Volume 12 Number 1 2011/p. 12-28 esteyjournal.com

The Estey Centre Journal of
International Law and Trade Policy

Disconnections in US and EU Agricultural Policy and Trade Negotiations: A Transaction Cost Politics Approach

Linda M. Young
Associate Professor, Department of Political Science, Montana State University

Kathleen C. Hansen
Research Assistant, Department of Political Science, Montana State University

Acknowledgements: While the authors take full responsibility for all errors of fact and interpretation, they want to acknowledge helpful discussion with and comments from Timothy Josling, Carol Goodloe and Joseph Glauber.

This article investigates aspects of the institutions and decision making processes in the United States and the European Union that affect the coordination of domestic farm programs and trade negotiations for agriculture in each entity. We explore how current institutions and processes contribute to a level of incoherence – or lack of coordination – between domestic farm programs and trade negotiations in the United States. Constructs from transaction cost politics with an emphasis on the decision to delegate authority from the principal to an agent are used to understand how institutional processes affect the coordination of domestic legislation.

Keywords: agriculture and food policy, institutional economics, international relations/trade, transaction cost politics

Introduction

This article uses transaction cost politics (TCP) to investigate aspects of the institutions and decision making processes that affect the coordination of agricultural policy as expressed in domestic legislation and WTO commitments for the United States and the European Union. Agricultural policy is implemented by legislation, in the United States in national legislation commonly called the farm bill and in the European Union in the Common Agricultural Policy (CAP). At the same time, both entities have undertaken commitments as signatories of the Uruguay Round Agreement on Agriculture (URAA) of the World Trade Organization. These commitments constrain the nature of policies used and the extent of subsidization. Negotiations in the Doha Round of the WTO could result in further constraints on agricultural policy.

We use the term *policy disconnection* to describe a lack of coherence between domestic agricultural legislation and current and potential agreements on agricultural policy through the WTO. In contrast, *policy coherence* is characterized by a common medium- and long-term vision for agricultural policy as implemented in both domestic legislation and through international trade commitments. We argue that a greater degree of policy disconnection exists in the United States than in the EU. This disconnection is evident in the passage of farm bills that include policies that do NOT reduce subsidies or conform with the push for "decoupled" policies for domestic support laboriously negotiated in the URAA and in the current negotiations under the Doha Round. It is also evident in the reluctance expressed by Congress to modify U.S. farm programs to bring them into compliance with WTO rulings from its dispute resolution process, most notably on U.S. cotton programs. Finally, U.S. trade negotiators have spent time and effort to achieve specific provisions that have subsequently been made irrelevant by changes to the farm bill enacted by the U.S. Congress.

The disconnection between the farm bill and the WTO agreements and negotiations for agriculture can be explained by Congressional decisions to delegate significant authority to the Office of the U. S. Trade Representative (USTR) to negotiate trade agreements while guarding its own decision making authority over farm policy. The disconnection, illustrated by the following examples, became evident at the beginning of negotiations of the Uruguay Round, the first time that domestic policies for agriculture had been included in a significant manner in negotiations under the General Agreement on Tariffs and Trade (GATT).

In 1987 the Reagan administration proposed that commodity-specific programs for price and income support be reduced to zero by all nations, a proposal that

Cochrane argues Congress would never accept (Cochrane, 1990). Critics of the subsidization of U.S. agriculture and the resulting economic inefficiencies have hoped that U.S. commitments in the URAA and the promise of further trade reform would motivate the U.S. Congress to reduce the level of domestic subsidies and to use different instruments to provide income support; but even after the URAA, Congress and trade negotiators appear to have diverged. Runge (2006, 5) notes that the 2002 farm bill "set a course for domestic agricultural and trade policy at direct variance with US commitments in the previous round" and that "As the expiration and reauthorization date for this legislation loomed, it stood in starker and starker contrast to the purported negotiating goals in Geneva" (Runge 2006, 5). He further notes that "Meanwhile, U.S. negotiators in Geneva pretended not to care about the egregious 2002 Farm Bill, and in 2004 advanced what only can be described as Pollyannish farm trade proposals offering liberalization in return for major concessions from the EU, Japan and developing countries granting U.S. access to their markets" (Runge 2006, 9). Orden, Blandford and Josling (2009, 8) discuss how the Secretary of Agriculture approached the 2007 farm bill with the objective of making it "beyond challenge" by the WTO, but "Despite these arguments, the historical record demonstrates very little preemptive movement of U.S. policy to be consistent with WTO disciplines," and they note that Congress has little appetite to realign U.S. policies to minimize conflict with the WTO. Bertini, Schumacher and Thompson (2006) argue that the position of the U.S. Congress on domestic agricultural policy was a major factor in the collapse of negotiations in the Doha Round.

