The Common Agricultural Policy Crisis of the 1970s/1980s: Accommodating the Logics of Appropriateness and Consequences

Marko LOVEC

1. Introduction: The Common Agricultural Policy trap

The Common Agricultural Policy (CAP) was introduced by the European Economic Community (EEC) in the 1960s to support agricultural production and farmers' incomes. Due to the political sensitivity of agriculture policy, decision-making on CAP was based on the consent of farm Ministers.[1]

In the 1970s and 1980s, growing production resulted in a dramatic increase of policy expenditure that was financed from the community budget. While member states where agriculture was an important sector were unwilling to agree on the reduction of supports, the net beneficiaries to the budget were unwilling to pay a growing bill, thus triggering a political crisis. In the second half of the 1980s, in the context of plans to deepen the common market and introduce the cohesion policy – which required more efficient decision-making and budget planning – a political agreement was made to (a) introduce a Qualified Majority Vote (QMV) to prevent individual members from blocking changes, and (b) also to set a ceiling on expenditures on CAP.

The central explanation of the crisis argues that the veto-based institutional design which was part of the initial agreement on the CAP resulted in a policy trap.[2] The argument, which is based on historical institutionalism (HI), applies the 'logic of appropriateness', i.e. of institutionalised behaviour.[3] However, the explanation has been criticized, arguing in general terms that the HI approach has not really been properly tested, e.g. against a more general explanation according to which the outcomes, including the unintended ones, still largely corresponded to key interests of governments, being the main actors in the international arena.[4] The argument is related to rational choice institutionalism (RCI), another strand of neo-institutionalism,

1. I would like to thank the participants to the International Conference of the European Union Liaison Committee of Historians taking place in Lisbon on 8 May 2017 for a number of constructive comments on an earlier version of the paper. Special thanks goes to the anonymous reviewer of the *Journal of European Integrations History* for his/her valuable comments and suggestions.

2. B. LAFFAN, *The big budgetary bargains: from negotiation to authority*, in: *Journal of European Public Policy*, 7(2000), pp.725–743.
3. J.G. MARCH, J.P. OLSEN, *Democratic Governance*, Free Press, New York, 1995, p.30.
4. A. MORAVCSIK, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*, UCL Press, London, 1998; A. MORAVCSIK, F. SCHIMMELFENNIG, *Liberal Intergovernmentalism*, in: A. WIENER, T. DIEZ (eds), *European Integration Theory*, Oxford University Press, Oxford, 2009.

applying the 'logic of consequences' according to which decisions correspond to rational agency behaviour.

The aim of this article is: to revisit the crisis period, to put both conceptual frameworks in a comparative perspective in order to establish their empirical strengths and weaknesses, and to discuss possible synthesis. Moreover, while due to its importance the earlier period of the CAP has been well explored by historians,[5] this is less so when it comes to later periods, including the 1970s/1980s crisis.[6] As a result, the understanding of the crisis has been under the strong influence of political science, for which theoretical assumptions as entry points are specifically important, and which can lead to instrumental research. An historical approach could contribute to a more accurate and synthetic understanding, e.g. in terms of assessing the actual departures from rational behaviour in concrete historical conditions in which rationality is not always easy to achieve.

In the following, HI- and RCI-based conceptualisations are elaborated further, followed by a historical analysis of the crisis period, and a comparative analysis of the alternative approaches. The article concludes by discussing a possible synthesis informed by an interdisciplinary research.

2. Conceptual framework for the analysis: What is the role of the institutions?

The key point of division concerning the explanation of the CAP crisis of the 1970s and 1980s is the role of decision-making institutions. According to the first, more institutional position, agency decisions cannot be separated from an institutional setting, meaning their rationale is bound to their institutional framework, thus following the logic of appropriateness. According to the second, more rationalist position, agency choices can be separated from the institutional framework, meaning that they include the consideration of alternative institutional settings, thus following the logic of consequences. Even though in abstract terms the two approaches seem radically different, the constraints of the actual decision-making practice, such as limited information available can bring them closer together.

5. N.P. LUDLOW, *The making of the CAP: Towards a Historical Analysis of the EU's First Major Policy*, in: *Contemporary European History*, 14(2005), pp.347–371; K.K. PATEL (ed.), *Fertile Ground for Europe? The History of European Integration and the Common Agricultural Policy since 1945*, Nomos, Baden-Baden, 2009.
6. C. GERMOND, K. SEIDEL, M. SPOERER, *Ambitions and Reality of the Common Agricultural Policy: Historical and Interdisciplinary Perspectives*, in: *Journal of European Integration History*, 2(2010), pp.9–12, here pp.9–10.

2.1 The logic of appropriateness

The logic of appropriateness is based on deep institutional theories such as HI according to which decisions for institutions – although being interest-based and rational – somehow outlive their original intention. Moreover, institutions already shape interests and vice versa, which makes the division between preferences and institutional designs less clear-cut than typically assumed.[7] The argument goes beyond the everyday routinized decision-making practice by highlighting the absence of independent alternatives that would make a rational preference maximising calculative logic possible.[8] The argument also relates to the role of policy and institutional decisions as unique events that determine the course of history in their own terms, with limited opportunities available for knowing alternative courses if different decisions were taken. Nevertheless, this is not to say that institutions do not change – they change at specific historical points in time when for various reasons they are overtaken by new policy and institutional designs. Brigid Laffan identifies four elements of HI through which institutional decisions are made and gain life on their own, until they are replaced. These are: critical junctures, lock-in, institutionalisation, and embeddedness.[9]

