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**Agenda Setting, Influence, and Voting Rules: The Influence of the European  
Commission and Status Quo Bias in the Common Agricultural Policy of the EU**

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## **Agenda Setting, Influence, and Voting Rules: The Influence of the European Commission and Status Quo Bias in the Common Agricultural Policy of the EU**

### **1. Introduction**

Agricultural policy remains one of the most important policy areas of the European Union (EU). Close to half of the EU budget is still spent on agriculture, which is extensively regulated in the framework of the Common Agricultural Policy (CAP). The CAP has been the subject of wide criticism both in terms of the budget resources it uses, and in terms of the distortions, it induces both internally in the EU and externally on world markets.

The persistence of the inefficient policy instruments under the CAP has induced a wide literature on the political economy of the CAP, and on how the decision-making process affects the policy outcomes in this field. However, the majority of studies in the agricultural economics literature on decision-making on the CAP is either of an empirical, relating indicators of policy distortions with a set of political indicator variables, or a descriptive nature, analyzing the historical development of the CAP, its context as well as motives behind certain decisions (Tracy, 1984, 1996, Neville-Rolfe, 1984, Harvey, 1982, Fearn 1991, Josling and Moyer 1991, Moyer and Josling, 1990, Ackrill 2000, Pearce 1983, Wallace 1983 and others).

However, there is hardly any formal analysis of the decision-making process on the CAP. The main reason is that the decision-making process is an institutionally complex procedure, in which the Member State governments, the European Commission, and the Council of Agricultural Ministers all play an important role. While the Council of Ministers ultimately takes the decisions, the Commission has the sole right of proposal. The Council of Ministers cannot formally consider any proposal that has not come from the Commission. If the qualified majority in the Council does not approve the proposal, the Commission (in cooperation with the Council) drafts a new proposal until a final compromise is reached. This seems to put the Commission in a privileged and influential position in the decision-making process. However, the literature has different views on how the Commission uses these agenda-setting powers. For example, Coleman and Tangermann (1999) view the Commission as an independent body which plays a role as entrepreneurial leader, and which pursues its own preferences. On the other hand, Moravcsik (1994) argues that the Commission just decreases transaction costs of inter-country

bargaining. Modeling this multi-stage and multi-agent decision-making process is complicated and, therefore, relatively little formal analysis is devoted to the CAP in the political economy literature.

In the general public choice literature, there is a significant literature on decision-making in the EU based on Shapley and Banzhaf indices (Winkler (1998), Widgren (1994), Hosli (1996), Bindseil and Hantke (1997) and others). Shapley and Banzhaf indices measure the probability that the Member State casts a decisive vote, i.e. Member State's potential to change the result of voting. However, these studies typically assume that any coalition of Member States supporting a motion is possible and equally probable. That is, preferences of Member States play no role in this voting game (Straffin, 1988). For this reason, this approach is not appropriate to analyze CAP decision-making where preferences of Member States are crucial.

In this paper we develop a formal model of the decision-making on the CAP that explicitly includes the two stages of, first, determining Member States preferences and, afterwards, of the joint decision-making of the EU Member State governments in the Council of Ministers. We analyze the "influence" of the agents involved, and the likelihood of a political stalemate, resulting in a status quo bias. Furthermore, we show how these results change under different institutional assumptions such as voting procedures (majority rules), and how they are affected by changes in the external environment.

We derive several results. The influence of the European Commission on the final policy decision depends on the voting rule. The occurrence of political stalemate is also a function of voting rule adopted in the Council of Ministers. We also show that the probability of a stalemate also depends on changes in external environments, which have taken place since the previous decision-making round.

The paper is organized as follows: Section 2 evaluates national preferences on the CAP. A two-stage model of CAP decision-making process is presented in section 3. The two-stage model of CAP is used in section 4 to analyze Commission influence and status quo bias under various voting rules. The final section summarizes the results and draws some conclusions.

## **2. Member States Preferences on the CAP**

The CAP was first implemented at the end of the 1960s. The main aspect of the CAP was an intervention price for important commodities, including grains, sugar, beef, and milk, combined with the trade instruments (variable import levies and export refunds) needed to sustain this intervention price. The policy specifics differ between commodities and have changed over time.

Due to several reforms of the CAP since then, the CAP has become more complex. However to keep the analysis tractable we assume in our model that there is one agricultural commodity and that the national governments and the Council of Ministers only have to decide on one policy variable: the intervention price for this agricultural commodity<sup>1</sup>.

Assume further that there are two sectors in country  $j$ : agriculture ( $A_j$ ) and the rest of the economy ( $B_j$ ). Assume that all individuals in the economy have identical preferences and maximize an indirect utility function  $U(y_j^i)$ , where  $y_j^i$  represents individual income and  $i = A, B$ . Each sector has  $n_j^i$  identical individuals with pre-policy income  $e_j^i$ .

