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WORLD TRADE REFORM AND EC POLITICS

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1. Introduction, aims and methodology

The launch of the present Uruguay Round of world trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) at Punta del Este in Uruguay in 1986 led to major hopes of world trade reform, including the reform of agricultural support and trade arrangements. However, only slow progress has been achieved to date, and while a successful conclusion has at times seemed close, at the time of writing it has receded. Progress in the Round has been closely linked to the ability of the European Community (EC) to reform the Common Agricultural Policy (CAP) to an acceptable degree. Internal EC politics have been a major sticking point both in reforming the CAP and in securing a Uruguay Round agreement, and further developments may make a successful conclusion more remote.

This paper looks at progress in the Uruguay Round, and at the 1992 CAP reforms which have been agreed upon independently of the round. It shows how the EC's political structure could allow an internal reform to be agreed upon, but create difficulties for the approval of a world trade reform agreement which would have gone no further, other than in limiting future possibilities of restoring protection. It also examines the influence of major trends and future developments which operate independently of any Uruguay Round agreement, including the shift from agricultural to industrial protection in the EC and the impact of future enlargements and institutional changes.

A major aim of the paper is to put the case for the adoption of the 'new institutionalism', by showing that a knowledge of the nature and operation of the EC's supranational and member state institutions is crucial for the understanding and prediction of EC and CAP developments.

2. The new institutionalism

In recent years there has been a major methodological development in the social sciences, in particular in economics and the related disciplines of politics and international relations, to take into account the role and importance of institutions in policy making. March and Olsen (1984) discussed the need for an assumption of a political structure in order to understand complex political systems. The two-tier EC is a complex political system *par excellence*.

March and Olsen used the term 'the new institutionalism' to distinguish the new approach from the earlier emphasis in the social sciences on institutions which predated public choice theory and the 'new political economy' or 'political economy of protection'. Shepsle (1989, p. 213) noted that a recent President of the Royal Economic Society had described the study of institutions as 'one of the liveliest areas' of the economics discipline, and that (p. 134) 'rational choice theorists have turned to *institutions*', with institutions being seen as the strategic context within which groups and individuals operate. Mahler (1991) states that as a

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consequence of the 'new institutionalism' there has been renewed emphasis on the role of institutions in policy making, with institutions being seen as critical mediators of collective action, in contrast to the classical pluralist tradition.

Many studies in the discipline of agricultural or trade economics have recognised that the EC's institutional structure has consequences for policy making, but have not explicitly acknowledged the theoretical implications of this. For example, Hillman (1992, p. 239) recognises that the EC's agricultural policy making institutions differ greatly from those in the United States, and that outside political influences impact on these two sets of institutions in different ways. Mayer (1992) finds that the effect of domestic interests on international negotiations depends, among other things, on the nature of the domestic political process. Ruppel, Boadu and Peterson (1991) find that the federal nature of governments such as that of the EC has implications for decision making. Ginsberg (1990) accepts the potential importance of institutional structure in posing a question as to whether state groupings behave differently from individual states in pursuing their objectives international trade negotiations.

A number of early studies looked at the validity of neofunctionalist theories of political integration, which argued that the process of political integration would be driven by a process of spillover through the activities of interest groups at the EC level. These studies included Feld (1966, 1979 and 1980), Caporaso (1974), Averty (1975 and 1977), Kirchner (1980), Kirchner and Schwaiger (1981), and Butt-Philip (1983 and 1985). Their major conclusion was that interest groups such as the Community-wide umbrella representative group for agriculture, the *Comite des Organisations Professionnelles Agricoles* (COPA), had only a limited influence on EC and CAP decision making.

