" because contracting parties could decide which agreements they did and did not want to sign (Daugbjerg and Swinbank 2008). This change was made in an effort to finally force an agreement on agriculture. In all previous rounds, agriculture was either excluded entirely or treated under special, separate rules. The EC played a key role in pushing for the single undertaking condition for the Uruguay Round. For France, which was reluctant to include agriculture in the UR negotiations, the condition was particularly important because it "represented the potential for offsetting gains in other sectors: to rebalance trade with Japan and to ensure the newly industrializing countries, particularly in Asia, met in full their obligations under the GATT" (Daugbjerg and Swinbank 2008). In practice, the single undertaking condition permitted agriculture to cause extensive delays in the negotiations, repeatedly proving to be the issue that blocked everything.

Negotiations at the Uruguay Round took place over seven years. Throughout the talks, the US and EC advanced radically different negotiating positions. An inability to reach an agreement on agriculture resulted in the collapse of the round, and the original deadline for an agreement, 1990, was missed. Talks were revived by GATT Director General Arthur Dunkel and ultimately concluded in 1993 with an agreement that was dramatically watered down from the initial GATT UR objectives and was ultimately quite favorable to farmers. In the end, farmer income payments, which GATT officials sought to eliminate or at least restrict, were entirely preserved and the dismantling of tariff barriers was delayed or restricted such that most farmers felt little to no effect from these changes.

The Uruguay Round negotiations were driven by the sharply divergent positions of the United States and the European Community, supported by the Cairns Group[43] and Japan, respectively. The US saw government support as the root of trouble in farm trade while the EC blamed the market. Specifically, the US called for dramatic liberalization, primarily by reducing the protection and support afforded to European farmers under the CAP. The EC, however, argued that that the aim of negotiations should be to "progressively reduce support to the extent necessary to reestablish balanced markets and a more market oriented agricultural trading system" but not to phase out support and protection (Daugbjerg 2007).

The US plan was highly aggressive and market oriented. Dubbed the "Zero Option", it called for the complete elimination of farmer programs, described as "all forms of support which distort trade" within ten years (Hine 1989; Guyomard 1993). Export subsidies, which were considered by US negotiators to be the most trade distorting, were to be reduced by 90% in five years. In addition, no commodity or support program would be exempt from reform. However, programs, such as decoupled payments, which were not tied to output and thus were arguably not trade distorting, would remain untouched.

In launching the Zero Option, US officials believed that American farmers would accept the subsidy reductions because foreign farmers would be subjected to the same pains at the same time. US farmers, however, preferred to avoid rather than share pain, and feared that any GATT reform would impose costs upon them. GATT negotiations came on the heels of two major failed attempts by the Reagan administration, in 1981 and 1985, to get Congress to reduce the levels of support for US farmers. Reagan administration officials viewed the GATT negotiations as an opportunity to use international negotiations to achieve domestic reform. Farmers had defeated these retrenchment efforts at home, so the Reagan administration sought to attempt to retrench agriculture in the context of international trade, which could potentially undercut the power of the American farmers.

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[43] The Cairns Group formed in 1986 around a common interest in achieving liberalization in agricultural trade (Stiles 1996). At the time of the Uruguay Round, the Cairns Group consisted of 13 members: Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, Philippines New Zealand, Thailand, and Uruguay (Warley 1987).

The EC flatly rejected the US proposal calling the plan “unrealistic”. It was, at its core, a thinly veiled attack on the CAP, a policy with which the US was becoming increasingly frustrated. The EC countered with a more modest proposal where reductions in support levels would occur only after measures were adopted to stabilize world prices. In the first stage, the most seriously imbalanced markets, cereals, sugars, and dairy products, would be stabilized. In what is likely not a coincidence, these commodities were also those in which the EC had massive surpluses. In the second stage, commodity supports would be reduced gradually by up to 30% over a period of ten years, with reductions calculated using 1986 as the base year. Overall, compared to the US, the EC fundamentally sought to maintain the agricultural status quo.