Let  $P^0$  denote the market price of the agricultural commodity and  $P_j$  the intervention price in country  $j$ . Then per unit subsidy is  $s_j = P_j - P^0$ .  $R_j^A$  is the total transfer of income to sector  $A_j$ .  $R_j^A$  depends on the intervention price and on agricultural production ( $Q_j^A$ ):  $R_j^A = (P_j - P^0) \cdot Q_j^A = s_j \cdot Q_j^A$ .

For simplicity, we ignore deadweight costs. This may seem a rather strong assumption, given the impact of the CAP on distortions, which are therefore at the core of the debate on the CAP. However, in the context of this analysis it merely simplifies the notation, and does not significantly alter my conclusions.

The transfer of income is financed from a tax ( $R_j^B$ ) imposed on sector  $B$ :<sup>2</sup>  $R_j^B = (e_j^B - y_j^B) \cdot n_j^B$ . As deadweight costs are assumed away, a balanced budget implies that  $R_j^B = -R_j^A$ . Hence, the transfer entails the following changes in individuals' incomes:

$$\Delta y_j^A(P_j) = R_j^A / n_j^A = (P_j - P^0) \cdot Q_j^A / n_j^A = (s_j \cdot Q_j^A) / n_j^A \quad (1)$$

$$\Delta y_j^B(P_j) = -R_j^A / n_j^B = R_j^B / n_j^B \quad (2)$$

The politically optimal per unit subsidy is denoted as  $s_j^* = P_j^* - P^0$  and  $P_j^*$  is the politically optimal intervention price in country  $j$ . By definition, the politically optimal intervention price implies that either increasing or decreasing the intervention price from the level  $P_j^*$  reduces political support for the government of country  $j$ . In other words, countries have Euclidean single-peaked preferences over the domain of the policy variable, i.e. the intervention price<sup>3</sup>.

<sup>1</sup> Alternatively one could assume that the decision variable is the level of direct payments - this would not affect the result of the paper.

<sup>2</sup> The tax on sector  $B$  can be implemented through an income tax or through higher consumer prices. Given our no deadweight cost assumptions, both are possible interpretations of our model.

<sup>3</sup> Formally this characteristic of  $P_j^*$  can be derived from several underlying models on decision-making

Assume now that country  $j$  is part of the EU (i.e. member state  $j$ ) and that the agricultural intervention price is part of the CAP. This will alter the Member States' preferences on the CAP because of two important characteristics of the CAP: common prices and financial solidarity. The principle of common prices implies that the intervention price is the same in all Member States<sup>4</sup>. Financial solidarity implies that the balanced budget equation does not have to hold for each Member State. It is only the overall EU balanced budget equation that has to be satisfied ( $R^A = R^B$ ) where  $R^A = \sum R_j^A$  and  $R^B = \sum R_j^B$  for  $j=1\dots k$ . Member states for which  $R_j^A > R_j^B$  are net beneficiaries of the CAP while member states for which  $R_j^A < R_j^B$  are net contributors to the CAP.

Let  $P_j^\#$  denote the politically optimal intervention price and  $s_j^\#$  the politically optimal per unit subsidy for a country inside the CAP. The politically optimal intervention price for a country outside the CAP ( $P_j^*$ ) would be lower for a country which is a net beneficiary of the CAP and vice versa for a net contributor to the CAP than its politically preferred price inside the CAP ( $P_j^\#$ ). Specifically:

If,  $\forall P_j$ :

$$R_j^A(P_j) > R_j^B(P_j) \Rightarrow P_j^* < P_j^\# \quad (5)$$

$$R_j^A(P_j) < R_j^B(P_j) \Rightarrow P_j^* > P_j^\# \quad (6)$$

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in the countries. For example, one model which yields this result is the model of Swinnen (1994) and Swinnen and de Gorter (1993, 1998). In their model, individual political support  $S^i$  is assumed to be a strictly concave and an increasing function of the change in utility caused by the policy:  $S_j^i = S_j[v^i(P_j)]$ , where  $v_j^i(P_j) = U_j^i(P_j) - U_j^i(0)$  and where all individuals are assumed to have identical support functions. The politically optimal domestic intervention price is then determined by the government maximizing total political support,  $\Gamma_j$ , i.e.:

$$\text{Max.}_{P_j} \Gamma_j(P_j) = n_j^A \cdot S_j(v^A(P_j)) + n_j^B \cdot S_j(v^B(P_j)) \quad (3)$$