Critical junctures are points in time when there is a shared interest of a number of actors, creating a critical mass for a novel policy approach requiring specific institutions. These decisions are also known as the 'grand bargains' due to the fact that many general things are put on the table in terms of an across-the-board approach and package deals. Within these decisions, it is difficult to separate policy issues from rules and procedures since these are typically co-dependent. The decisions are also typically unique historical events where many particular factors play role with limited opportunities available to assess all the alternatives, not to mention the possible future developments.[10]

The outcomes of grand bargains then become locked-in into the acquis. This means that they become part of the general agreement that is difficult to change because opening it would mean reopening everything. The agreement is not just a matter of rules, but is also a matter of policies which are one with the rules.[11]

The third element is the institutionalisation according to which agreed characteristics become the mode of understanding and behaviour against being something that is external or given. This means, for example, that new practices are developed

7. B. LAFFAN, *The big budgetary bargains…*, op.cit., p.726; H. WALLACE, *Politics and Policy in the EU: The Challenge of Governance*, in: H. WALLACE, W. WALLACE (eds), *Policy Making in the European Union*, Oxford University Press, Oxford, 1996, p.26.
8. A. MORAVCSIK, *Preferences and Power in the European Community: a liberal intergovernmentalist approach*, in: *Journal of Common Market Studies*, 31(1993), 31, pp.508–517.
9. B. LAFFAN, *The big budgetary bargains…*, op.cit., pp.726–727.
10. J. PETERSON, *Decision-making in the European Union: Towards a Framework for Analysis*, in: *Journal of European Public Policy*, 1(1995), pp.69–93.
11. P. PIERSON, *The Path to European Integration: A Historical Institutionalist Analysis*, in: *Comparative Political Studies*, 2(1996), pp.123–163.

based on the existing ones and not based on some independent view of things, and that demonstrate the operation of logic of appropriateness, which works from within (contrasting the logic of consequences with its outside 'objective' view). The definition of institutions applied goes beyond formal organisational characteristics encapsulating, in line with James G. March and Johan P. Olsen, anything from roles, routines, operating procedures, and practice.[12]

The final stage of institutional development is embeddedness, which is a sign of dependence of the decision-making in a particular setting. This is a distinctive point at which institutional design can begin to contradict the interests involved. However, as the former is still considered one with the general interests, institutional gridlock occurs, where rules and procedures disable actors from achieving optimal outcomes. One such case was famously demonstrated by Fritz W. Scharpf, who invented the term 'joint decision-trap' referring to the decision-making in the 1980s when a joint framework in combination with diverging interests led to a suboptimal solution for the member states involved.[13] Nevertheless, as already mentioned, the institutional order can be redesigned through a new critical juncture and a grand bargain.[14]

2.2 The logic of consequences

According to the alternative, RCI-based view, institutions are a product of rational decisions of agencies, enabling them to maximise their preferences in given contexts. The fact that institutions result from intentional rational behaviour enables the application of the logic of consequences that ascribes an independent value to each decision, at least in the case when sufficient numbers of decisions are involved. Moreover, RCI challenges deep institutional theories by arguing that each explanation departing from the general view of rational behaviour should be tested against RCI, being a sort of baseline theory.[15] While this might be difficult in instances of single cases or events with limited information available on the possible alternative decisions, the singularity could itself rationally explain certain deviations 'as a rule' against other instances where outcomes of alternative choices are more clearly based on the existence of multiple cases or iterations.

The RCI is not a single theory, but a framework for analysis which cuts through different levels of decision-making as, for example, demonstrated by Andrew Moravcsik applying RCI-based theories to preference formation, bargaining, and regime formation. From the perspective of the CAP crisis and comparison with the

12. J.G. MARCH, J.P. OLSEN, op.cit., pp.28–40.
13. F.W. SCHARPF, *The Joint-decision Trap: Lessons from German Federalism and European Integration*, in: *Public Administration*, 3(1995), pp.239–278.
14. S. BULMER, M. BURCH, *Organizing for Europe: Whitehall, the British state and European Union*, in: *Public Administration*, 4(1998), p.605; B. LAFFAN, *The big budgetary bargains…*, op.cit., p.727.
15. A. MORAVCSIK, F. SCHIMMELFENNIG, op.cit., p.68.

HI explanation, the view of the RCI on the correspondence of common decision-making institutions to the key interests is the most important one.

Rational choice theories do not argue that they can best explain all the decisions, but rather that they can explain those decisions where preferences are clearly defined and concentrated. In institutional terms, it is important that the organisation costs, e.g. costs of excluding free riders, do not exceed the potential benefits, which is often the case when interests are poorly defined and dispersed. Moreover, defining preferences requires information, which costs. RCI typically performs better in instances of economic issues as opposed to identity issues, which are more specific and harder to evaluate.[16] Nevertheless, material constraints are considered to be the main driving force behind any behaviour. According to RCI, institutions might play an independent role to a considerable extent, especially when costs related with their removal and with establishing the alternatives are comparably high.[17]

It is rational for governments to cooperate not only because this enhances their opportunities to satisfy their constituencies, but also because this is the source of their political power. From within, their manoeuvring space is bound by their mandate, and transparency of the international negotiations and rules and procedures through which international agreements are confirmed. From the outside, their power is expressed in terms of their relative dependence on the status quo and on their ability to change it. In words of Moravcsik,

> "the historical data in the Choice for Europe [i.e. the title of the seminal work by Moravcsik, note by the author] portrays processes of hard bargaining in which credible threats to veto proposals, to withhold financial side-payments, and to form alternative alliances excluding recalcitrant governments carried the day. The distributive outcomes reflected the relative powers of states based on patterns of asymmetrical interdependence".[18]

Finally, in order to achieve their interests, states participate in the formation of regimes, which are international institutions that consist of norms, rules, and procedures with different levels of formality. States operate in an anarchical environment and the regimes are a response to that, enabling cooperative behaviour.[19] Since governments do not want to let go powers more than necessary, international agreements typically correspond to a minimum common denominator. However, this does not mean that governments do not transfer the authority – they do so when they need to improve the efficiency of regimes, e.g. to address issues of control and sectioning to provide for credibility of their commitments, or to prevent blockades in the decision-making.[20]