One reason for the lack of coherence between farm policy and trade negotiations and commitments is that Congress does not have a long-term vision for domestic agricultural policy (Josling, 2009; Bertini, Schumacher and Thompson, 2006). The lack of a vision to discipline and coordinate U.S. domestic policy and its stance in trade negotiations and implementation is costly to the United States. Trade negotiations operate on a "tit for tat" basis in which countries make promises to change their policies in exchange for changes in their partners' policies, a system that requires countries to make credible commitments. However, U.S. proposals for trade reform involving domestic agricultural policy are treated with skepticism (Whalley and Hamilton, 1996; Blustein, 2009). For example, passage of the 2002 farm bill resulted in the deterioration of U.S. leadership and effectiveness in the Doha Round negotiations due to serious doubts expressed about U.S. resolve to implement reforms (Blustein, 2009). More specifically, it has resulted in U.S. trade officials negotiating for specific provisions that Congress has made subsequently irrelevant, a costly waste of negotiating capital. A case study of the negotiations for the blue box in the Uruguay

Round and for a "revised" blue box in the Doha Round is used to illustrate the problem of disconnection and its costs. The case study of reform of the CAP, intertwined with the Uruguay Round negotiations, provides an example of a tighter connection between domestic policy and trade policy. Differences between the two policy processes are instructive. Both the United States and the EU state that they remain committed to further agricultural trade liberalization through the WTO and regional trade agreements, suggesting that the coherence of domestic and trade policy for agriculture will remain an important issue.

This research applies transaction cost economics and its offshoot, transaction cost politics, to analyze the policy process for coordinating domestic and trade policy for agriculture. We use theory, historical accounts, a review of the literature and interviews in our analysis of the disconnection between domestic agricultural policy legislation and agreements in the WTO. The case studies are based on interviews with academics and government officials involved in the negotiation of the Uruguay and the Doha rounds of trade negotiations.

We hypothesize that a significant contribution to the disconnection evident in U.S. policy is due to the delegation of trade negotiations to the Executive Branch, while Congress has closely guarded its own authority over the writing and passage of farm bills. In fact, Congress delegated authority for trade negotiations before the details for domestic agricultural policy became a significant part of them, and since then Congress has made only marginal institutional adjustments to account for its inclusion. In the EU, agricultural policy and trade negotiations are coordinated due to the key role that the same institutions, the European Commission and the European Council, play in both areas of policy. The case study on the EU also demonstrates how the two areas have been effectively intertwined.

Transaction Cost Politics

Transaction costs are the forces that cause outcomes to diverge from Coasian or optimal outcomes due to time inconsistencies, the nature of the principal-agent relations and the costs of making, monitoring and enforcing agreements. Dixit (1996) notes that transaction costs are even more pronounced in politics than in other economic relationships, and transaction cost politics has evolved using key concepts of transaction cost economics (TCE) to explain political outcomes.

We use constructs from TCP at the level of the individual decision maker to explain the conditions under which principals delegate decision making to agents. At the institutional level, TCP compares how institutional organization impacts political outcomes and policy decisions. An underlying hypothesis is that institutions evolve to minimize overall transaction costs so that adaptation rather than costly change is the norm (Dixit, 1996). As institutions seek to minimize **overall** transaction costs they may accommodate some amount of dysfunction in particular components of the institution. In this case we hypothesize that the U.S. Congress tolerates the level of dysfunction that results from the disconnection between domestic and trade policy concerned with agriculture because the costs of changing the institutional structure are even higher.

The Delegation of Trade Policy in the United States and the European Union

For the EU, one important explanation of the delegation of trade policy is quite simple: a common market requires a common trade policy. However, for both entities decision makers have delegated trade policy due to the difficulty of pleasing a broad range of constituents with trade policy decisions. The constituency of legislators and decision makers is likely to include a mix of exporting and importing-competing industries. Both import protection and export promotion policies tend to provide concentrated costs and benefits to a few while a liberal trade regime provides diffuse benefits to the many, posing a difficult challenge to decision makers.