Hence, country  $j$ 's politically optimal intervention price,  $P_j^*$ , is determined by:

$$\partial \Gamma_j(P_j^*) / \partial P_j = 0 \text{ or } S_j^{A'} / S_j^{B'} = U_j^{B'} / U_j^{A'}, \quad (4)$$

where  $S_j^{A'}$ ,  $S_j^{B'}$ ,  $U_j^{B'}$ ,  $U_j^{A'}$  refer to the first order derivatives of  $S^i$ ,  $U^i$  respectively. This condition implies that  $\partial \Gamma_j / \partial P_j < 0$  for  $P_j > P_j^*$  and  $\partial \Gamma_j / \partial P_j > 0$  for  $P_j < P_j^*$ .

<sup>4</sup> We ignore exchange rate effects.

The reasoning is straightforward. Some of the income going to agriculture of a net beneficiary of the CAP comes from taxes on other Member States. Hence, the government can give higher subsidies to agriculture for a given tax on the rest of the domestic economy. Therefore, *ceteris paribus*, governments of net beneficiary member states will prefer higher intervention price than their domestic optimal intervention price would have been outside the CAP. However, the opposite also holds: governments of net contributing Member States will prefer lower intervention price than their domestic optimal intervention price would have been outside the CAP.

For example, Mahé and Roe (1996) estimated inter-country transfers of income between member states of the EU caused by the CAP and showed that Belgium, Luxembourg, Germany, Italy, the Netherlands, and Portugal were net contributors to the CAP in 1996. *Ceteris paribus*, these countries would therefore have higher politically optimal intervention prices on their own. Without financial solidarity under the CAP, transfers of income to domestic farmers would not require from domestic taxpayers and consumers to subsidize foreign farmers too. For a given tax on the rest of economy, agricultural producers would obtain more in net contributing countries without financial solidarity. On the other hand, Denmark, France, Ireland, United Kingdom, Greece, and Spain were net beneficiaries of the CAP in 1996. By analogy, their politically optimal prices would be lower without the financial solidarity, *ceteris paribus*.

### **3. A Model of the CAP Decision-Making Process**

The decision concerning the common intervention prices is made in the annual CAP review by the Council of Agricultural Ministers<sup>5</sup>. A simple consultation procedure applies to most policy issues within the framework of the CAP. Under this procedure, the EU Commission makes a proposal and the Council decides on the proposal, after receiving a non-binding opinion from the European Parliament. Decision-making in the Council proceeds by vote and qualified weighted majority is used<sup>6</sup>. To be accepted by “qualified majority”, a proposal must obtain 62 out of a

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<sup>5</sup> The CAP decision-making process is discussed in, for example, Tracy (1996) and Fearné (1991).

<sup>6</sup> Currently the distribution of votes is:

- 10 votes each for Germany, France, Italy, and the UK;
- 8 votes for Spain;
- 5 votes each for Belgium, Netherlands, Greece, and Portugal;
- 4 votes each for Austria and Sweden;

total of 87 votes.

Each Member State can propose an amendment to the Commission proposal. The amendment is adopted if it is accepted unanimously. In practice, the Commission considers political acceptability of its proposal by the Council. Furthermore, in order to achieve the final compromise, the Commission may be “obliged” to adjust its proposals in accordance with the Council’s line of thinking (Fearne, 1991).

We model the CAP decision-making as a set of voting rounds to determine the equilibrium intervention price within the Council of Ministers. Define  $P_{EU}^0$  as the existing common intervention price in the EU, i.e. the intervention price decided in last year’s decision-making round. We assume that at the beginning of the annual decision-making round, the Commission proposes a common intervention price for the next year,  $P_{EU}^N$ . This price can be the same as last year’s or a different one.

The Council of Ministers votes on the proposal. We assume that the voting behavior of each minister is determined by the politically optimal intervention price for the government the minister represents. More specifically, a minister will vote in favor of the proposal if the proposed price  $P_{EU}^N$  is closer to his/her government’s optimum than the current price  $P_{EU}^0$  (or if it is the same). Formally:

$$v_j = 1 \text{ iff } |P_{EU}^N - P_j^\#| \leq |P_{EU}^0 - P_j^\#| \quad (7)$$

$$v_j = 0 \text{ iff } |P_{EU}^N - P_j^\#| > |P_{EU}^0 - P_j^\#| \quad (8)$$

where  $v_j$  is the voting decision by minister  $j$  (i.e. of country  $j$ ). The proposal is accepted if

$$\sum_j n_j^v \cdot v_j \geq \gamma \quad (9)$$

where  $n_j^v$  is the number of votes of country  $j$  and  $\gamma$  the minimum amount of votes needed to approve the proposal.