16. A. MORAVCSIK, *The Choice for Europe…*, op.cit., pp.26 and 50.
17. A. MORAVCSIK, *Preferences and Power…*, op.cit., p.481.
18. A. MORAVCSIK, *The Choice for Europe…*, op.cit., p.3; A. MORAVCSIK, F. SCHIMMELFENNIG, op.cit., p.71.
19. R. KEOHANE, J.S. NYE, *Power and Interdependence: World Politics in Transition*, Little Brown, Boston, 1977; A. MORAVCSIK, *Preferences and Power…*, op.cit., p.480.
20. A. MORAVCSIK, F. SCHIMMELFENNIG, op.cit., p.72; A. MORAVCSIK, *The Choice for Europe…*, op.cit., pp.9 and 73.

3. Research of the budgetary crisis of the 1970s and 1980s

The crisis period as an object of inquiry, being the result of a specific and unique historical agreement, but still consisting of a number of iterations of decisions within the given institutional setting through which the crisis escalated, enables the evaluation of the two logics – one focusing on the institutionalised rationale of agency behaviour, and the other on institutions as rational choices. Moreover, this shared view of the object of inquiry enables the testing of their relative strengths and weaknesses in terms of importance of unintended consequences of historical institutional design as expressed in continuous adherence to specific rules and procedures, and in terms of correspondence to the key interests involved as expressed in the implications of decisions and, if available, of alternative choices.

This research will reconstruct the process and assess the impact of decisions by drawing on the original archival material that was made available by the European Commission. The European Commission, being the formal legislator, was the major source of expertise and analysis, having a broad overview of the problem. Moreover, facing the veto-based setting that marginalised its role, the Commission could only rely on authoritative argumentation and the making of credible and plausible alternative proposals. Apart from this, the article will also draw on existing research, especially from that period.

3.1 Emergence of the crisis

The CAP was introduced in the 1960s as part of the agreement on the establishment of EEC in order to provide the support of French farmers who were big exporters of agricultural products for the common market, and which was also in the interest of the export-oriented German industry. As Germany feared the lowering of price levels and competitive pressures on their farmers, and France feared the renationalisation of financing of the policy, decisions were made upon consent.[21]

The CAP was designed as a price support policy. Since each member state could block the reduction of community level supports, these were higher than average national supports levels applied previously. Moreover, price linkages between individual products resulted in further inflationary tendencies. There were alternative ideas of CAP. The first Commissioner of agriculture Sicco Mansholt, who was Dutch, pushed for a modernisation policy that would be based on lower price supports levels and restructuring.[22] However, the Germans and French opposed the policy that would

21. K.K. PATEL, *Veto player no.1? Germany and the Creation of the EEC's Common Agricultural Policy, 1957-1964*, in: M. GEHLER (ed.), *From Common Market to European Union Building. 50 years of the Rome Treaties 1957-2007*, Böhlau, Vienna, 2009, pp.349–370.
22. K. SEIDEL, *Taking farmers off welfare. The EEC Commission's memorandum "Agriculture 1980" of 1968*, in: *Journal of European Integration History*, 2(2010), pp.83–102.

benefit the efficient Dutch agriculture and underdeveloped Italian agriculture, due to competitive pressures and redistribution effects.[23]

The seeds of the future crisis were already planted when the CAP was established.[24] While the EEC was already close to being self-sufficient in most agricultural products, high price supports levels would stimulate production growth and result in overproduction that would have to be removed from the market in order to prevent the decline in prices by using Community funds.

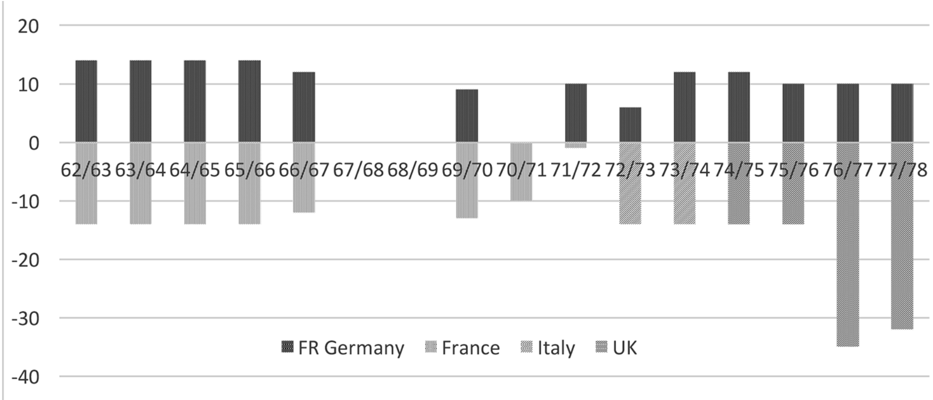
Soon after it was established, the CAP was modified to meet the pressures of fluctuating exchange rates. The devaluation of the French franc and the revaluation of the German mark at the end of the 1960s and in the beginning of the 1970s would trigger agricultural price increases in France and downwards price pressures in Germany. In order to prevent that, a decision was made to apply a special support exchange rate known as the 'green rate'. Since products could still go to countries with higher supports, a system of internal trade levies and subsidies was introduced, thus *de facto* bringing an end to the common market in agriculture just after its establishment.[25]

