How the European Union Works: Theory and Empirical Evidence from the CAP

Christian H.C.A. Henning and Eva Krampe
Department of Agricultural Economics, University of Kiel
chenning@ae.uni-kiel.de, ekrampe@ae.uni-kiel.de

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Research Questions

1. Beyond the restaurant table effect, which legislative bargaining procedures determine agricultural policies in the EU? Are these procedures able to explain the observed discrepancy in protection between the EU and the US theoretically?
2. What would be the impact of different constitutional reforms on agricultural protection in the EU?
3. How have the enlargements influenced the choice of legislative norms? And thereby, the protection level?
4. Which econometric model allows for a valid empirical assessment of our theoretical hypotheses?

Research Objectives

a. Develop a spatial model of political decision-making in the EU that considers endogenous political preferences and political exchange to
   → explain why agricultural protection in EU member countries exceeds systematically their counterfactual, unobserved protection level under national forms of government, i.e. parliamentarism or presidentialism,
   → identify the impact of different cooperative legislative bargaining procedures on agricultural protection in the EU
   → show that agricultural policy outcomes vary systematically across institutional legislative bargaining procedures with the number of EU member countries
   → identify institutional drivers of agricultural policy reform in the EU
b. Support the theoretical hypotheses about the impact of the EU political system on agricultural protection with an econometric analysis that addresses issues arising from the use of time-series cross-section data

Data and Estimation Strategy

Data: Anderson and Valenzuela (2008), databases of the World Bank and the FAO, a country-time interaction effect (EU) denoting EU membership and a time-member state interaction effect indicating institutional reform after 1986 (LC).

Sample: 58 democracies between 1961-2005 (TSCS data)

Strategy: i) To ensure a valid empirical analysis of joining the EU, we employ a dynamic two-way fixed effect model (DFE):

\[ N_{RA,i,t} = \alpha + \rho N_{RA,i-1,t} + \beta x_{i,t} + \gamma t_i + \xi_i + \epsilon_{i,t}, \]

with the subscripts i denoting countries and t years.

ii) We use a pure cross-section approach to analyze the impact of EU institutions on the level of agricultural protection:

\[ N_{RA,i} = \alpha + \beta \sigma + \nu_{EU,i} + \lambda Protec^c_i + \epsilon_i, \]

where \( N_{RA,i} \) denotes the mean of agricultural protection over a specific period, \( \sigma \) denotes the set of the same controls as above averaged over a specific period and \( \epsilon_i \) is an error term. The dummy \( Protec^c_i \) covers for unobserved country heterogeneity which is detected via a cross-validation experiment with pooled dynamic OLS regressions (Stone, 1974).

Results

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Notes: Cluster-robust standard errors are given in parentheses for model 1, robust standard errors are given in parentheses for model 2-6. * indicates significance at the 10 percent level, ** indicates significance at the 5 percent level, and *** indicates significance at the 1 percent level.

Conclusion

a. Agricultural policy outcomes depend systematically on legislative bargaining procedures
b. They vary for each bargaining procedure with the number of EU member countries
c. EU enlargements drive legislators’ incentives to adopt specific cooperative legislative bargaining procedures
   ⇒ Our theory does not only predict higher protection levels for countries, if they join the EU, but also the specific dynamic development of agricultural protection.
   ⇒ An empirical analysis using time-series cross-section data and a dynamic two way fixed effects model supports our hypotheses.

References