We assume that, after the vote, either the Commission or a minister of a Member State, can table a new proposal on which a new vote takes place. If the previous vote was approved, the newly approved common intervention price now becomes the price against which a new

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-3 votes each for Denmark, Finland, and Ireland;

-2 votes for Luxembourg.



proposal is evaluated. Voting goes on until no new proposal is accepted. The intervention price which is chosen by the Council, the “equilibrium intervention price”  $P_{EU}^M$ , is the last one which was approved.

It is obvious from equation (9) that the equilibrium intervention price will depend on the decision-making rules which determine the amount of votes needed, and on the distribution of votes,  $n_j^V$ . In the next sections, we will discuss the equilibrium intervention price under three different decision-making rules which are used in the EU. While the qualified majority rule is officially used by the Council of Ministers on most agricultural policy decisions, for expositional purposes we start with the analysis under assumption of a simple majority rule. This is simpler to analyze and it helps to understand the result in the more complicated analysis of qualified majority decision-making, which we turn to afterwards.

#### **4. Commission Influence and Status Quo Bias**

Assume that the Commission has some preference of its own regarding the common intervention price. This Commission preference may be due to personal preferences, to the Commission’s concern for economic efficiency or for the welfare of some interest groups, or due to other reasons. Here, we do not analyze the likely preferences of the Commission, nor their causes. We merely assume that the Commission has its own preference, which may diverge from that of the majority of the Member States.

We define the (potential) “*influence*” of the Commission as the price domain over which the Commission can pick a price according to its own preference and which price will be finally agreed upon by the Council of Ministers. Hence, if this domain is large, the Commission has much potential influence because any price it picks within this domain will be the final price, and its own preferences can play an important role.

As we will show below, the size of this choice domain, and hence the influence of the Commission will depend upon the voting rules, and upon exogenous changes. In our model, exogenous changes refer to changes in e.g. market conditions, which affect the preferences of the Member States – and presumably of the Commission. One example of such exogenous change could be declining world market prices due to developments in other parts of the world and which affect the budgetary costs and distortions caused by the CAP.

Yet, it may also be the case that no proposal of the Commission will be accepted. In

other words, not a single Commission proposal for a new intervention price will be accepted by the Council of Ministers. We refer to this case as the “*status quo*”: the Council cannot reach an agreement to change the intervention price, and hence the existing intervention price remains unaltered. The likelihood that this occurs also depends on the voting rules and on exogenous changes.

In the rest of this section we derive the “influence” of the Commission and the likelihood of a status quo outcome under various decision-making rules.

### *Simple Majority Voting*

Assume the following order of the politically optimal intervention prices,  $P_j^\#$ , of Member States: Country 1 has the lowest politically optimal price  $P_1^\#$ , country  $k$  has the highest politically optimal common price  $P_k^\#$ .  $P_1^\# < P_2^\# \dots < P_k^\#$ . Country 1 has  $n_1^v$  votes in the Council, country 2 has  $n_2^v$  votes, and country  $k$  has  $n_k^v$  votes.

Assume further that the countries together have an uneven number of votes in the Council (as it is currently the case in the EU-15, 87 votes) and that  $P_M^\#$  is the median politically optimal price. This is the politically optimal price of the country that has the 44<sup>th</sup> vote. we refer to the country with  $P_M^\#$  as the politically optimal intervention price as the “median country”.

In a single-dimensional issue<sup>7</sup>, that is when, as assumed above, a decision concerns only one policy variable and if all voting agents have single-peaked preferences defined over the domain of the policy variable, then the median voter cannot lose under simple majority rule. This result is known as the “median voter” rule (Mueller, 1989). We have shown above that in the case we analyze the voters in the Council of Ministers, i.e. the Ministers, have single peaked preferences. The median voter rule therefore implies that the politically optimal price of the median country will be adopted as the common price.

It is easy to see that under simple majority voting in the Council, the Commission has no influence on policies. The equilibrium outcome is the politically optimal price of the median country, which will always be chosen in the final decision round, no matter what the Commission proposes.

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<sup>7</sup> In multidimensional case the necessary and sufficient condition for existence of a dominant point under simple majority rule requires that it be a median in all directions (Mueller, 1989).

### Qualified Majority Voting

Under a qualified majority system, adoption of the Commission proposal requires more than 50 percent of the votes; otherwise the common price stays unchanged.  $\gamma$  is defined as the votes required for a qualified majority. (Under the currently used system on CAP decisions, approval requires at least 62 votes from Council members, i.e.  $\gamma = 62$ ).

