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The Political Economy of Agri-Environmental Policies in the EU

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**The Political Economy
of Agri-Environmental Policies
in the EU**

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The three stylized facts of Baylis-Rausser-Simon

- environment and agriculture are
 - conflicting => focus on negative externalities in US
 - Reinforcing=> focus on positive externalities in EU
- Focus of environmental problems
 - EU focus on problems from ag intensification
 - US focus on problems from ag extensification
- Targets of agri-environmental programs
 - US focus on environmental targets
 - EU focus on "inputs" / "processes"
- And, conclusion: "economic factors" cannot explain these differences.

Other puzzles / observations

- BRS finding :
 - no relationship between EU agri-envir. policies & problems at MS level
 - Intriguing. Why ?

- Yesterday's conclusions (Wilfrid Legg):
 - Importance of external shocks
 - Decision-making rules: "Democracies are slow in turning external shocks into policy-changes"
 - Agri-environmental policies are only fraction of total CAP support

BRS: no relationship EU agri-envir. policies & problems at MS level

- Intriguing.
- Hypotheses :
 1. Policy indicators are poor (systematically biased)

Policy Indicators : The stylized facts

- Do we have the facts straight ?
- National versus EU policies ?
 - Ag policy is mostly EU, but (agri-)environmental policy is not
- Most contentious and most important agri-environmental policies in e.g. Belgium are national policies, not EU policies:
 - “Manure Action Plan” induced major demonstrations and lobby work from farmers and agribusiness – much more than any EU level agri-environmental policy

BRS: no relationship EU agri-envir. policies & problems at MS level

- Intriguing.
 - Hypotheses :
 1. Policy indicators are poor (systematically biased)
 2. EU policies do not reflect MS preferences, due to decision-making procedures (like MS preference differences on CAP payments)
- = > like the Spanish case: EU policies imposed / top-down

Key Actors in EU Political Economy

□ Interest Groups

- Farmers (& agribusiness & landowners)
 - Eg LFA payments in CEECs
- Environmental organizations
- Consumers
- Taxpayers
- ...

□ Decision-makers

- EU Commission
- National Ministers (EU Council)
- ...

Key Actors in EU Political Economy

- Relative importance of interest groups -- and hence representation of these interests by MS governments – differs by MS
 - eg Spanish vs UK environmental lobby

- Because of
 - Economic structural differences (role of agriculture in employment, contributions to EU budget)
 - Political differences (eg alignment between political parties and interest groups)
 - Cultural differences

- Changes over time

Changes in preferences and political influence

Over past two decades :

- Environmental concerns and the strength of the environmental lobby have grown strongly
- Strength of agricultural lobby has decreased with decline in share of farmers in employment (and votes)
- Hence:
 - Ministers of agriculture from Green Party in e.g. Germany, Belgium, ...
 - No longer "ministry of agriculture" in UK

Greening the CAP !

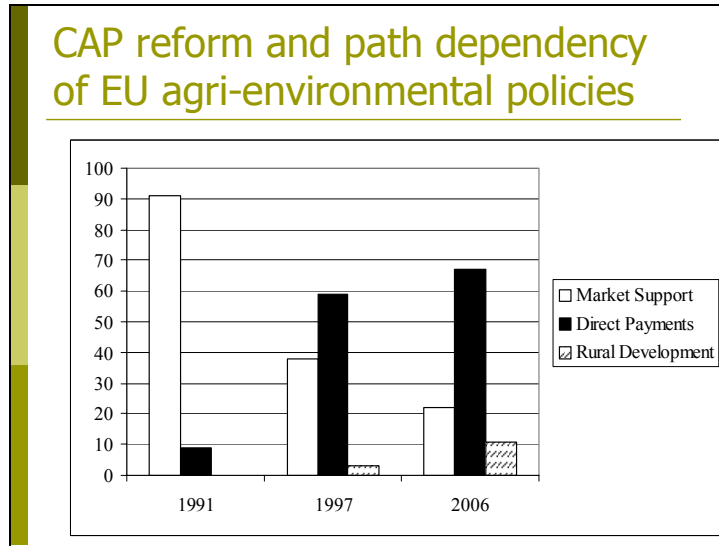
- Agri-environmental focus (both in terms of cross-compliance and actual subsidies) could help in making the CAP "greener"

- Because :
 - growing environmental lobby,
 - important for the WTO (from Blue Box to Green Box)
 - to make the MTR more politically acceptable
 - Commission preferences

- => The Political Economy of Multifunctionality

Path dependency : History Matters !