The green rate which was initially established as a temporary measure in the context of volatile currencies of the 1970s and temptations to use it beyond its original purpose became an autonomous part of the CAP system.[26] Due to the green rate, differences in real price supports levels reached over 50% for basic products such as grains, and even more for other products (Scheme 1). Even though the actual effects for production, trade, and budget revenues were hard to establish due to numerous other factors involved, the European Commission, in its special report, argued that German agriculture, where higher supports levels were in place, "has maintained or even improved its position in all sectors", while lower support countries such as Italy were forced to specialise in low-support Mediterranean products such as fruits and vegetables. Moreover, the UK, being a net food importer, which initially did not want to take part in the EEC due to the CAP, was able to use the green rate to keep its price levels low after entering the EEC in the 1970s.[27]

---

23. A. MORAVCSIK, *The Choice for Europe…*, op.cit., p.98. N.P. LUDLOW, *The European Community and the Crises of the 1960s: Negotiating the Gaullist Challenge*, Routledge, Abingdon, 2006; C. GERMOND, *The Agricultural Bone of Contention: The Franco-German Tandem and the Making of the CAP*, in: *Journal of European Integration History*, 2(2010), pp.25–44.
24. I. GARZON, *Reforming the CAP. History of a Paradigm Change*, Palgrave Macmillan, Houndmills/Basingstoke, 2006.
25. T. JOSLING, *External Influences on CAP Reforms: An Historical Perspective*, in: J. SWINNEN (ed.), *The Political Economy of the Fischler Reforms of the Common Agricultural Policy*, CEPS, Brussels, 2008, p.71; EUROPEAN COMMISSION, *Economic Effects of the Agri-Monetary System*, Commission communication to the Council, C0M (78) 20 final, Brussels, 10.02.1978, Annex A.
26. M. SPOERER, *"Fortress Europe" in Long-term Perspective: Agricultural Protection in the European Community, 1957-2003*, in: *Journal of European Integration History*, 2(2010), pp.143–162, here p.147.
27. EUROPEAN COMMISSION, *Economic Effects…*, op.cit., pp.4-7 and 12.

Scheme 1: Maximum differences for target prices for common wheat in national currencies in the Community (in percentages)[28]



The green rate allowed for national supports increases and influenced the production and costs growth. Due to high supports for its products, Germany became one of the largest producers and beneficiaries of the CAP by the early 1970s.[29] However, the 1970s were atypical from the perspective of world prices of agricultural products which were, due to the oil crises and weak currencies in Europe, relatively high, thus keeping the problem of overproduction off the table.[30] Moreover, since in some years global prices were even below the prices in the EEC, the UK actually paid a lower import bill than it would have if it were not a member.

As world agricultural prices started to decline towards the end of the 1970s, the CAP crisis started to show. The problem first occurred in the dairy sector where in the late 1960s, the EEC was already near to being self-sufficient and high supports levels were set due to its importance in countries such as Germany, as well as due to the attempt to stimulate a specialisation in dairy and meat products. Member states responded by introducing the 'co-responsibility levy' in 1977, which meant that producers had to participate in the funding of intervention.[31] The Commission took ad-

28. Ibid., p.3.
29. EUROPEAN COMMISSION, *Future Development of the Common Agricultural Policy*, Commission Communication of 29 November 1978 for the European Council in Brussels, 04-05.12.1978; EUROPEAN COMMISSION, *Economic Effects of the Agri-Monetary System* (updated version 1979), COM (79) 11 final, Brussels, 14.03.1979.
30. T. JOSLING, op.cit.; M. SPOERER, op.cit.; D. HARVEY, *What does the History of the Common Agricultural Policy Tell Us?*, in: J.A. MCMAHON, M.N. CARDWELL (eds), *Research Handbook on EU Agriculture Law*, Edward Elgar, Cheltenham, 2015, pp.14–15.
31. A. KAY, R. ACKRILL, *Problems of Composition, Temporality and Change in Tracing the Common Agricultural Policy through Time*, in: *Journal of European Integration History*, 2(2010), pp.132–142.

vantage of the situation to propose more substantial policy changes.[32] However, apart from a small package of structural supports measures, which was adopted in 1970s, there was not enough political support for more substantial changes. David Harvey, in his research of member states' preferences in that time, looking at agricultural prices, budget costs, and farmers' incomes, argued that the CAP was "broadly consistent with national interests", especially in Germany and Netherlands where in spite of certain burdens for taxpayers, farmers' and national revenues were high.[33]

3.2 The escalation of the crisis

Since the end of the 1970s, the CAP crisis grew in dramatic proportions, as export subsidies which were used to get rid of overproduction, further depressed the world prices due to a limited size of the world demand, thus triggering negative spiral of growing gap between domestic and world price and cost growth. Between the mid-1970s and the early 1980s, the budget spending on the CAP tripled. Even though the problem was the most pressing in the dairy sector, where due to a limited world market, as much as 80% of the market price value was needed to get rid of the excessive production, problems started to appear in the beef sector, being linked to the dairy sector, as well as in cereals and some Mediterranean products.[34]

The overproduction problem spread to sectors other than dairy, and influenced the distribution of budgetary funds. Moreover, following the stabilisation of exchange rates, since the late 1970s, green rates have become less important.[35] Now, member states which were applying low supports such as France and Italy and even the UK, started to apply high supports levels to maximise their national revenues.[36] As a result, the relative budget position of member states which used to benefit from applying above average supports, such as Germany, turned negatively (Table 1).