Destler (1986) argues that the U.S. Congress protected itself from the ramifications of making trade policy by delegating it to an agent, namely the Executive Branch. In this way Congress could give broad mandates for trade policy, particularly for exports, to its agent and deflect requests from constituents. Epstein and O'Halloran (1999) enrich this argument by developing the TCP theory behind the decision to delegate. They propose that legislators are motivated to maximize their probability of re-election and calculate if they should undertake a particular policy decision or delegate it to the Executive Branch in terms of how it impacts their chances for re-election. This decision is similar to the decision of the firm when it evaluates whether to produce or buy inputs, a decision made according to a cost-benefit analysis of the respective costs of these two options. If the cost to individual legislators of making policy is larger than the electoral benefits, then Congress as a whole is likely to delegate some degree of decision making authority to the Executive Branch (Epstein and O'Halloran, 1999). As we discuss later, Congress has never delegated authority for farm bills due to the positive role the farm bill plays in creating support for Congressional re-election. In contrast, the impact of trade liberalization on Congressional chances for re-election is much less clear. Multilateral trade liberalization creates a diverse array of winners and losers, and both may exist in one Congressional district. The outcomes for export and import-competing firms may vary from expectations due to unanticipated changes in world prices or unexpected competition. Additionally, trade negotiations are complex and are likely to require several years to reach completion, and both the substance and probability of an agreement are uncertain. For a legislator it is problematic to devote considerable time to an issue that may not yield any benefits by increasing the probability of re-election.

Congress has always had the authority to regulate commerce, including international trade. Destler (1986) argues that Congress recognizes its dysfunctionality on trade policy and so has consistently increased the authority given the Executive Branch to negotiate and implement trade agreements on an ever broader range of goods and services. Recognizing the consequences of the Smoot Hawley tariffs and its vulnerability to protectionist trade policy, in 1934 Congress gave the power to reduce tariffs by 50 percent to the Executive Branch. In 1962 Congress created the Office of the Special Trade Representative and gave it the chief responsibility for negotiations in the Kennedy Round of the GATT. In 1974 the office was elevated to a cabinet position and made accountable directly to both the president and Congress. In 1979 the STR was renamed the United States Trade Representative (USTR) and was given the lead role in the development and coordination of policy for trade and trade-related investment (Noland, 1997). Figure 1 illustrates the delegation of authority to the USTR.

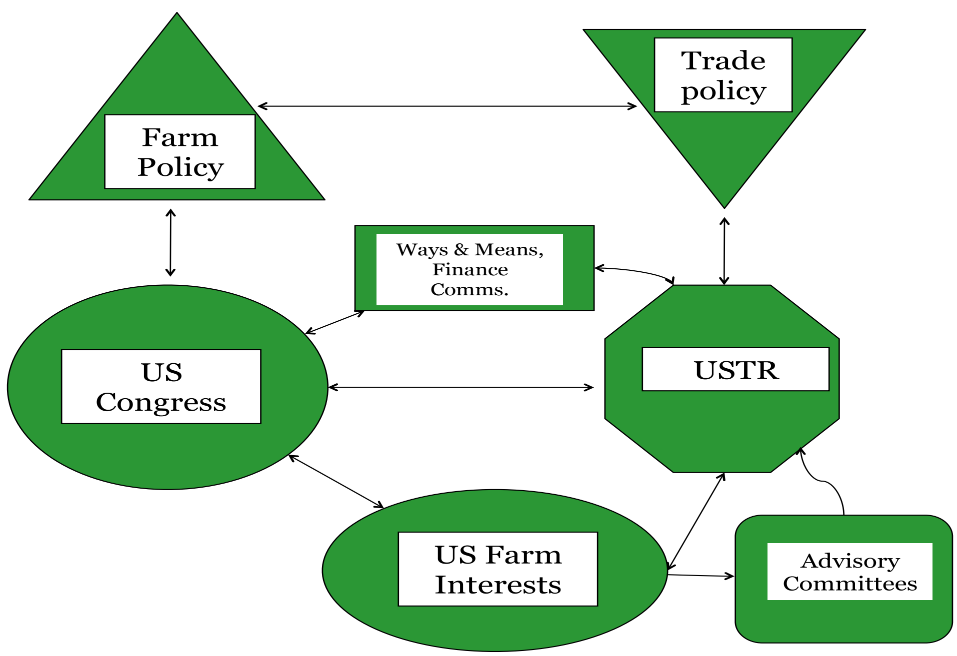

Figure 1 U.S. trade and agricultural policy process.

The USTR provides an example of the delegation of authority accompanied by the creation of a new agency to perform the delegated task (Dixit, 1996). TCP emphasizes that new agencies are likely to have a clear mission and to be staffed with people who strongly concur with the mission. The agency in turn is likely to generate information and analysis that reinforces belief in the mission of the agency, giving rise to an organizational culture and accentuating a bias towards self-perpetuation. Dryden's (1995) historical account of the STR and USTR provides evidence of the agencies' strong belief in the desirability of a liberal trade regime and their efforts to achieve it. Their advocacy for free trade is stronger and more unequivocal than that of Congress, particularly since the 1970s (Destler, 1986), when Congressional support for free trade lessened and started to divide along party lines. Delegation of authority is accompanied by the implementation of control mechanisms by the principal over the agent. When Congress increased the scope of the USTR's mandate to include services and intellectual property, Congress also implemented trade promotion authority, requiring an up or down vote by Congress to implement the agreements negotiated by the USTR.