Japan’s position was largely defensive and was grounded in a desire to make as few concessions as possible in negotiations (Rayner et al 1993). Of fundamental importance was to prevent or delay tariffication to the extent possible, specifically for rice, which is a hallowed product in Japan. Indeed, Japanese negotiators were willing to permit imports and increased tariffication in all other agricultural commodities so long as rice remained exempt from tariffication and import rules. Japan’s existing agricultural policy and support system allowed them to support their farmers through a system of high prices made possible by a system of tariffs and isolation from the international market (Yamashita 2015). By resisting tariffication, or gaining exemptions for the most important sectors, namely rice, Japan could avoid the situation that the EU found itself in, where domestic policy (in this case, the CAP) had to be reformed to make a final agreement possible.

Japan’s objectives were shaped primarily by the special position of rice producers and also by the overall high level of protection of agriculture. In addition to a desire to avoid a ban on agricultural import quotas, the Japanese position emphasized the importance of “non-economic” objectives of food farm policy, including “food security, rural employment, and environmental protection” (Hine et al 1989). In regards to the two major policy positions, that of the US and the EC, the Japanese supported the EC and flatly rejected the US position as impractical (Guyomard et al 1993).

After observing the EC and Japanese negotiators’ vehement rejection of the Zero Option proposal, the US farm lobby, including numerous commodity groups, realized they could use this opposition to their own benefit. Knowing that the EC and Japan would never accept the Zero Option, US farm lobbies began to support the plan in hopes that it would deadlock the negotiations. If the negotiations remained at an impasse, then American farmers would also continue to benefit from the subsidies, tariff barriers, and general support programs that the “Zero Option” plan sought to eliminate. Many US farm lobbies were quite aggressive, insisting that “they could accept nothing less than the Zero Option”, that “half measures would not do—no agreement was better than a bad agreement” and that the Zero Option was “the only way to guarantee a level playing field against their subsidized foreign competitors” (Paarlberg 1992).

The US farmers’ manipulation of the Zero Option extended into the GATT Mid-Term Review (MTR), which took place in 1988. US farm groups, led by the highly subsidized sugar and dairy sectors, successfully lobbied Secretary of Agriculture Richard Lyng to “force Yeutter to stick to the Zero Option in Montreal” resulting in a stalemate at the MTR (Paarlberg 1992). Yeutter had, in the months leading up to the Uruguay Round’s MTR, expressed a willingness to accept partial reforms. In order to best protect their policy preferences, however, the American farmers pressured the US government to hold the line on a policy they knew would never be accepted by Europe. Like their European counterparts, American farmers rely on the power of their sophisticated organizations to advance and defend their policy preferences.

Negotiations also floundered because the EC and Japan were losing interest in reform. In the case of the EC, the need for agricultural policy reform to bring spending costs under control was achieved when the EC reached an agreement in 1988 on two measures that brought about temporary budget relief: a stabilizer for cereal subsidies and a 25% increase in Community revenue. In Japan, it was electoral politics, not reform, that dampened the desire to negotiate. After a series of political scandals, the LDP lost control of the upper house of the Diet, and with it, the desire for agricultural policy reform. In order to position itself for the 1990 elections, the LDP promised farmers that, "not one single grain of foreign rice would be permitted to enter the Japanese market" (Paarlberg 1992). Yet again, close ties to politicians and a general belief in the electoral importance of farmers allowed agricultural interests to sway the position of their governments.

Ultimately, the GATT Midterm Review (MTR) meeting failed to produce a draft text on agriculture. The failures of the MTR extended beyond agriculture, as the Cairns Group "refused to approve the draft texts of any of the other fourteen negotiating groups…until there was a text on agriculture" (Sharma 2000). The lack of progress on agriculture was blocking any kind of trade agreement from being reached. The contracting parties agreed to adjourn the talks until 1989 and left the task of resolving the impasse on agriculture to GATT Director General Arthur Dunkel (Hine et al 1989). Dunkle attempted to jumpstart the negotiations by circulating a draft final act, better known as the Dunkle Draft, which provided a broad negotiating framework.

An opening was created for the negotiations to move forward after the EC completed the MacSharry Reform of the CAP. Three main aspects of this reform helped bring the CAP in line with GATT objectives and thus increased room for a negotiated agreement between the US and the EC. First, cereal prices were reduced and controls were placed on surpluses, which implied a reduction in EC cereals exports, indirectly addressing the US concerns over EC export subsidies. Second, lowering Europe's own cereals prices made EC cereals more competitive with imported duty-free foods. As a result, the need for market rebalancing (i.e. adjusting internal EC prices such that goods would be competitive) was no longer a sticking point for the EC in negotiations over market access. Finally, the transition from production subsides to partially decoupled direct income supports gave the EC and US a new basis upon which to discuss domestic support policies.