The 1965 'empty chair' policy of de Gaulle and consequent availability of the veto to individual member states slowed or reversed the movement of power away from the member states towards supranational EC institutions. As a consequence of this and of the findings of studies such as those listed above, neofunctionalist theories of EC political integration were abandoned and replaced by those of intergovernmentalism and co-operative federalism, which stressed the role of the member states and not supranational level interest groups

In spite of this, in the US and Australia and to a much lesser extent in Europe there has been continued use of models which view EC policy making as bargaining between producers and consumers and taxpayers, for example those of Sarris and Freebairn (1983), Paarlberg and Abbot (1986), Vanzetti and Kennedy (1988), Mahe and Roe (1991), and Tyers (1990). These models have fulfilled a useful purpose in allowing the transfers and economic losses involved in the CAP to be estimated. However, claims that the models estimate an EC preference function or can be used to evaluate the acceptability of alternative policies are at variance with the EC's lack of a 'real' government capable of having such preferences, and the absence of bargaining between the groups indicated in actual policy making. Gallagher (1988) uses a model of this type and states that Petit (in his 1985 study) 'concludes that there is a evidence of a bargaining process at work'. However, the bargaining process evident in Petit (1985) and Petit, de Benedictis, Britton, de Groot, Henrichsmeyer and Lechi (1987) is one between countries, not between different groups, and it is not a bargaining situation such as that which Gallagher is considering in his study, where the interests of producers and the public are explicitly represented.

The interests of individual member states may coincide with those of producer or consumer groups at specific times, but as member states produce different products, and have differing interests outside agriculture and with respect to the EC budget, the alignment will never be exact or consistent over time. Political changes in the individual member states can substantially alter their preferences. This bargaining between states in the Council of Ministers is of key importance to EC and CAP policy making. Governments bargain with other governments, forcing the very role of government to be rethought (Sbraglia 1992).

Following the abandonment of neofunctionalist theories of EC integration and the emphasis on interest group activities, much of the work undertaken in Europe on EC policy making has explained it with reference to EC institutions. Fitzmaurice (1983), Duchene, Szczepanik and Legge (1984), and Neville-Rolfe (1984) discuss policy making with respect to the role of parties, coalition governments and supranational institutions from a traditional institutionalist perspective.

Most recent European studies and models of the EC are consistent with the 'new institutionalism', taking into account public choice theory and the 'new political economy'. They include the work of Schmitt (1986) and of Fearne (1988) on the EC's supranational institutions and policy making, and of Hendriks (1987 and 1989), Swinbank (1989) and Ulbricht (1989) on Germany, and Phillips (1990) on the EC overall.

Petit (1985 and 1991) and Petit et al (1987) take into account the role of institutions, but accord greater influence to interest groups, as does the transatlantic contribution of Runge and von Witzke (1987). However, the conclusions adopted by Petit et al are at variance with the evidence presented. This is not surprising, as the only politically and officially acceptable view in much of the EC is that agricultural protection is inexorable, rather than something easily altered through the ballot box.² This view has led to suggestions such as those of Hagedorn (1985), that economists should avoid looking for optimal solutions and restrict themselves to research on politically acceptable proposals.

A number of recent studies have stressed the role of interest groups in EC policy formation and paid little attention to institutional factors. MacLaren (1991a and 1991b) discusses and applies the 'political economy of protectionism' and does not explicitly consider institutional factors. Senior Nello (1985 and 1989) looked at the role of supranational level interest groups. She found that COPA, the only EC level body representing farm interests, had a staff of only 28, and that its main dealings were with the Commission, not the Council, but nevertheless accepted COPA's assertion that it was a major reason for the strength of influence of the EC farm and food lobbies. Moyer and Josling (1990) accept the importance of institutions by giving a detailed account of the EC's supranational legislative procedures, yet they readily accept the influence of agriculture in Germany as being due to interest groups.

² Academic freedom is arguably mainly an Anglo-Saxon concept. In Germany, for example, academic staff are civil servants, and subject to restrictions on membership of political parties. However, in Australia during the Vietnam war the government pressured academics critical of its stance to remain silent (Miller 1983, cited in George 1992).