32. EUROPEAN COMMISSION, *Future Development…*, op.cit., p.121. EUROPEAN COMMISSION, *The Common Agricultural Policy: the Urgent Need for a Better Equilibrium, communication to the European Council – Dublin, 29 and 30 November 1979*, COM (79) 690 final Brussels, 22.11.1979, pp.1–3.
33. D. HARVEY, *National interests and the CAP*, in: *Food policy*, 3(1982), pp.174–190, here p.187.
34. EUROPEAN COMMISSION, *Reflections on the Common Agricultural Policy. Commission communication to the Council presented on 8 December 1980*, in: *Bulletin of the European Communities*, Supplement 6(1980), p.31; A. BUCKWELL, D. HARVEY, K.J. THOMSON, K. PARTON, *The Costs of the Common Agricultural Policy*, Croom Helm, London, 1982.
35. EUROPEAN COMMISSION, *Financing the Market Side of the Common Agricultural Policy EAGGF-Guarantee, Green Europe, Newsletter on the Common Agricultural Policy*, Brussels, 1981, p.10; T. JOSLING, op.cit.; EUROPEAN COMMISSION, *Commission communication to the Council on the economic effects of the agri-monetary system* (updated to 1984), COM (84) 95 final, Brussels, 26.04.1984, pp.8-9.
36. EUROPEAN COMMISSION, *Financing the Market Side…*, op.cit., pp.15–16.

Table 1: Agricultural Guarantee expenditure in member states for 1978-1981 (in million ECU)[37]

	1978		1979		1980		1981	
	Value	%	Value	%	Value	%	Value	%
Belgium	558.8	6.5	752.6	7.2	571.1	5.1	500.1	4.5
Denmark	567.8	6.6	629.2	6	615.8	5.4	513.6	4.6
FR Germany	**2,316.1**	**26.7**	**2,346.5**	**22.5**	**2,452.9**	**21.7**	**2,058.0**	**18.5**
France	**1,450.9**	**16.7**	**2,281.2**	**21.8**	**2,829.7**	**25**	**3,146.8**	**28.2**
Ireland	341.3	3.9	456.0	4.4	564.6	5	441.0	4
Italy	**1,165.6**	**13.4**	**1,656.5**	**15.9**	**1,828.0**	**16.2**	**2,065.0**	**18.5**
Luxembourg	23.9	0.3	13.3	0.1	11.6	0.1	4.0	0
Netherlands	1,094.9	12.6	1,377.0	13.2	1,543.3	13.6	1,179.5	10.6
UK	1,153.4	13.3	928.4	8.9	885.2	7.8	1,086.2	9.8
Greece							146.2	1.3
TOTAL	8,672.2	100	10,440.7	100	11,315.2	100	11,141.2	100

In May 1980, in the context of growing budget expenditures, the European Council gave the Commission a mandate to come forward with a reform proposal.[38] According to the Commission's analyses, in spite of structural improvements in agriculture since the 1960s such as the reduction of number of farmers by half, most of the farms could not sustain the pressure of world market prices. Moreover, in the EEC, production was highly concentrated, with three quarters of product produced by a quarter of farms. While price supports stimulated intensification and production expansion at big industrial farms, making the latter big beneficiaries of the policy, the dependence of the remaining majority of small producers on supported price levels made the reduction of price supports politically sensitive. The Commission proposed a reduction of price supports and the introduction of income payments.[39] However, the ideas that possessed major redistribution effects were unacceptable for the farm unions controlled by big producers and median interest such as those of Germany and France.

In 1980 and 1981, world prices briefly recovered, leading to a decline of expenditures on export refunds.[40] Expenditures growth declined from 23.3% a year to 10%

37. Ibid., Annex 4.
38. EUROPEAN COMMISSION, *Agriculture and the Problem of Surpluses, Luxembourg*, Office for Official Publications of the European Communities, Luxembourg, 1980.
39. EUROPEAN COMMISSION, *Reflections on the Common Agricultural Policy…*, op.cit., pp.3-4 and 18; EUROPEAN COMMISSION, *Commission report on the mandate of 30 May 1980*, COM (81) 300 final, Luxemburg, 24.06.1981.
40. EUROPEAN COMMISSION, *Financing the Market Side…*, op.cit., p.13.

a year, which was below the increase of own resources being 10% a year (Scheme 2).[41] In 1982, member states agreed on the 'guarantee thresholds', which meant that exceeding certain levels of production would trigger negotiations on price cuts.[42] Compared with co-responsibility levies, which linearly affected all production, guarantee thresholds were more status quo-oriented, demonstrating a growing role of the distribution issue.

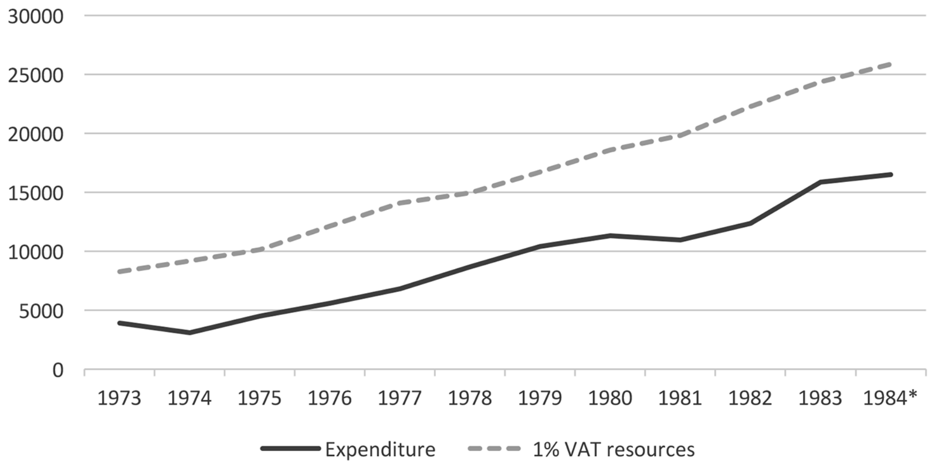
In 1983, the decline in world prices resulted in an increase of agricultural expenditure by as much as 30%, mostly at the expense of the dairy sector.[43] Application of guarantee threshold, although influencing production and incomes, could not prevent the costs growth.[44] Projections of expenditures growth demonstrated that commitments would soon outrun own resources. The UK, being a net contributor (though not the largest one) with a relatively small agricultural sector, used the situation to threaten to block the increase of budget resources if its budget position were not improved.