The negotiations resumed with the US and EC agricultural representatives engaged in a series of bilateral negotiations at Blair House in Washington, resulting in an agreement on the agriculture portion of the GATT UR, called the Blair House Accord. There were two major components to the Blair House Accord that facilitated an agreement. First, the "blue box" was added to the GATT's subsidy stoplight system[44] as a category for domestic support. Essentially, this category served to exempt the US deficiency payments and CAP area and headage payments from reduction commitments, which they would have been subject to without the creation of the new "blue box" category. The second important addition was the inclusion of a peace clause,

[44] The GATT/WTO used a "subsidy stoplight" system, containing green, amber, and red boxes, to evaluate and classify member country subsidies. Permitted subsidies, meaning those that do not distort trade and do not include price supports, are in the green box while the red box refers to subsidies that are forbidden. Subsidies in the red box must be eliminated or offending GATT/WTO members can be made subject to disciplinary action. The amber box refers to all domestic subsidies that distort production and/or trade. Examples of amber box subsidies are production-based subsidies and price supports. The "blue box" was added as a category for domestic support under the GATT UR agreement. Essentially, this category served to exempt the US deficiency payments and CAP direct income area- and headage-based payments from these reduction commitments (Daugbjerg 2007).

which exempted support schemes that complied with the agreement from dispute settlement actions.

After the intense negotiations within the EC over the Blair House Accord, the Commission, under the guise of seeking "clarification" on the Accord, received further concessions from the US. While the majority of the concessions were minor, there were two noteworthy concessions. First, it was agreed that when implementing export subsidy reductions countries could base those reductions on the level in any year between 1986-1992. This modification removed front-loaded reductions in those commodities that had high base levels in 1986. Essentially, the agreement allowed the EC and the US to continue to subsidize a much large number products during the implementation period.

The second modification related to tariffication rates. In exchange for accepting higher minimum import levels, select countries could delay tariffication of specific products. This modification was negotiated specifically for Japan[45] to allow it to delay tariffication of rice. This concession was vitally important to Japan, which took a defensive position throughout the negotiations, resisting tariffication at every turn, and only agreeing to a system that guaranteed special treatment for rice, "a sacrosanct product in Japanese agricultural politics" (Yamashita 2015). In addition to a full exemption for rice at the time, Japan was also permitted a slower tariff transition process for non-rice products. For example, Japan was permitted wide use of tariff rate quotas (TRQs), which allow more control over the amount of foreign goods that may enter the market. Products governed by the TRQ system included starches, dairy products, and legumes. Delaying or preventing tariffication was the main focus of Japan's efforts because it was the tariff system that allowed Japan to continue to support its farmers with high prices. Because Japan was successful in extracting this concession, it avoided having to make domestic reforms to its agricultural policy. However, the defensive position of Japan with its single-minded focus on the issue of tariffs made it difficult for Japan to "extract the kind of compromises from other countries that it sought in other areas" (Yamashita 2015).

Overall, the US granted the EC more than the mere "clarification" it claimed it was requesting. These concessions by the US were likely motivated by the fact that it wanted to conclude the negotiations before the Congressional Fast Track Authority expired in 1993 (Meunier 2000). For agreeing to the revised Accord, France was able to extract additional concessions within the EU, including an agreement that no further land would be taken out of production to meet GATT requirements.

In the end, the major goals of the GATT UR for agriculture were either defeated entirely (eliminating production-based supports for farmers) or so watered down that farmers felt little to no effect (reducing tariff barriers). Most significantly, direct payments, even if not fully decoupled, were exempt from reduction or even challenges under GATT rules. Indeed, the rules were essentially constructed in order to define the EC payment system as permissible. Ultimately, the EC traded CAP reforms it had already made, designed to safeguard European farmers' bottom lines and to protect the operation of the CAP itself from foreign meddling, to the US for an agreement on agriculture in the GATT. As is often the case in CAP reform, farmers were not subjected to cuts; rather their support payments were directed to them through different or new channels. The fact remains, whether the negotiations take place at the EU or at the

[45] Concessions under the Blair House Accord for Japan were very limited as the Blair House Accord was strictly a bilateral negotiation between the US and the EU intended to sort out specific problems that were preventing the two countries from reaching an agreement with each other.