Smith (1990), a political scientist studying past agricultural policy making in the UK, found the interest groups approach inadequate, and argues for a mediated form of corporatism. In corporatist situations specific interest groups are accepted by government as part of a 'policy community', and may be allowed to make and implement policy at the sectoral level. Smith's study illustrates the bias which can arise from using interviews as a major source of information in a historical study, even where a critical approach is adopted to interest group assertions. The National Farmers' Union (NFU) is by far Smith's most important informant, yet during the period he is examining other groups had a similar or greater influence.³ Over time these groups in some cases have ceased to exist or changed their nature, hence they were not used as a sources of information by Smith. Also, agricultural protection in the UK would likely have been much the same in the absence of an NFU or any equivalent body, since it was applied on an EC-wide basis from Brussels.

Grant (1991), another political scientist, looked at dairy policy making on an international basis. He suggests that the 'negotiated economy' model can help to explain more rapid and far reaching changes, and hence supplement existing models of sectoral corporatism and of the policy community. In the negotiated economy model negotiations take place in a framework created by institutions, which shape opinions and attitudes. Hence it is in accordance with the 'new institutionalism', and by implication a knowledge of the institutional framework is required for the understanding and prediction of policy making.

The importance of institutional differences at the member state level for policy outcomes is indicated by two recent studies of non-agricultural issues. With regard to regional policy in the UK and Germany, Anderson (1992) found that the clear differences in the political structures of the two states were reflected in different processes of policy formation and review. Humphreys (1991) examined broadcasting marketisation (privatisation) in the UK and Germany. He found that there are important institutional differences between the two states, which were partly reproduced at the level of the broadcasting sector, or otherwise had a significant impact on it. The impact of such differences is also evident in agriculture. For example, while Germany and the UK have both been major net contributors to the CAP, the UK has sought to reduce CAP support levels and expenditure, but for much of the history of the CAP Germany has opposed such changes.

3. Slow progress towards world trade reform

Little significant progress in the Uruguay Round was made in the first four years of the Uruguay Round talks, and agricultural export subsidy wars continued. However, with several postponements of the date set for the end of the negotiations, in 1992 bilateral talks between

³ Where food items were major imports, for example New Zealand butter and lamb, and Australian beef and canned fruit, food industry representatives and Commonwealth producing interests had a substantial influence on policy making, at least in the 1970s, resulting in some cases in the negotiation of special import quotas and CAP arrangements. Webb (1977) describes the substantial influence of domestic cane sugar refiners, as well as Commonwealth sugar producers, on UK sugar policy. Also, in this period the Imported Meat Traders' Association (IMTA) and its members were regularly consulted by MAFF on policy issues, and an industry specialist (Bill Benskin) was sent to Brussels to advise on the management of livestock and meat policies.

the European Community (EC) and the United States (US) began to achieve movement towards compromise.

Progress has hinged on the ability of the European Community (EC) to make acceptable concessions. The United States (US) has insisted that a condition of any agreement on world trade reform is that the EC must reform its CAP. The US, the Cairns Group and other negotiating countries have sought to have certain aspects of the CAP changed as a priority goal, including the high level of export subsidies ('refunds' in CAP parlance) and of import levies on agricultural products. The level varies according to differences between CAP support prices and world market prices, modified by various factors. Because CAP support prices are high relative to world prices imports are restrained and exports subsidised. Alternative support arrangements which include consumer subsidies, income supports, are payments not to produce or to produce less, are part of the CAP's arsenal, they have in the past been subsidiary to the main CAP instruments of intervention purchasing arrangements, import levies and export refunds.

The EC's initial negotiating proposal offered a reduction in CAP support prices of 30 per cent for the most important group of agricultural products. However, as 1986 was to be the base this offer was equivalent to a reduction of only some 15 per cent from 1991 to 1995-96 (Manegold 1991, p. 116). The offer also ignored the effects of the 'green currency' system of special agricultural exchange rates in the EC in raising prices to levels higher than those indicated in ECU terms. The EC had even suggested that its 1984 dairy policy changes could be taken into consideration (Josling 1991, p. 273).

Even in nominal ECU terms, the EC offer fell far short of the demands of other participants, notably the US, the Cairns Group, and other agricultural exporters, for cuts of 75 per cent in EC support prices and 90 per cent in export subsidies, net over the following ten years. These cuts would have required major changes in the workings of the CAP as well as its support levels. The US has since modified these demands.