Define country X as follows:

- $\sum_{i=X+1}^k n_i^v < \gamma$ , i.e. all countries with higher preferred optimal prices than the optimal price of country X ( $P_X^\#$ ) cannot obtain  $\gamma$  votes to approve Commission's proposal without country X.
- $\sum_{i=X}^k n_i^v \geq \gamma$ , i.e. country X and all countries with higher optimal prices can obtain at least  $\gamma$  votes to approve the proposal.

As defined Country X is crucial for increasing the existing common price.

By analogy, define country Y as:

- $\sum_{i=1}^{Y-1} n_i^v < \gamma$ , i.e. all countries with lower optimal prices than that of country Y ( $P_Y^\#$ ) cannot obtain  $\gamma$  votes to approve Commission's proposal without country Y.
- $\sum_{i=1}^Y n_i^v \geq \gamma$ , i.e. country Y and all countries with lower optimal prices can obtain at least  $\gamma$  votes to approve the proposal.

Similarly, country Y is crucial for decreasing the existing common price.

It is obvious that in order to be approved, a proposed price has to be larger than  $P_X^\#$  and lower than  $P_Y^\#$ . In other words, these prices form the boundaries of the domain within which price proposals have to fall in order to have a chance to be accepted. The size of the domain ( $P_X^\#, P_Y^\#$ ) will depend on the decision-making rule, i.e. on  $\gamma$ . This is illustrated by figure 1: the range of the domain ( $P_X^\#, P_Y^\#$ ) increases when the necessary votes increase (with  $\gamma_1 > \gamma_2 > \gamma_3 > \gamma_4$ ).

Moreover, once approved, no other price will be preferred by the same qualified majority. At first sight, this suggests that the influence of the Commission would increase when a higher qualified majority is required for decision-making, since it appears that the influence of the Commission is a direct, and positive, function of the size of the ( $P_X^\#, P_Y^\#$ ) domain. If the Commission prefers a high intervention price, it will propose a price close to  $P_Y^\#$ . On the other hand, if the Commission prefers lower prices, it would propose a price close to  $P_X^\#$ .

However, this is only half the story. This logic ignores the fact that the size of the qualified majority will also influence the likelihood of a status quo; and the latter may more than offset the effect of the increase in the ( $P_X^\#, P_Y^\#$ ) domain. To show this, let us first derive formally

the conditions on the choice of the Council of Ministers:

$$\text{If } P_{EU}^0 < P_X^\#, P_{EU}^N \text{ will be adopted iff } |P_{EU}^N - P_X^\#| \leq |P_{EU}^0 - P_X^\#| \quad (10)$$

That is  $P_{EU}^N$  must satisfy:  $P_{EU}^N \geq P_X^\#$  and  $|P_{EU}^N - P_X^\#| \leq |P_{EU}^0 - P_X^\#|$ .  $P_{EU}^N$  must be preferred by country X to the existing (status quo) price and must not be lower than the politically optimal level of country X, otherwise country X could propose a higher price. The proposal of the Commission will be accepted as final if  $P_{EU}^N$  satisfies the following:

$$P_{EU}^N \geq P_X^\# \text{ and } |P_{EU}^N - P_X^\#| \leq |P_{EU}^0 - P_X^\#|. \quad (11)$$

$$\text{If } P_{EU}^0 > P_Y^\#, P_{EU}^N \text{ will be adopted iff } |P_{EU}^N - P_Y^\#| \leq |P_{EU}^0 - P_Y^\#| \quad (12)$$

That is  $P_{EU}^N$  must satisfy:  $P_{EU}^N \leq P_Y^\#$  and  $|P_{EU}^N - P_Y^\#| \leq |P_{EU}^0 - P_Y^\#|$ .  $P_{EU}^N$  must be preferred by country Y to status quo and must not be bigger than politically optimal level of country Y, otherwise country Y could propose its decrease. The proposal of the Commission will be accepted as final if  $P_{EU}^N$  satisfies the following:

$$P_{EU}^N \leq P_Y^\# \text{ and } |P_{EU}^N - P_Y^\#| \leq |P_{EU}^0 - P_Y^\#|. \quad (13)$$

These conditions imply that when  $P_X^\# < P_{EU}^0 < P_Y^\#$  no Commission proposal,  $P_{EU}^N$  will be adopted by a qualified majority in the Council. In other words, if the existing common price is located between the intervention prices of member states X and Y, then there is no qualified majority in the Council that agrees on either increasing or decreasing the existing intervention price, i.e. the status quo prevails. Notice that this will always be the case when there is no exogenous change in the market conditions: without some exogenous change, all preferences will be the same as the previous year, and no new price proposal will be accepted.

Under these conditions, only a change in external conditions can trigger a change in policy. However, there is an inherent bias towards the status quo under a qualified majority rule, and the bias is stronger the higher is the required majority. This can be seen from figure 1.