GATT, about trade policy or about agricultural policy, it is incredibly difficult to actually impose cuts on farmers.

Broader Implications of My Project

Beyond issues of agricultural in trade negotiations and in the domestic politics of countries (within Europe and abroad), the theoretical ideas in this dissertation can speak to scholars and policymakers working on a range of issues. Disruptive politics and politics as usual help uncover conditions that favor reform. This information is particularly relevant for scholars studying inertial or difficult to reform institutions, such as the EU. Similarly, the factors that contribute to the outsized influence of farmer power can help explain why some areas of policy are harder to reform than others. Finally, the story of the decline of farmers speaks to the politics of managing major social transformations and provides lessons for how such a transition can be executed with minimal social upheaval.

A first set of implications of my research is relevant for European Union scholars and policymakers. My dissertation identifies conditions that favor EU reform. As discussed in the CAP cases, reforms can be categorized as undertaken at a time of "disruptive politics" or under "politics as usual". Disruptive politics, like concurrent trade negotiations or looming enlargement, provide policymakers the opening to propose farther reaching and more fundamental reforms to the operation of policies than would be considered under politics as usual. Disruptive politics thus provide the most favorable conditions for reform. These lessons about exploiting (or containing) conditions that facilitate reform have implications for the European Union beyond just the CAP. Indeed, they can cast light on reforms in other policy arenas, such as the EU's other common policies, namely Common Fisheries Policy (CFP) and Cohesion Policy.

The EU adopted a major fisheries reform in 1976. Prior to then, the Common Fisheries Policy had been dealing with several persistent issues, the most fundamental of which was overfishing. There was no clear plan in place to manage fishing stocks, and as the Union continued to expand, more and more pressure was placed on Community waters. Previous efforts to address the overfishing problem had failed, driven in part by reluctance to place constraints on an industry that was already suffering. Left unaddressed, the problems of overfishing compounded over time. Reformers had hoped to design a system that ensured Europe's fishing stocks for the long term while not making it impossible for fishermen to earn a living. As was the case with the CAP, reform only occurred once the proposals were linked to disruptive politics.

A signal disruptive politics event, looming Iberian accession to the EU, finally opened space for reform of the CFP in the 1980s. As both Spain and Portugal had major fishing industries, the existing member states wanted fishing management policies in place before the accession negotiations had proceeded too far. Indeed, EU officials thought it best for the reforms to be adopted before accession negotiations got into full swing. Reforming the fisheries policies in the middle of Iberian accession negotiations ran the risk of derailing those discussions. If reformers were forced to wait until after accession, member states feared these reforms would never be adopted as Spain and Portugal would make every effort to block them.

The pressure of Iberian accession created the disruptive politics necessary to facilitate reform of the CFP. To finally address the systemic problem of overfishing a "total allowed catch" system for the main fish stocks in community waters was adopted. Under this system member states were given a quota, which would ensure stability for the domestic fishing industry while also protecting Community waters from overfishing (Churchill and Owen 2010). In short, like with the CAP, once a disruptive politics opening occurred, CFP reform was possible. When no such disruptive event occurred, as was the case in past efforts to reform the CFP, major reform did not happen.

A second set of implications of my research speaks to scholars of the welfare state, suggesting why some areas of social policy are much harder to retrench than others. Within the domain of welfare state policy, scholars of retrenchment may want to give added attention to the role played by expert knowledge and control over policy implementation. The context of agricultural policy reform is influenced in significant ways by the fact that farmers and the vast range of institutions that support them have a monopoly of expert knowledge. Farmers' monopoly of knowledge means the government is often forced to rely on the very group whose program it seeks to cut for both expert advice and implementation. Many policy domains of the social welfare state, especially medical and health policy, entail a similar dependence.

The beneficiaries of the policies and their representative organizations typically have a knowledge advantage that allows them to shape the course of negotiations and even the implementation of the policy. Control of implementation is often delegated to the targeted group for highly technical policy reforms in order to make use of its expertise. For example, it is typically left to medical professionals and health care providers to roll out and implement systems that govern patient care and treatment options. These systems are technical, depend on the expert opinion of highly-trained actors, and involve confidential information. For all these reasons, healthcare professionals can challenge policymaker's positions and resist government efforts.