The 1992 CAP reforms discussed below have yet been translated into a Uruguay Round agreement. The Round was originally scheduled to end in 1991, but the deadline has been extended several times. In December 1991 Arthur Dunkel, the director-general of the GATT, issued the 'Dunkel report' blueprint for multilateral trade reform in an attempt to break the deadlock. Its proposals included a cut of 30 - 35 per cent in farm supports over 5 - 6 years, the tariffication of import levies, and guaranteed minimum access for imports to 3 - 5 per cent of consumption, plus cuts of 24 per cent in the volume of subsidised exports over 6 years. A majority of EC member states might have been willing to agree to the proposals, but the EC's decision making system required unanimity on such an issue.

Bilateral negotiations have been held between the EC and the US to resolve a separate agricultural trade dispute over soya beans, and in the hope of ironing out the remaining differences between the two leading players. The EC has been unwilling to contemplate any reduction in the direct income support which would be paid out under its 1992 reforms (Sanderson 1992).

Talks held at the end of 1992 between Commissioner MacSharry and Edward Madigan, the US Secretary for Agriculture, appeared close to resolving the oilseed dispute and opening the way

to a trade reform agreement. However, at this point the complexities of EC policy making intervened in the form of the President of the Commission, Jacques Delors, who told MacSharry that what he was offering went beyond the 1992 CAP reforms, would not be accepted by the Commission, and would be vetoed by at least two member states. In this, Delors appeared to have been acting not as the neutral President of the Commission but in support of French interests and his own ambitions towards the Presidency of France.

In the event the proposals were rejected by Madigan, but MacSharry resigned, accepting reinstatement only after reassurances of greater support from the President of the Commission.

The outcome of the round depends now mainly on the position of France, which has said it will give its consent or otherwise only when it sees the full terms of all of the trade reforms agreed to under the Uruguay Round, not just those for agriculture.

Various factors have been behind the EC's slow progress towards world trade reform in the Uruguay Round, including its attitude, difficulties arising from its decision making system, the opposition from specific member states, and the distracting effect of other major developments.

The EC was at first reluctant to accept that reform of the CAP was the necessary key to progress. A paper putting forward the EC official view (Delegation of the Commission of the European Communities 1991a) stated that the Community did not (p. 2):

see the suspension of negotiations at The Heyssel (Brussels) in December 1990 as resulting from a failure to agree on one single item, agriculture. The failure resulted from insufficient flexibility on the part of all negotiating partners in nearly all the fifteen areas of negotiation.

The attitudes of different EC member states towards the principle and practice of free trade, and hence progress in the Uruguay Round, vary considerably. Free trade has not been a policy favoured by France and the Mediterranean member states (Muenster 1991b, p. 72).

The nature of the EC decision-making system itself constitutes an obstacle to progress in the talks, in that each member state retains the right of veto over any agreement. In practice none of the smaller member states could risk doing so and provoking retaliatory action against themselves. While the larger member states would still be open to retaliatory action for exercising an individual veto on any agreement or project of overall benefit, their importance in the overall bargaining system reduces their vulnerability.

The rejection of the Maastricht Agreement by the Danish electorate, especially in rural areas, demonstrated the strength of opposition by groups and within countries to any potential deterioration in their net EC budgetary situation, and the influence of institutional arrangements in determining whether such opposition is able to affect policy arrangements. The emphasis of the Maastricht Agreement on support for poorer member states, for infrastructure links, and for industry, would have reduced the present net benefits which Denmark presently receives, in spite of being a relatively wealthy country, because of the EC's emphasis on the CAP.

France's concerns over the proposals for a Uruguay Round agreement arise from a desire not to see the 1992 CAP reforms made immutable by their being linked to an international agreement, and fears of a worsening net EC budgetary position due to a reduction in subsidised exports of cereals. These aims are not inconsistent with France's support of the Maastricht

Agreement, which is likely to confer net budgetary benefits through its support for inter-country infrastructure, and high-tech industries such as those in the French public sector.