For simplicity assume that the previous year's equilibrium intervention price was the same as the price preferred by the median voter country. However, since then external conditions

have changed such that member state preferences have generally moved towards higher prices, i.e. to the right on figure 1. The result is that the existing common price,  $P_{EU}^0$ , is lower than the current median voter optimal price,  $P_{EU}^M$ . Will this exogenous change trigger a change in the EU common price? It depends on the voting rules. Under the simple majority rule, there would be a change in the EU price policy: the new equilibrium price would be  $P_{EU}^M > P_{EU}^0$ .

However, under the qualified majority rule  $\gamma_1$  there will be no change in policy: since  $P_X^\# < P_{EU}^0 < P_Y^\#$  under this voting rule, there is no qualified majority formed that is able to change the price. The same holds for qualified majority  $\gamma_2$ . However, under lower thresholds, such as qualified majorities  $\gamma_3$  and  $\gamma_4$  there will be a change, as  $P_X^\# > P_{EU}^0$  under these rules.

Notice that, while under  $\gamma_4$  any price from the entire  $(P_X^\#, P_Y^\#)$  range is an acceptable proposal for the Council of Ministers, this is not the case with a higher qualified majority, such as  $\gamma_3$ . Under this rule only the prices in the  $(P_X^\#, P_Z^\#)$  range will be approved by the Council of Ministers, as prices to the right of  $P_Z^\#$  would not satisfy condition (12).

Hence, the influence of the Commission is summarized by the “influence triangle”  $P_X^\#(2)-P_Y^\#(4)-P_{EU}^M$  in figure 1. With simple majority, Commission has no influence. Its influence increases as the qualified majority needed to approve a proposal increases. However, at the same time an increase in the qualified majority increases the likelihood of a status quo. At some point (as of qualified majority  $\gamma_4$  in figure 1) the second force will begin mitigating the first effect, reducing the influence of the Commission. At some point (as of qualified majority  $\gamma_2$  in figure 1) it will totally offset the first effect and remove any influence of the Commission as any further increase in the qualified majority will lead to a status quo.

Obviously the likelihood of a status quo, and therewith the size of the “influence triangle” depends on the importance of the change in external conditions. The stronger this change, the more likely that the status quo bias will be overcome for a given qualified majority, ceteris paribus. This is illustrated by figure 2 where the “influence triangle” is drawn for two different assumptions on external changes. With  $P_{EU}^0(A)$  representing a stronger change in external conditions than  $P_{EU}^0(B)$  it is clear that under condition A it is less likely that there will be a status quo, and more likely that the Commission can have some influence on the decision-making. Moreover, ceteris paribus, it can have a bigger influence as it has a larger price range to choose from under A compared to B. Figure 3 presents the influence of the Commission as a function of the voting rules, illustrating how the influence initially grows with a higher qualified majority, but at some point reduces again and vanishes ultimately.

Alternatively, figures 1 and 2 can also be used to interpret the external change which is

required to “trigger” a policy change. Clearly, the larger the qualified majority, the larger change in external conditions that is required for a policy change to occur. One could define the external change required to trigger a policy change as the “*status quo bias*” of the voting rules. Clearly, this status quo bias increases linearly with the qualified majority that is required.

#### *Unanimity Rule*

Unanimity rule can be considered as an extreme version of the qualified majority rule. Unanimity rule requires all Member States to agree with a new proposal; otherwise, the status quo will prevail. In the context of this model, this implies that the accepted price will always be between the lowest politically optimal intervention price of any country and the highest politically optimal price inside the CAP (Figure 1). When the existing price is located between these extreme politically optimal intervention prices, there can be no unanimous agreement on a change of the common price. Hence, there is extreme propensity to favor the maintenance of status quo under the unanimous agreement rule. The probability that the previous year common price is inside the  $P_l^{\#} - P_k^{\#}$  range is high, and more likely with more diversified countries.

### **5. Conclusions**

In this paper we consider a two stage decision-making in the European Union on the Common Agricultural Policy. In the first stage (national level) national governments choose their optimum policy level. Then we show that under various assumptions, the institutional structure of the CAP has an impact on the choice of the common intervention price for the EU.

Decision-making procedure in the EU provides some freedom to the European Commission to influence the final policy levels. The least powerful is the Commission under simple majority voting. Under simple majority the final common EU policy level is decided by the median voter theorem. The ideological setup, national sympathies, or farming attitudes of the Commission or the Commissioner responsible for agriculture are unimportant for the equilibrium policy.