There are at least three potential strategies retrenchment-minded reformers can use to manage the challenges posed by social groups that possess a monopoly on expert knowledge. The first and most direct strategy is to break that monopoly of expertise by utilizing their own experts. One way to begin to achieve this goal would be to stop relying on the social group itself to provide information and analysis. For example, in debates over how to revise environmental standards or adjust crop prices, policymakers rely on agricultural experts. More often than not, those experts are employed by farmer organizations, rendering their advice and opinion biased. To counter this problem, governments can employ in-house experts to close the information gap. Alternatively, governments can, and indeed already do in some domains, employ business-consulting companies.

A second strategy for countering the expertise imbalance is to reduce the target group's control over implementation of policies. While leaving the task of implementation to another actor reduces government costs, both economic and manpower, it also increases the risk that the policy will not be implemented or enforced as intended. It affords the targeted group another opportunity to circumvent the intentions of reformers. Groups can report that required changes are impossible to make, exaggerate (or invent) detrimental consequences, or even directly ignore policy reforms, especially if such changes would not be easily visible to an outside observer. Doctors, for example, have obligations to both their patient and to health insurance providers and hold information advantages in both relationships. Doctors can use this advantage in multiple ways. They can over-prescribe medications, or order unnecessary and expensive tests for their patients. They can also focus on more profitable medical procedures (called upcoding) even when cheaper procedures would suffice. A possible response is to impose a system that includes independent review of medical bills to check for fraudulent or inappropriate charges. If a group's monopoly on expertise cannot be overcome, then blocking that group from implementing, or at least rigorously monitoring the implementation of reforms, can strengthen the hand of reformers.

A third strategy for combating a monopoly of expertise is to reframe the policy or issue under discussion by broadening it and/or raising the stakes. An added advantage of this strategy is that it often results in a more diverse group of participants, including policymakers from other government ministries and groups representing other interests. When the stakes are raised and the set of participants is widened, the expertise of any one group is less consequential. Health care policy provides a hard test for my argument because policy change is unusual, and significant reform is rare (Freeman and Moran 2000).

Physicians in many countries, including Germany, have historically been successful at exerting a significant amount of influence over health policy thanks to their unified organization, capacity for mobilization, and plethora of resources (Wilsford 1994). Despite these obstacles, Germany achieved a major reform of its health policy in the early 1990s. The costs of German reunification had been underestimated and a major looming financial burden was the integration of the East German socialized system into the West German employer-based system. Moreover, a global recession combined with Germany's generous social benefits was driving major flagship employers, including BMW and Mercedes, offshore. Despite aggressive lobbying from the medical community, new reforms including lowering prescription drug prices, imposing new systems for monitoring physicians' treatment and prescribing practices, and implementing a major reform of the hospital financing system were adopted (Wilsford 1994). These reforms were ones that the medical community had successfully prevented in the past.

The outcome was different in this case because reformers were able to reframe the debate. Instead of yet another attempt at reforming the health care system, these reforms were framed as facilitating the project of German reunification, helping German industry combat global recession, and keeping flagship German companies in Germany. The participants in policymaking also changed; they now included representatives from the finance and economics ministries, industry officials, and officials tasked with managing the reunification project. These representatives were able to emphasize the need for oversight and financial discipline in health care policy and refused to sign without it. This health care overhaul succeeded because policymakers were able to tie the reform to disruptive politics, in this case, German reunification and crises in the manufacturing industry, thus raising the stakes and broadening the set of actors involved.

A final set of implications of my research builds on the foundations of Gerschenkron (1943), Moore (1966), and Polanyi (1944), and speaks to scholars of social class decline and policymakers seeking to successfully manage that decline. Both Polanyi and Gerschenkron provide cautionary tales of the mismanagement of class decline, demonstrating that the consequences are not merely social unrest, unemployment, or increased social expenditures, but potentially the collapse of democratic regimes and the rise of authoritarian alternatives. For both Gerschenkron and Polanyi, poor management of a declining class results in democratic collapse and fascism. The routes to fascism, however, are different. In Gerschenkron's account, democracy is destroyed when declining classes capture the state and use it to preserve their status. For Polanyi, democracy is destroyed when the state moves too quickly, crushing traditional classes under the wave of rapid modernization without offering some form of compensation or protection.