However, given that France is a major net contributor to the EC budget to the tune of some ECU 3 billion (roughly US \$4 billion) each year, support for the CAP is not consistent with national economic interests. This support can best be seen as resulting from the narrow parliamentary majorities which governments have had in France, and the influence of the farm vote, which derives from its swinging nature and its control of around one sixth of all votes cast.

The present Socialist government is less supportive of farm interests than the opposition, as its acceptance of the Maastricht Agreement and the 1992 CAP reforms suggest. Any hopes it has of victory in the March 1993 general election appear unrealistic. However, the Presidential elections are not for a further two years, hence Francois Mitterand, the present President, and Jacques Delors who is a possible successor, are anxious not to alienate the farm vote.

The 1993 elections are likely to bring to power once again a right of centre coalition government of the Union pour la Democratie Francaise (UDF) and the Rassemblement pour la Republique (RPR). The RPR or Gaullist party has in the past been a strong supporter of farm interests. Hence the prospects for a Uruguay Round agreement after the elections look poor.

The second most important member state with regard to a Uruguay Round agreement is Germany. As the world's largest exporter, Germany would benefit greatly from world trade reform. Germany is the CAP's main financier, and has been at times the main obstacle to reform. However, the elections which followed the unification of Germany changed the political balance of power there. The Christian Democratic Union (CDU) secured a small majority of votes over the opposition Social Democratic Party or SPD, so its reliance on the support of the other parties in its governing coalition, the Free Democratic Party or FDP and the Christian Social Union or CSU, became a matter of choice and not necessity.

This represented a major change in the political situation in Germany, where the FDP and CSU have in the past been able to exert a strong influence in favour of the CAP, since their support was needed to form a government. This post-unification political situation has allowed the German government to support a Uruguay Round agreement (Muenster 1991a, p. 84), and to agree to the 1992 CAP reforms.

However, the most recent regional elections have shown an increased vote for minority Green and right wing parties. Increasing the level of support for agriculture, including payments for set-asides and environmental improvements, could be a means of attracting voters back to the CDU and its coalition partners.

A number of major events and pressures have reduced the focus of the EC on the Uruguay Round and hence slowed progress. These include internal market reforms, initiatives on political and monetary union, and discussions on expansion (Schott 1991). The negotiation and establishment of the European Economic Area (EEA) of some 380 million people, allowing free trade between the EC and the EFTA countries (except Switzerland, where a referendum rejected EEA membership), has been a major project with far-reaching implications. Events in Yugoslavia, Eastern Europe and the former Soviet Union have also been a major concern for the Community, with pressures for the rapid negotiation of trade,

association and economic aid arrangements, the immediate provision of aid, and for military intervention.

4. CAP Reform

The 'Macsharry Plan' and the 'Reflections' Paper

The 1992 agreement on CAP reform had its beginnings in the 'Reflections' paper (Commission of the European Communities 1991). This was presented by Ray McSharry, Commissioner responsible for Agriculture and Rural Development, as a means of obtaining budgetary savings and cheaper food (EC News 1991). It recognised that problems with the CAP included escalating budgetary costs of some 20 per cent per year, increasing stocks of products purchased by intervention agencies, environmental problems from intensive farming, increased CAP budgetary expenditure not reflected in farm incomes, and the continued decline of the active agricultural population (Delegation of the Commission of the European Communities 1991b). It acknowledged that 80 per cent of the support provided by FEOGA goes to 20 per cent of farms, these being the largest farms. Schemes intended to set aside land, removing it from production, to make agriculture less extensive, and to facilitate the early retirement of producers, were found to have had little effect.

The paper laid down various objectives, including a move from reliance on price supports to greater use of direct aid measures. The major impact was to be in cereals, where direct financial assistance would be given to small farmers (including part-time farmers) but larger producers would have to set aside part of their arable area in order to receive direct support. The level of aid would vary each year in line with changes in the market situation and in productivity. Similar arrangements would be introduced for oilseeds and protein crops. Greater use would be made of livestock premiums targeted at small producers. Milk quotas would be reduced, the sugar and tobacco sectors reformed, and greater use would be made of environmental requirements. Some environmental aims and measures were also included.