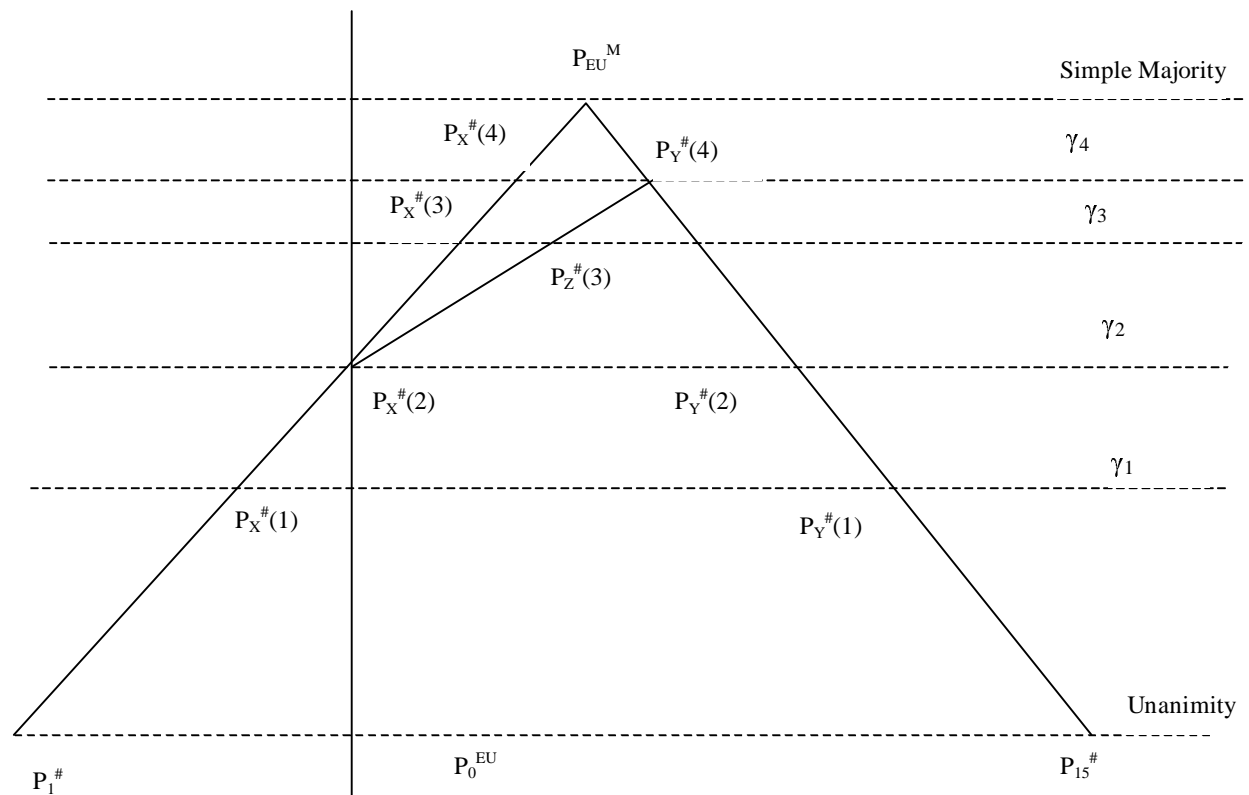
The Commission can influence policy level under qualified majority (including unanimity). Commission's potential influence increases as the qualified majority needed to approve a proposal increases.

However, with the rise of qualified majority the possibility of a stalemate also increases. The highest probability for a status quo is when unanimous agreement is needed in the Council. *Ceteris paribus*, the higher the qualified majority voting, the higher the probability of

preservation of status quo.