- EU agri-environmental policies have grown gradually as a part of the Common Agricultural Policy
- Farm Organizations: "This is Our Money !"
- This is one reason why
 - They may be "biased" towards pro-farm both in terms of their design, funding, and approach



The EU Budget : Where the environment, farmers, and taxpayers meet

- Current Budget debate in EU is example of conflict between
 - environmental lobby (agri-environmental policies (Pillar II)),
 - farm organizations (Pillar I), and
 - taxpayer interests
- major differences in preferences between MS
- Pressure for EU Budget reduction has potentially major implications:
 - Estimates identify potential reduction of up to 50% of agri-environmental payments if DPs are not reduced

Preferences in current EU budget debate

	Environment / Agriculture (Pillar II / Pillar I) Spending	
EU Budget Cuts	More	Less
Yes	UK	Germany
No	EU Commission ?	Spain

Preferences and Policies/Reform

- How do these preferences get (not) translated into policies ?
- What is role of path dependency: policy “setting” or policy “reform” ?
- Agenda setting: What is influence of agent that can forward reform proposals
 - EU Commission(er) accused of “going beyond his mandate” in CAP reform
- How do changes in external factors (economy, preferences, trade/other countries, ...) affect policies ?
- Or, when is policy reform possible ?

A Model of EU decision-making

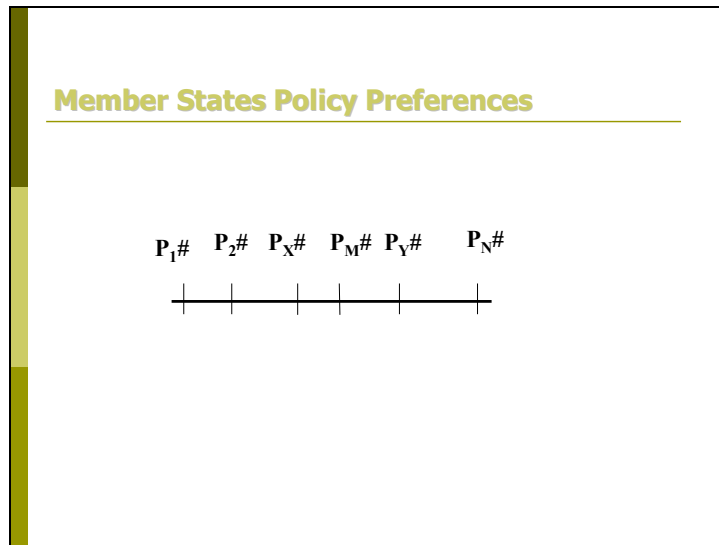
- Traditionally, political economy models of EU policies (eg ag subsidies) are either descriptive, or reduced form equations.
- While decision-making process is identified as key factor, hardly any formal model of this, because decision-making in EU is institutionally complex
- European Commission (supranational body) PROPOSES policy
- Council of Minister (representing member states) DECIDES (VOTES) on policy
- Qualified majority voting is used in the Council

A Model of EU decision-making

- Define P as the 'Policy' (level).
- For example:
 - Level of agri-environmental support
 - Level of environmental regulations
 - Cross-compliance regulations (loose versus tight)
 - Pillar II/Pillar I expenditure share
 - ...

A Model of EU decision-making Stage 1: Member State Level

- Each member state following its internal political process and political economy incentive system comes to a preferred policy level.
 - Hence lobbying by interest groups takes place at the national level
- The 'preferred policy' $P_j^{\#}$ is the political optimum of the government of member state j
- The government has single peaked preferences



A Model of EU decision-making

Stage 2: EU Level

- Decision-making is modeled as a set of voting rounds
- At the beginning of the decision-making round, the Commission proposes an EU wide policy
- The Council of Ministers votes on the Commission proposal
- The proposal is accepted if it receives (qualified) majority

A Model of EU decision-making Stage 2: EU Level

- After each vote, the Commission or a Minister can table a new proposal (*)
- A minister votes for the proposal if the proposed policy is closer to his/her government's optimum than the previously agreed policy
- Voting goes on until no new proposal is accepted