A reduction of the price in dairy support that would enable them to curb production and costs growth was estimated at 12%, which was politically unacceptable. The Commission's proposal to increase co-responsibility levies and differentiate supports according to farm size was rejected by member states due to adverse effects.[45] Instead, farm Ministers agreed on the idea of dairy quotas proposed by the German farm Minister.[46] The agreement on quotas was made in 1984 as a part of a package deal made at the Fontainebleau European Council, which involved the increase of own resource base to 1.4% of the value-added tax and introduction of the UK rebate.[47] According to an OECD study, quotas were economically suboptimal, slowing down the restructuring. However, they were also "politically easier" and "would at least limit the resources used in dairying".[48] Moreover, quotas were a status quo measure, preventing changes in production and in the distribution of funds.

---

41. EUROPEAN COMMISSION, *Mandate of 30 May 1980, Guidelines for European Agriculture, Memorandum to complement the Commissions' report on the Mandate of 30 May 1980*, COM (81) 608 final, Brussels, 23.10.1981, pp.71–72.
42. R. ACKRILL, *The Common Agricultural Policy*, Sheffield Academic Press, Sheffield, 2000, p.63; R. ACKRILL, A. KAY, op.cit., p.131; T. JOSLING, op.cit., pp.16–17.
43. EUROPEAN COMMISSION, *Common Agricultural Policy, Commission report and proposals, Commission communication to the Council, presented on 29 July 1983*, COM (83) 500, 28.07.1983, p.6.
44. R. ACKRILL, A. KAY, op.cit., p.132.
45. EUROPEAN COMMISSION, *Common Agricultural Policy…*, op.cit., p.11.
46. M. PETIT, D. DE BENEDICTIS, M. BRITTON, M. DE GROOT, W. HEINRICHSMEYER, F. LECHI, *Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform*, Elsevier, Amsterdam, 1987.
47. D. HARVEY, *What does the History…*, op.cit., pp.15–16.
48. EUROPEAN COMMISSION, *Common Agricultural Policy…*, op.cit., p.12.

Scheme 2: Agricultural Guarantee expenditure and own resources (excluding fisheries, including refunds for food aid)[49]



The dairy quotas calmed the crisis momentarily, but the underlying problem remained. What worked in the dairy sector with concentrated deliveries and a closed market would not work in the cereals sector, where as much as 60% of the product was used for feed, competing with imported food stuffs on the open market. Based on the decision of the 1960s, protection levels for feed substitutes were low in order to compensate the USA for the loss of the European agricultural market, and to stimulate animal production. Secondly, even though French farmers and politics were divided on this issue, influential big cereals producers from the Paris basin were strongly against limiting cereals production. The Council of agricultural Ministers fixed the guarantee threshold for 1982/83 at 119.5 million tonnes, but this was pending the import of cereals substitutes.[50]

3.3 Game changing agreement

While dairy quotas helped to keep expenditures in this sector under control, the costs of cereals and in the beef sector continued to increase. The planned accession of Spain, being a big agricultural producer, would, given the saturated European market, make the situation worse. Already in 1986, the increase of agricultural expenditures by 7% in real terms, which was an average annual increase in the previous 10 years, would lead to a breach of the new budget resource ceiling agreed at the Fontainebleau sum-

49. EUROPEAN COMMISSION, *Further guidelines for the development of the CAP, Communication of the Commission to the European Council in Stuttgart 17-19 June 1983*, COM 83 (380) final, Brussels, 20.06.1983.
50. R. ACKRILL, A. KAY, op.cit.

mit, entering into force that same year.[51] The negotiations for the 1985/1986 marketing year were extremely difficult as the German agriculture Minister, in spite of the fact that Germany was a net grain importer and that cereal prices influenced the position of their animal production, as well as against the pressure from the German finance Minister and Chancellor, blocked a reduction in price for cereals.[52] Germany was in the difficult position of either having to cover the growing CAP budget costs, worsening its budget position, or accepting the reduction of price supports, and as a result pushing its producers out of business.

Since the mid-1980s, the CAP has failed to meet other objectives, as well. In real terms, price supports and incomes of farmers have declined, resulting in the dissatisfaction of farmers.[53] At the same time, the EEC accumulated huge stocks of agricultural products that had to be reduced. Due to a worsening of the situation in world markets, this was more and more difficult. In the late 1970s and early 1980s, the EEC increased its world market share at the expense of the USA, in the face of a strong dollar. In response to the EEC's dumping policy, the USA strengthened supports to its exporters, resulting in a further decline of global prices. This was followed by a dollar depreciation that, between 1984 and 1987, contributed 40% of the expenditures growth on the CAP, rising at the time from 18.4 million to 27.3 million ECU.[54] An introduction of protections for feed substitutes in the EEC in the second half of the 1980s to push imported feed from the market triggered tensions with the USA.[55]

In this context, the Commission in its communication on budgetary discipline, proposed to fix the maximum production quantity in cereals at 155 million tonnes, and to be given the authority to implement automatic reductions there as necessary.[56] The ideas were part of a broader proposal to introduce multi-annual financing frameworks (also known as the 'financial perspectives'), and a new own budgetary resource based on GDP, with a total ceiling set at 1.2% of the EEC's GDP, while keeping growth of agricultural guarantees below 74% of the growth of the available source. More stable budget planning and additional funds were needed to pay for the cohesion policy, which was part of the agreement on deepening of the common market with the Single European Act (SEA) of 1987. The SEA introduced QMV to the

51. EUROPEAN COMMISSION, *Perspectives for the Common Agricultural Policy, Communication of the Commission to the Council and the Parliament*, COM 85 (333) final, 1985, p.6.
52. EUROPEAN COMMISSION, *Perspectives for the Common Agricultural Policy, Communication of the Commission to the Council and the Parliament*, COM 85 (333) final, 1985, pp.6-12., op.cit., 1985, p.12.
53. M. SPOERER, op.cit.
54. EUROPEAN COMMISSION, *Review of action taken to control the agricultural markets and outlook for the Common Agricultural Policy (Communication from the Commission)*, COM (87) 410 final, Brussels, 03.08.1987, p.6.
55. E. RIEGER, *The Common Agricultural Policy: External and internal dimensions*, in: H. WALLACE, W. WALLACE (eds), op.cit., pp.97-123.
56. EUROPEAN COMMISSION, *Review of action*..., op.cit., p.12.