The 'MacSharry Plan' proposals were modified by the Commission, which then threatened that in the absence of an agreement by the Council of Ministers on the revised proposals it would be forced to impose price cuts and volume control, but without income assistance as compensation (EC News 1992a). On 21 May 1992 the Council agreed to the reform proposals, with further modifications. The agreement included a 29 per cent reduction in cereal support prices over the following three marketing years (EC News 1992b). Compensation in the form of direct income support payments will be paid on a per hectare basis. However, producers not coming within the definition of 'small farmers' are required to set aside a minimum of 15 per cent of their arable land. 'Small farmers' are those producing less than 92 tonnes of cereals per annum, hence on average with a holding of no more than 20 ha. Part-time and weekend farmers will benefit from the income support, there being no income disqualification for the receipt of direct aid. It was also agreed that butter support prices would be reduced by 2.5 per cent a year over the 1993-94 to 1995-96 period, and that the EC butter production quota would be reduced. Beef support prices and premium and intervention arrangements were to be reduced, with prices to go down by 15 per cent over 3 years and intervention buying to be reduced progressively from 750 000 tonnes in 1993 to 350 000 tonnes in 1997. The maximum sheep headage on which the full premium would be paid

wals 1000 in 'less favoured areas' and 500 in other areas. For flocks beyond these levels the premium is to be reduced by 50 per cent.

The EC hence reached agreement on an internal basis on CAP reform, and then sought to have accepted as the basis of a GATT agreement. Swinbank (1992) describes this as a 'curious approach'. It reflects the need created by the EC's institutional structure, to reach an internal agreement acceptable to all 12 member states and to avoid attempting to impose an external agreement on them.

The impact of the 1992 CAP reforms

The impact of the 1992 reforms will depend largely on what the effect of income support will be as a partial replacement for price support. In some cases, where there is no set-aside penalty, it may be fully equivalent. However, larger producers are required to undertake set-asides in return for the support, and where time and labour can easily be transferred into more lucrative or more valued opportunities some smaller part-time producers will reduce their output in response to the changes. While the EC's Commissioner for Agriculture and its Trade Commissioner, Frans Andriessen, consider that the CAP reform demands of the US can be met within the context of the 1992 reforms, the staff of the President of the Commission claim they cannot (Economist 1992).

Field, Hearne and Kirby (1989, p 41) estimated an own price elasticity for EC wheat production with respect to own price of 0.3 to 0.4, based on earlier studies and taking into account current trends and the effects of EC enlargement. Hence a price cut of 29 per cent for wheat in the EC would result in a reduction of roughly up to some 10 per cent in production, provided that any production sustaining effects of compensatory income support were outweighed those of set-aside requirements. If production decreased by only half the amount that it would with an uncompensated price reduction, this would still give a 5 per cent drop in output. Total EC production of wheat is between 70 and 80 million tonnes each year, and exports represent some 12-15 tonnes. Hence the 1992 CAP reforms should lead to a reduction in exports of a quarter to a half based on a lower level of production, and greater than this if the price cut leads to greater use of wheat for feed. However, this finding is conditional upon income compensation not having the same effect on production as higher prices, and to set aside requirements being implemented and policed.

The OECD (1991) estimated the total EC Producer Subsidy Equivalent (PSE) for agriculture as US\$ 64.3 billion in 1990, equivalent to 48 per cent of the value of agricultural production, compared with 11 per cent for Australia, 30 per cent for the US and 68 per cent for Japan. Tyers and Anderson (1992) estimate that the net loss of economic welfare in the EC from the CAP was US\$17.1 billion (1985 US \$) in 1990.

The 1992 CAP reform and a Uruguay Round agreement may not reduce support expenditure and hence PSE levels. The CAP reform arrangements are expected to increase expenditure, but should provide gains in increased economic efficiency from lower food prices, lower producer prices closer to real market values, and reductions in the costs of intervention purchasing, storage and subsidised export of commodities. A full assessment of the social costs of the CAP should extend beyond the forgone net producer, consumer and taxpayer surpluses on which OECD and most other estimates are based (Hortel 1991, p 20). Among

other things it should include environmental costs, which are substantial (Field 1991). Hence the benefits of CAP and world trade reform are *greater* than the deadweight economic losses associated with transfers.