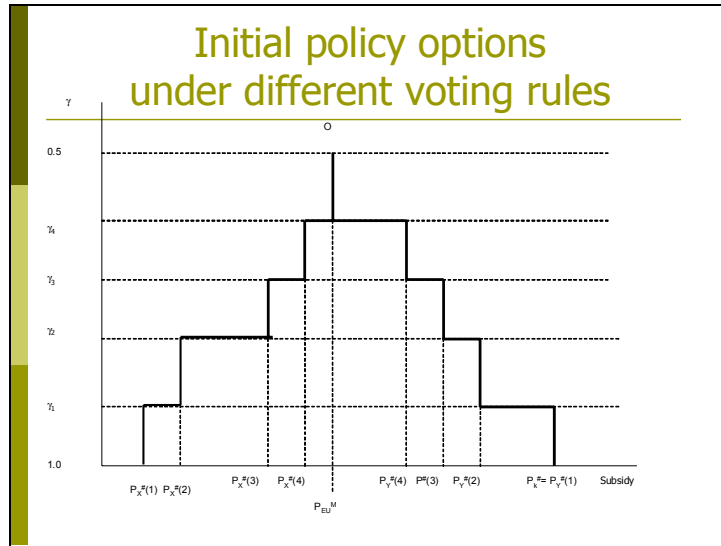
(*) Formal rules: amendments need to be accepted by unanimity. In reality: ex ante adjustments of policy proposals to reflect Council preferences. To model this ('as if'), we assume same decision rule for all votes.

QUALIFIED MAJORITY RULE

- EU-25 : 232 votes of total 321 (i.e. 72%) needed to pass

- Define Country X as crucial country for increasing the existing policy level : all countries with higher optimal policy levels than country X cannot obtain enough votes to pass proposal AND country X and all countries with higher optimal policies can obtain enough votes to approve the proposal

- Define Country Y as crucial country for decreasing the existing policy level : ...



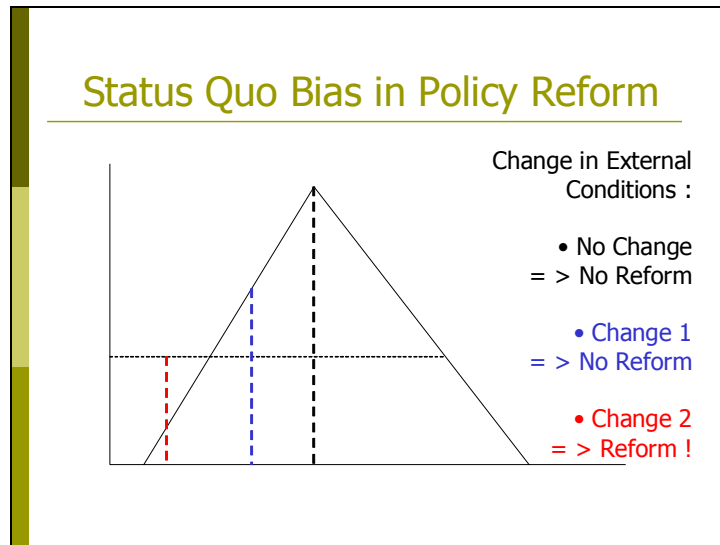
Results for INITIAL CHOICE

- For Commission proposal to be approved, it has to be between Country X - Country Y preferred policies
- Once a policy is accepted between Country X - Country Y there is no qualified majority to change it
- The X-Y interval increases with increasing majority needed
- The influence of the Commission potentially increases with the size of the interval, hence with increasing majority needed

SIMPLE MAJORITY RULE

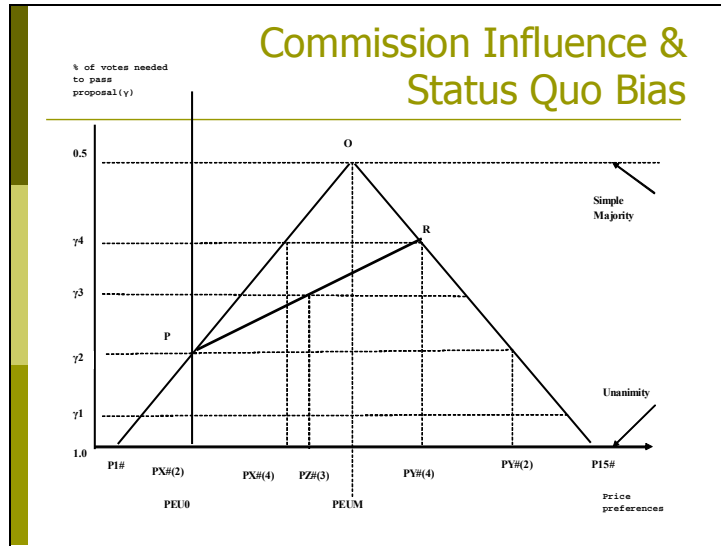
- The Commission has no influence on policy choice
- No matter what the Commission proposes, under simple majority rule, the preferred policy of the median country is chosen as the EU policy.