Council of Ministers, thus preventing blockades and strengthening the role of the Commission as a legislator.[57]

As pointed out by Robert Ackrill and Adrian Kay, the agreement did not really solve the problem of the CAP costs.[58] Nevertheless, it assured sufficient financial resources and removed political blockades, creating conditions for reforms to be implemented in the longer run. Since the 1990s, the CAP underwent substantial reforms with price supports being replaced with direct supports. The prefixed budget, the Commission and QMV played an important role in the reform process.[59] While, based on the compromise, Germans agreed to pay the price of the policy, CAP reforms introducing historical supports sustained the position of German farmers.[60]

4. Discussion: The two logics in a comparative perspective

In general terms, the evolution of the CAP crisis involves all key elements of the HI. The introduction of the CAP was part of a broader deal to establish the common market, which was in the interest of Germany, and with the CAP compensating France.[61] The historical deal that secured the vital interests of the two countries – the markets for agricultural and industrial exports – corresponded to a critical juncture. As demonstrated in the research part, the decision on the CAP as a policy was, in line with the HI, inseparable from the agreement on the veto-based rules that were needed to secure national interests.

The veto-based rules, which made it difficult to agree on supports reduction, resulted in the inflationary tendency of the supports, which was reflected in the fact of community level supports being higher than average national supports.[62] This was a sign of the lock-in of the policy, an element of the HI. After the EEC started to produce more than was consumed domestically, the problem of growing budgetary costs emerged. Governments, seeing that it was difficult to reduce the costs, accommodated to the setting by trying to maximise their national revenues. Fernando Guirao nicely described this sign of deep institutionalisation of the rationale, an expression of the logic of appropriateness:

> "From a broader, national cabinet perspective, agricultural prices as set by the corresponding sectoral ministerial Council continued to be the best mechanism to capture part of the State funds that had originally been transferred to the Community. For most governments, the simplest way to present the benefits of community membership to their

57. D. HARVEY, op.cit., *What does the History*..., p.16.
58. R. ACKRILL, A. KAY, op.cit., p.133.
59. I. GARZON, op.cit.; A. KAY, *The Reform of the Common Agricultural Policy: The Case of the MacSharry Reforms*, CABI Publ., Wallingford, 1998.
60. A. KAY, op.cit.; R. ACKRILL, *The Common Agricultural Policy*..., op.cit.
61. A. MORAVCSIK, *The Choice for Europe*..., op.cit., pp.89-90; D. HARVEY, *What does the History*..., op.cit., p.8.
62. A. MORAVCSIK, *The Choice for Europe*..., op.cit., pp.205-206, 212-213, 161.

> electorate was by referring to cash flows entering the country from the community coffer. The CAP offered the main single budget item from which all governments benefitted, without exception. The truth was, however, that for most of these same countries, the total costs incurred by their national consumers and taxpayers surpassed the total benefits received by their food producers (IMF 1988)".[63]

The element of embeddedness in terms of capture of the community budget by the CAP became evident in the 1980s as costs grew in dramatic proportions, and as the negotiations became a pure zero-sum game endangering further development of the European integrations.[64] For a long time, in spite of the increase of costs, the fear was that 'decommunautarisation' of the CAP would, due to its importance, push the European integration project into a political crisis, thus explaining the permissive behaviour.[65] The EEC seemed to be caught in a sort of 'CAP trap' where member states deciding on a joint policy were no longer willing to pay the growing bill, but at the same time could not agree on the lowering of supports.

In the second half of the 1980s, things changed as the other big interests emerged, making the CAP "more of a stumbling block to cohesion than a cornerstone of the EU".[66] This resulted in a new critical juncture. Following Laffan, the Commission president Jacques Delors took advantage of the new integrative deal on SEA and cohesion policy to change the policy and institutional setting in terms of abandoning veto procedures and fixing the budget, which in the 1990s enabled the Commission to pass the reform proposals.[67]

Although confirming the role of institutionalised behaviour, historical research also demonstrated the ability of main actors to achieve their key interest, thus giving a more nuanced picture of the scope of the crisis, and of the role of the historical institutional design. There are three main arguments which support complementing HI with RCI: these are the 'not so unintended' consequences, largely instrumental role of the institutions and the continuity provided by the 'game changing' deal.