My dissertation points to an alternative trajectory, one that does not entail the collapse of democracy. It provides an example of effective, though expensive, management of a declining class. Compensation for farmers has been exceptionally costly. However, democracy has endured and social suffering and disruption have been minimal. While the farming sector has shrunk dramatically, the rural exodus was managed. Cities were not overwhelmed by flocks of farmers looking to start new lives, and countries were not overturned by the political and social unrest that might accompany the simultaneous abandonment of rural communities and exodus to the city.

The tale of post-war European farmers suggests, then, that one way for the state to successfully manage the decline of a major and once powerful social class is to soften the blow with the extension of subsidies and financial compensation. Such a program is likely to be very costly, but also offers more certainty that decline of this class will be minimally disruptive- both politically and socially. Essentially, the state can pay a (steep) price to avoid a seismic disruption of the existing social order.

An important caveat to be considered, especially by policymakers, is that once extended, this compensation may prove difficult, if not impossible to wind down. As my cases have demonstrated, despite repeated efforts to cut the CAP, policymakers have been unable to slash farmer support. Therefore, if policymakers choose to extend financial support to declining classes, they need to be careful about the early choices they make concerning how much support will be offered and how it will be structured.

Based on my research into the CAP, there are three crucial decisions to make (or mistakes to avoid) if the goal is to manage class decline while minimizing costs. The first critical juncture is the decision between supporting production and supporting incomes. Supporting production keeps people in the labor force but requires difficult to estimate spending commitments and risks crisis, while supporting incomes keeps costs more predictable and requires less risk in exchange for deactivating a potentially large sub-set of the population. For those governments wishing to minimize costs, the most effective strategy will be to structure the program to privilege income support over production as early as possible. While this choice can be painted as paying the class in question not to work and thus may face pushback from the public or even within government, it avoids the myriad complications that stem from subsidizing production, including surplus crises, fights over price adjustments, and conflicts with international trade agreements. In short, leaving production to the most efficient, while supporting the less competitive via income payments allows policymakers to open up more market share for the most efficient while protecting the uncompetitive from impoverishment.

A second critical juncture concerns rules structuring benefits, specifically the imposition of benefit limits. A decision to forego benefit limits is arguably more inclusive as it does not discriminate based on some measure of success or size of operation but is also more expensive. Alternatively, the decision to restrict benefits can be seen as discriminatory, splintering the target group into the privileged and unprivileged while saving costs in the long run. This decision has important consequences for the scope and type of future reform. Despite repeated attempts, a reform that the CAP has never been able to impose due to ardent opposition from a few member states is a benefit limit. As a result, some farmers receive hundreds of thousands of Euros in CAP income payments every year. Policymakers wishing to minimize the costs of support to extent possible will want to impose benefit limits, whether they be yearly or lifetime, at the time the policy is created. Benefit levels can always be extended and expanded, but it is much harder to retrench these policies. By imposing limits early, policymakers can better contain overall costs. In addition, these choices position politicians to make popular reforms (extending/increasing benefits) rather than unpopular, and likely unsuccessful reforms (restricting/reducing benefits).

However, it may be quite difficult to get the target's representative groups and unions to agree to a policy that essentially imposes a two-tier system.

The third critical decision concerns qualification and/or behavior standards and requirements. On the one hand, avoiding or limiting standards and rules increases the odds of compliance and support from the target population. On the other hand, imposing standards and rules early controls costs and makes future reform easier. The CAP has struggled to evolve over time, largely failing to impose even the most basic of standards on payment recipients. Policymakers who decide to manage class decline through a CAP-style income support system must think carefully about what types of standards and requirements make sense and impose them early. For example, two reforms CAP officials have struggled to impose are environmental standards and eligibility rules (i.e., one must use land for agricultural purposes in order to be eligible for benefits supporting agricultural land). Neither of these ideas, that farmers should have to meet basic environmental standards or that one's primary profession must be agricultural in order to receive aid for those employed in agriculture, is particularly radical, but since no real rules or standards for good environmental practices or eligibility existed when the CAP was created, it has been nearly impossible to impose them in a meaningful way in subsequent reforms. Taken together, these three junctures identify moments when policymakers must think carefully about their decisions for how to manage a declining class because these decisions are sticky, proving hard to reverse, and carry important long-term implications.