(The “median voter principle”.)



Options for POLICY REFORM (Qualified Majority Rule)

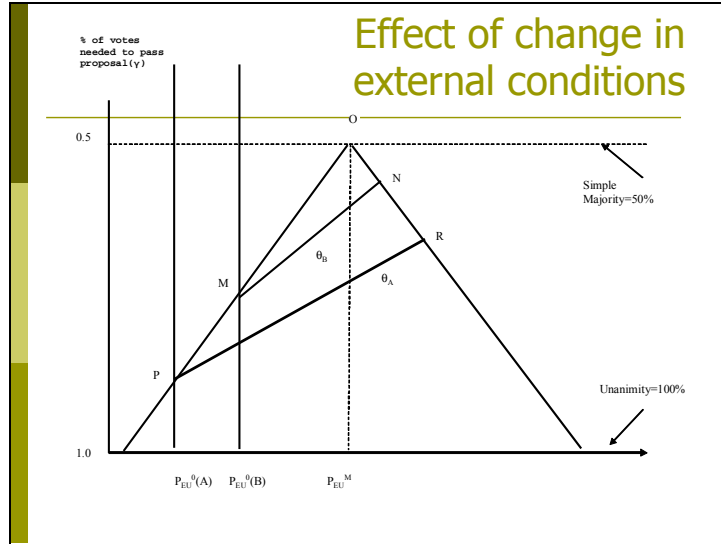
- STATUS QUO BIAS
 - No policy reform without change in external conditions
 - Minimum change in external conditions is needed
- REFORM OPTIONS ARE LIMITED
 - even with change sufficiently large, policy adjustments may/can not follow changes in external environment

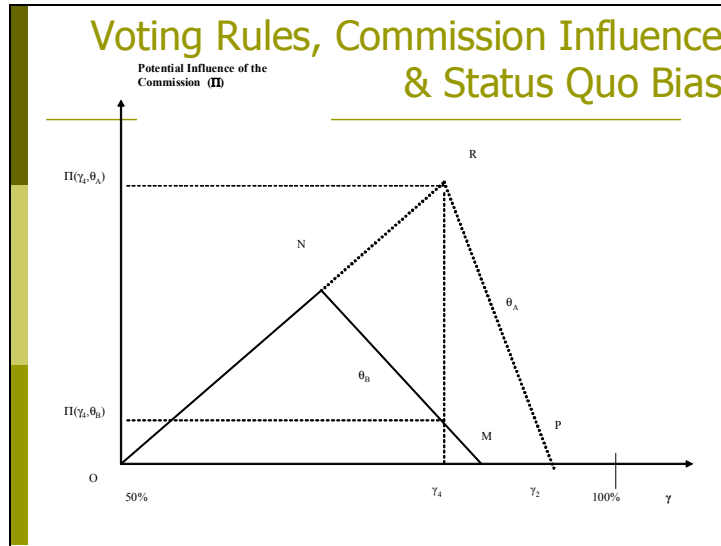


Options for POLICY REFORM (Qualified Majority Rule)

- STATUS QUO BIAS
 - No policy reform without change in external conditions
 - Minimum change in external conditions is needed
- REFORM OPTIONS ARE LIMITED
 - even with change sufficiently large, policy adjustments may not follow changes in external environment (compared to eg median voter)
- Reform is
 - less likely the higher qualified majority needed
 - More likely the larger the external change
- However, under certain conditions, reform may be larger (when commission preferences combine with external change and voting rules into "**optimal reform mix**")
- Commission influence depends on external change and voting rules

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Conclusions

- Policy reform requires either change in country preferences (may result from changes in lobby equilibrium) or other external change (WTO, macro-economy, ...)
- The external change needs to be sufficiently large to induce policy reform
- The agenda setter (Commission) can influence policy under qualified majority, but influence is limited by majority rule and status quo bias
 - Commission influence increases as the qualified majority needed to approve proposal increases
 - However, with the rise of qualified majority the possibility of a stalemate (status quo bias) also increases
- An optimal reform mix may lead to large reforms
- Importance of path dependency : Policy REFORM is the rule
- Major differences between MS how EU policies 'fit' MS preferences

Further research

- look at mix of policies :
 - Public good / compensation
 - Package deals
 - ...

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