The consequences of the policy and decision-making design were not really unintended, since the crisis was, as argued in the research part, predicted already when the CAP was established. However, in line with the RCI, each decision comes with certain costs and benefits. While the agreement on the EEC and CAP served the broader interests of governments and main lobby groups involved, there was certain

63. IMF, *The Common Agricultural Policy of the European Community. Principles and Consequences*, Occasional Paper No.62, IMF, Washington DC, 1988; F. GUIRAO, *Introduction to the Special Issue on CAP Reform*, in: *Journal of European Integration History*, 2(2010), pp.13-24, here p.15.
64. B. LAFFAN, *The Finances of the Union*, Routledge, London, 1997; R. ACKRILL, A. KAY, *Historical Institutionalist Perspectives on the Development of the EU Budget System*, in: *Journal of European Public Policy*, 13(2006), pp.113-133.
65. An additional problem was caused by the role of the European Parliament which, after receiving its authorities in budget negotiations process in the late 1970s, by trying to establish itself as an actor, produced further blockades and delays in the process. D. HARVEY, *What does the History…*, op.cit., p.9.
66. D. HARVEY, *National interests and the CAP…*, op.cit., p.174.
67. B. LAFFAN, *The big budgetary bargains…*, op.cit., pp.731-733.

collateral borne by consumers and taxpayers. The dispersion and low visibility of costs kept these two interest groups quiet. Moreover, the governments were rationally ignorant towards the implications for the governments to come. This is not a matter of HI, but a general problem of democratic institutions where a trade-off is needed between effective long-term governance and preventing the abuse of power by limiting mandates.

The institutional setting enabled the main actors to achieve their key interests against the status quo, in line with the general conception of rational inter-governmental bargaining by Moravcsik, as presented in the theoretical part of the article. The policy and decision-making straitjacket was substantially relaxed soon after it was introduced to enable member states to accommodate supports levels to their macroeconomic situation. Moreover, net contributors to the budget, such as Germany, were able to use the partial re-nationalisation of supports to become big beneficiaries of the policy. For France, this was still better than going back to no-CAP, likely resulting in protectionism and an increase of national expenditures on agriculture. Even the UK, which entered the EEC in the 1970s, was in fact able to benefit from the CAP.

There were externalities of the policy and decision-making framework, such as the fact that individual governments of smaller member states, such as the Netherlands, were able to benefit disproportionally from the system. Since the second half of the 1970s, budget costs increased rapidly. Member states responded by maximising their national revenues via decision-making on the CAP, thus deepening the crisis. The question is to what extent this really contradicted rational, interest-based behaviour.

As shown in the research part, one of the problems was unpredictability, since costs were not known in advance, but depended on the actual situation in the markets that fluctuated over years. Another problem was moral hazard setting due to collectivisation of costs.[68] Although based on historical design, this was a general institutional problem rather than a historical one. Furthermore, the inflationary setting actually brought necessary reforms closer, corresponding to rational expectations. While many of the aforementioned problems would be faced by countries even if they were not part of the EEC, the EEC increased their leverage through policies of size and scale, as demonstrated by overtaking of the position of the biggest agricultural exporter from the USA.

A number of actors involved in the decision-making increased the complexity, which resulted in certain stalls. Nevertheless, throughout the period, veto-based logic still enabled the main actors to achieve their interests. The UK threatening to veto the budget got the rebate, and Germany agreeing to pay the bill convinced others to accept instruments such as quotas, which curbed the distribution effects. Things changed in the mid-1980s with a disagreement on introducing similar measures in cereals. More-

68. J. POKRIVCAK, H. DE GORTER, J.F.M. SWINNEN, *Does a 'Restaurant Table Effect' Exist with the EU's Common Agricultural Policy? A Note*, in: *Journal of Agricultural Economics*, 3(2001), pp.28–30.

over, the situation in the world markets turned against the EEC. However, at this point, more substantial changes in policy and decision-making setting took place.

The agreement to fix the CAP budget and abandon veto procedures followed by CAP reforms did not really change the status quo, but in fact enabled countries to sustain it. France wanted to keep the CAP and Germany wanted to prevent further distributional changes, which required reforms introducing fixed historical supports. The introduction of QMV prevented blockades by non-median interests, while veto-based budget negotiations still enabled governments to keep allocation of supports firmly in hand. The persistence of the 'old logic' was demonstrated by the fact that budget costs continued to grow. Moreover, according to Mark Spoerer, implications of policy changes for farmers' incomes were in fact more negative in the 1980s in comparison to the 1990s.[69]

5. Conclusion: Accommodating the logics of long and short durée

To summarise, the logics of appropriateness and consequences represent relevant frameworks adding pieces to the puzzle of CAP crisis. The logic of appropriateness fits the unique historical event which is without comparison and which characterised the future course of events, thus making it impossible to separate choices from institutional framework. Moreover, in spite of the difficulties related with trying to argue the opposite, analysis did demonstrate a number of unintended consequences and problems coming out of the setting, many of which reflected specific institutional design. Conversely, the logic of consequences is also important as demonstrated in the ability of key actors to achieve their interests in the given (institutional) context, and to change the setting if needed. It should be noted that such capacity was demonstrated through the interactions of actions and outcomes, which created a standardised environment enabling rational behaviour.

The findings of this research lead to some interesting conclusions. In spite of the paradigmatic differences, the alternative views of the institution are not incompatible. Furthermore, they could be accommodated through a historical reading in terms of drawing parallels with the short and *longue durée* cycles. The difficulties related to controlling the long-term movements can explain the shortcomings of the logic of cause and consequence. This sort of rationalist interpretation could stimulate search for similar class of events, or use of other methods through which the actual role of institutionalisation could be better assessed. In similar terms, dependence on iterations and standardisation forces RCI to lose some of its problematic assumptions, such as treating each action as rational and marginalising the deviations in *ex ante* terms.[70] While the number of repetitions and observations does not yet warrant rationality, it is a necessary pre-condition for validating it.

69. M. SPOERER, op.cit.
70. A. MORAVCSIK, F. SCHIMMELFENNIG, op.cit., p.77.

Finally, short-term movements feed the long-term waves, and the points where the two intersect – such as the CAP crisis of the 1970s and 1980s – are not just perfect for evaluating the logic of institutionalised behaviour and the logic of rational choice in relative terms, but also to see how they influence one another, and facilitated a new quality in the future course of the events such as the completely re-designed CAP in the 1990s, preserving some of its key underlying forces.