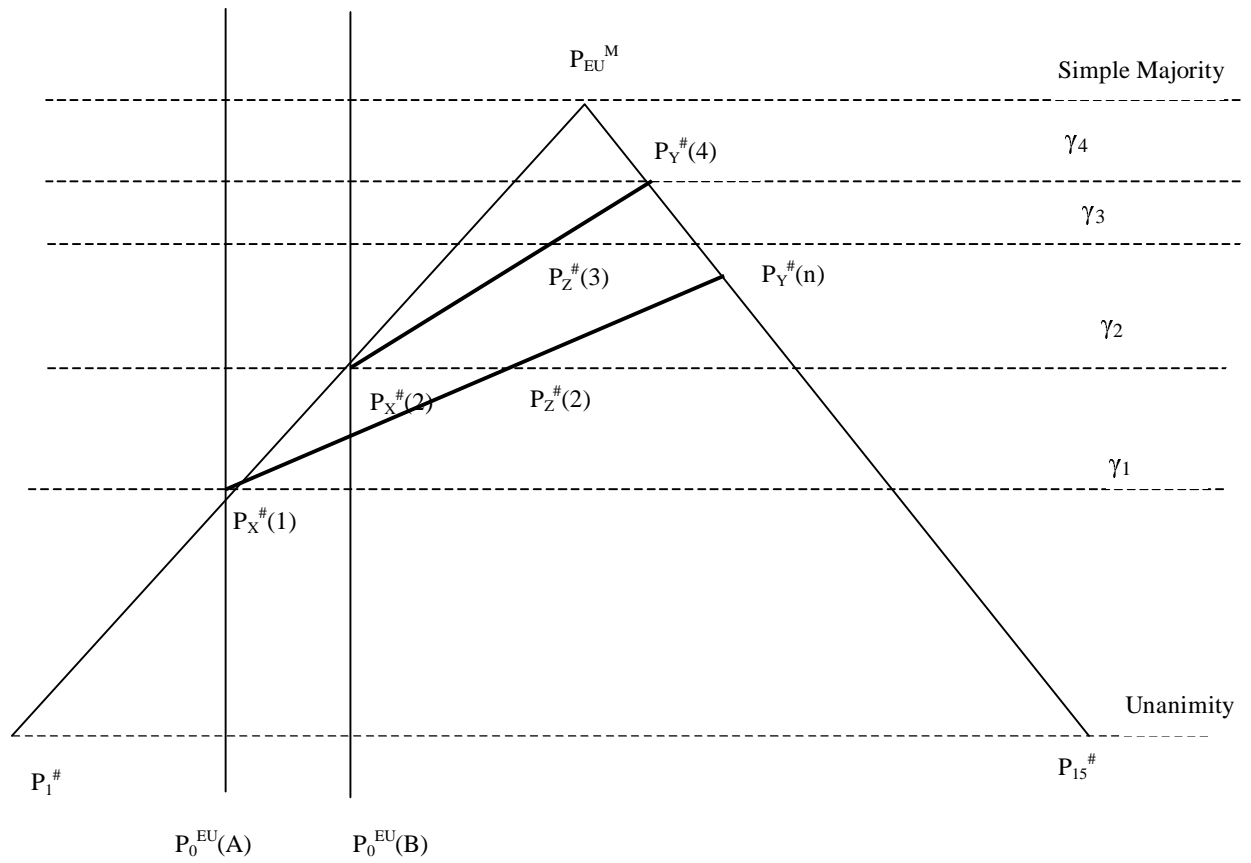
The likelihood of a status quo also depends on the importance of the change in external conditions. The stronger this change, the more likely that the status quo bias will be overcome for a given qualified majority, *ceteris paribus*.

**Figure 1.** Influence of the Commission and Status-Quo Bias Under Various Voting Rules

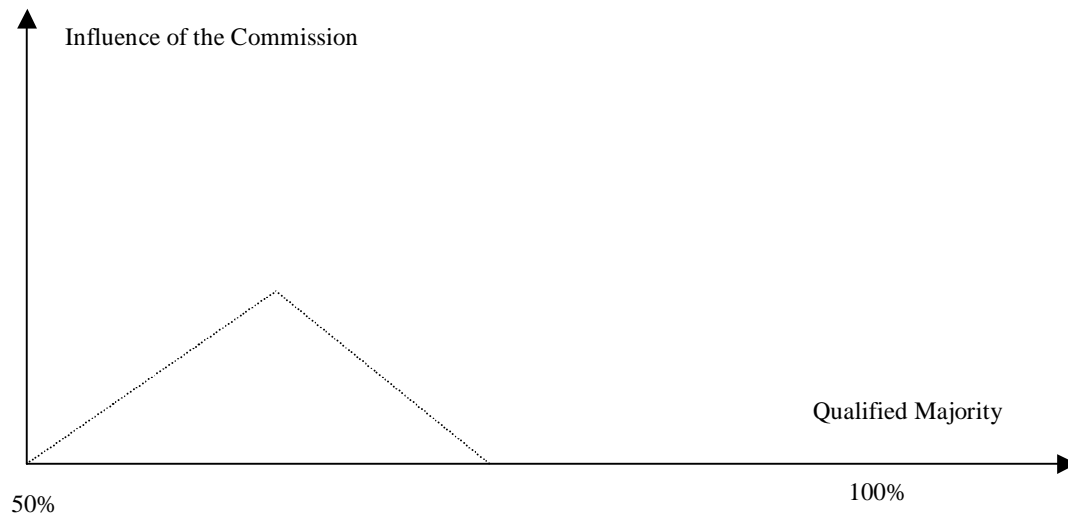




**Figure 2** Influence of the Commission and Exogenous Change



**Figure 3**      Influence of the Commission under Various Voting Rules



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