My dissertation and its core findings speak to a broader question of what happens to declining social classes. By investigating the current status of farmer power, I cast light on how and when the political power of a social class is affected by a decline in numbers. Farmers are not the only class to have experienced a dramatic reduction in its share of the population; the blue-collar industrial working class has shrunk dramatically with the shift to a service sector oriented economy. European governments have buffered workers against the effects of deindustrialization with generous disability and early retirement benefits. In addition, in many countries, unemployment programs for workers were structured to ensure that benefits would not run out.

As this brief example illustrates, the framework I have used to examine the decline of Europe's farmers can also be deployed to examine and explain the decline of other social classes. For both blue-collar workers and farmers, policy took the same path. It started with an effort to preserve the class by subsidizing employment and ultimately ended up with a policy that paid individuals not to work. The path to this final policy outcome in both cases was long and expensive. The lesson, then, for reformers is move to an income support (or payment not to work) policy as quickly as possible. While these policies are expensive and often unpopular, costs can be contained and crises avoided if these types of programs are adopted first, and reasonable benefit restrictions are imposed early.

In sum, my project is not only about the intricacies of CAP reform, but also about the conditions that permit or forestall EU and welfare state policy reform, the techniques for overcoming resistance to policy change, and ultimately the politics of and strategies for managing social class decline. This body of research beginning with my study of farmers and expanding to other threatened social classes will further clarify the important puzzle of why some groups are able, against all odds, to exercise strength without numbers.

Appendix

A.1 Auxiliary Table for Chapter 4: Agenda 2000: New Millennium, Same CAP

Table A.1: Timeline of Key Agenda 2000 Events

Date	Event
December 1995	Agricultural Strategy Paper published by the Commission
July 1997	Agenda 2000 formally launched
March 1998	Commission publishes CAP proposal, negotiations begin in earnest
February 1999	ECOFIN agrees to 2000-2006 budget limits for CAP
11 March 1999	Agricultural Council reaches compromise on CAP reform
26 March 1999	Agenda 2000 formally concluded at Berlin Summit after further CAP revisions

A.2 Auxiliary Tables for Chapter 6: CAP For 2020: Grand Vision, Little Change

Table A.2.1: Timeline of MFF and CAP Negotiations

Date	Event
Spring 2010	Commission launches public consultation on the CAP
November 2010	Publication of Commission strategy paper on CAP towards 2020
June 2011	Publication of 2014-2020 MFF proposal by European Commission
October 2011	Publication of proposals for new CAP regulations by Commission
February 2013-March 2013	Negotiations amongst member states within European Council and Council of Ministers with final agreements on a common position reached on the MFF and CAP in February (European Council) and March (Council of Ministers)
March 2013	Negotiations in EP conclude with adoption of Comagri proposal to amend Commission's proposal
May 2013	Negotiations between European Council, Council of Ministers, and European Parliament (trilogues) begin
June/September 2013	Final agreement on non-financial/financial CAP provisions

Table A.2.2: Minor Components of the 2013 CAP Reform

Rural Development	• Increase flexibility in ways member states can support farmers. • Increase and strengthen support in response to crises.
Eligibility	• Refine definition of farmer to prevent abuse. • Ensure that direct payments are given to those individuals actually engaging in agricultural activity.

Table A.2.3: 2013 CAP Reform Final Agreement Minor Components Comparison

	Initial Proposal	Final Agreement	Outcome Difference
Rural Development	• Member states allowed to move 10% of their Pillar I funds to Pillar II while member states whose direct payments were below 90% of the EU average were allowed to move 5% of funds from Pillar II to Pillar I. • Create a crisis fund for agriculture	• Member states allowed to move 10% of their Pillar I funds to Pillar II while member states whose direct payments were below 90% of the EU average were allowed to move 15% of funds from Pillar II to Pillar I; • Create a crisis fund for agriculture.	• Amount of funds transferrable between Pillar 2 and Pillar 1 tripled for member states with direct payments below 90% of the EU average. • Crisis fund retained
Eligibility	• Individuals who fail to meet minimum activity standards (as defined by their member state) or those farmers for whom CAP payments amount to less than 5% of their total receipts for non-agricultural activities would no longer be defined as an active farmer, thus losing benefit eligibility	• Anyone with agricultural land may receive €5000 base payment. • Those at risk of being considered a non- farmer may appeal and claim that non-ag activities have an agricultural purpose	• €5000 base payment guaranteed • Removal of minimum activity standard • Ability to appeal rulings on non-agricultural activities

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