Policy Disconnection

In the EU, the same actors and processes are used to make domestic agricultural policy and trade policy (Figure 1). In the US, Congress makes farm policy and delegates substantial authority for trade policy, resulting in a disconnection at times between the two (Figure 2).

The EU: How Institutional Design Reduces Policy Disconnection

The same EU decision-making bodies direct both domestic and trade policy for agriculture, and so face fewer problems from transaction cost politics than the US. The policy making process for international trade negotiations is shown in Figure 1. Initially the European Commission proposes a trade negotiating position (Meunier, 34). This position is debated to consensus by the Council of Ministers and the European Parliament (COREPER). The Council of Ministers agrees on a common external bargaining position, based on the Commission’s proposal, for international trade negotiations. The mandate outlines the objectives for trade negotiations which are conducted by the Commission.

A similar process is followed for CAP reforms, outlined in Article 43(2) EEC. The point is that changes to domestic agricultural policy are proposed by the same body, the Commission, which proposed and negotiates trade agreements (Swinnbank, 47). CAP discussions occur between member states’ ministers of agriculture and the appropriate minister. As the commissioner both proposes domestic agricultural reform measures and negotiates international trade policies domestic and international policies are more aligned and yield lower transaction costs.

The EU policy making process is characterized specifically by increased coordination, more effective delegation, and more credible commitments. The founding members delegated authority to the supranational level to ensure international trade and agricultural policies were insulated from protectionist and national reelection pressures. The pooling of international resources forced the EU to accountably entrust various decision making bodies to initiate, carry out, and enforce the process steps of policy making and international negotiations.

In our paper, we explore the interaction between the negotiation of the Uruguay Round Agreement on Agriculture and the CAP reform of 1992 to illustrate how the EU policy process coordinates the two.

Objective & Methods

We use transaction costs politics to address these questions:

1. To what extent does the structure of decision making in the United States contribute to this disconnection?
2. How does the structure of decision making differ in the EU, and to what extent does that account for different outcomes?

We use theory, historical accounts, and interviews in our analysis of the disconnection between domestic agricultural policy legislation and negotiations in the WTO.

Transaction Cost Politics

Transaction cost theories posit that the forces that cause outcomes to diverge from optimal outcomes due to time inconsistencies, the nature of the principal agent relations and the costs of making, monitoring, and enforcing agreements. Dixit notes that transaction costs are even more pronounced in politics than in other economic relationships (Dixit, 1993 p1). A central theme of transactions costs politics (TCP) is to compare how the organization of the institutional impacts political outcomes and policy decisions, and the evolution of the governance structure to minimize overall transaction costs (Dixit, 1996).

Transaction costs, economics, and its offspring TCP are not normative, but seek to provide explanatory constructs for understanding institutional behavior. Ideas from TCP relevant to our questions:

1. TCP shares theories of rent seeking the hypothesis that elected officials will vote according to their interest, defined as maximizing their chances of re-election.
2. Given that legislators are motivated by re-election, they apply a cost benefit calculation to whether or not they should make particular policy decisions or delegate them to the executive branch. This decision is similar to the decision of the firm when it evaluates whether or not to buy inputs. If the cost of making policy is larger than the benefits, Congress will delegate some amount of decision making authority to the executive branch (Epsken and O’Halloran 1999).
3. The delegation of decision making authority often involves the creation of a new agency to perform the delegated task.

References

Both US and the EU remain committed to further agricultural trade liberalization through the WTO and regional trade agreements. As future agreements impinge more severely on the ability of the US Congress to enact the agricultural policy they prefer, the disconnection that we have explored will become more pressing.

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