The high cost of the CAP is a potential limiting factor on the expansion of the European Community. The accession of Austria, Sweden, Finland, Norway and Switzerland would not cause problems in this respect, due to their PSE levels for agriculture in 1990 of 46, 59, 77, 72 and 78 per cent respectively, and their relative wealth. In the EC, these countries would be able to sustain a level of agricultural support higher than the CAP average through the arrangements for 'Less Favoured Areas' which are mountainous or otherwise disfavoured for agriculture. They could also choose to pay the highest allowable rates on schemes financed jointly by member states and the EC, such as set-aside and early retirement arrangements. The CAP is an obstacle to enlargement of the Community to include large and poor Eastern European countries, due to their productive potential and the unacceptably high net budgetary burden for the existing EC members. However, the difficulties presently being experienced in establishing democratic, stable and liberal governments there have set back any EC accession agenda.

The longer term outlook

A shift in emphasis from agricultural protection towards subsidisation of infrastructure and industry is evident in the EC. The Maastricht Agreement extended the powers of EC institutions over industry policy, allowing them to propose and organise schemes to assist industry in certain areas, including industrial innovation and new technology. It also extended EC assistance to 'trans-European networks' or cross-border infrastructure links, and to 'cohesion funding' for infrastructure projects in poorer member states.

The shift has slowed as a result of the Danish rejection of Maastricht, and the decline in electoral support for the Socialist government in France. The return of right-of-centre coalition governments in France and Spain could see greater political support for agricultural protection rather than for industrial and cohesion funding which benefit Socialist voters. However, there will be increased pressures from member states and industries seeking assistance, assisted by further transfers of power from the member states to the European Parliament. Also, the EC '12' can only obtain net budgetary benefits from the future EC membership of the EFTA countries if agricultural expenditure is outweighed by that on industrial support and cohesion funding.

Changes in EC research funding arrangements have been away from pure research towards pre-competitive development work closer to the marketing stage. The EC research budget is to be split, with computer and telecommunications research to be taken over by the industry commissioner. The Commission's vulnerability to major rent seeking interests is illustrated by its attempt to force EC consumers to adopt the expensive and soon to be obsolete 'HD-MAC' high definition broadcasting transmission system developed by the Netherlands' Philips and France's Thomson, and to provide direct assistance to it. These schemes were blocked only by the rejection of only the UK.

The expansion and further integration of the EC could lead to the world of '(potentially non-co-operative) trade blocs' envisaged by Arndt and Willett (1991, p. 1574) and by Greenaway

(1991). As Benard (1984, p. xix) recognised, the EC is too large an economic entity for it to adopt protectionist policies without others following, and '... a retreat into a fortress Europe would be to drive both the Community and the world towards the autarky and protectionist excesses that were last seen in the 1930s'.

6. Conclusions

The outcome of the Uruguay Round is dependent on the outcome of the March 1993 general election in France, and the ability of the other member states to dissuade France from vetoing any agreement, although the 1992 CAP reforms may already meet the terms required.

The 'new institutionalism' provides a methodological framework for understanding the nature of the EC decision making system, and explaining and predicting the impact of political changes at the member state and EC level on policy outcomes. The approach may also be useful in understanding US' policymaking, in view of institutional features such as the 'fast track' legislative powers granted to the President by Congress for a Uruguay Round agreement and their present deadline of March 1993.

The 'new political economy of protection' and other explanations based on interest groups do not substantially facilitate an understanding of EC policy formation and adoption. Where studies have credited interest groups with overwhelming influence, this in most cases reflects the interview techniques adopted as a source of information.

There is shift in emphasis from agricultural to industrial protection in the EC. If the EC became more protectionist it could have a major negative influence on the world economy. Whether it does so will depend upon the outcome of the present Uruguay Round, political developments within the Community, changes in the EC's institutional structure, and external events. The EC's influence on the world economy will be increased by future enlargements, for example to include EFTA members.

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