The politics and processes of trade policy in the EU differ substantially from those of the United States. Trade policy has been an area of authority (named competence) for the EU since the Treaty of Rome in 1958. Member states delegated trade authority to the EU in order to insulate decision making about trade policy from protectionist and national re-election pressures (Meunier, 2005). Figure 2 illustrates both the trade and the agricultural policy processes for the EU. For both, proposals originate with the European Commission, which then takes them to the European Council with the catch-all description that the "the Commission proposes and the Council disposes." For agricultural policy the members of the Article 133 Committee, made up of senior trade officials from each state, maintain a dialogue with the Commission on these proposals. The Permanent Representatives Committee (COREPER), a body of member states' permanent representatives in Brussels, does detailed work in preparing the Council for discussion. The Lisbon Treaty has increased the role of the European Parliament (EP), and it provides input to the Council. An iterative process between the EP and the Council exists for resolving differences. However, to date the central actors in trade policy have been the Commission and the Council.

The structure of decision making in the EU has made political trades between interest groups and legislators much less prominent than in the Unites States (Dür and Zimmerman, 2007). "EU trade policy can be relatively technocratic, compared for example to that of the US, with close interplay between the Commission and the national offices in the Article 133 Committee shaping much of the substance of policy" (Woolcock 2005, 2). In fact, Woolcock argues that in the past national governments (outside of the Article 133 Committee) had little role in scrutinizing trade agreements and under the Lisbon Treaty would have no role in ratifying agreements.

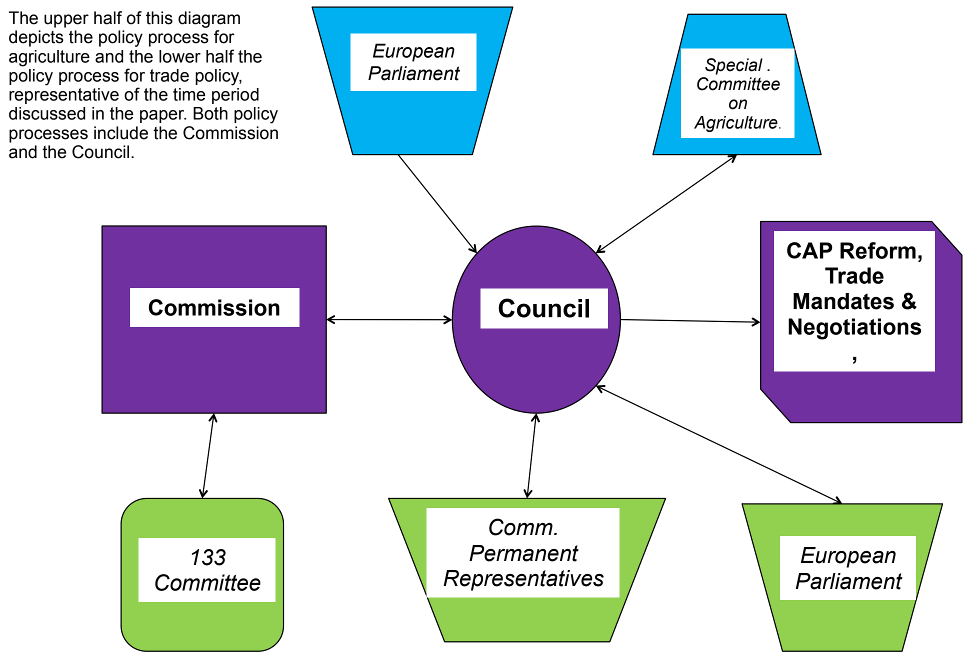

Figure 2 EU trade and agricultural policy process.

The United States and the EU: Delegation of Agricultural Policy

TCP shares with theories of rent-seeking the hypothesis that elected officials will vote according to their self-interest, defined as maximizing their chances of re-election. Legislators vote for legislation favouring specific groups in return for both monetary support and votes for their re-election. While Congress has been responsible for domestic farm policy throughout its history, the passage of the 1933 Agricultural Adjustment Act was a significant policy act. Support for the farm bill spans both parties (Orden and Blandford, 2008), and the farm bill has momentum that has withstood substantial challenges from changes in the sector, including the internationalization of agriculture, concerns over equity with other sectors and budgetary concerns. The United States insisted on special treatment for agriculture in the GATT so that Congress could implement domestic agricultural policy, particularly in the use of quotas, without international disciplines. Congress has passed farm bills predictably, with around ten years between bills in the 1950s to 1970s and on a consistent five- or six-year cycle since then.

Many authors have examined how the farm bills have created momentum through interests vested in the continuation of the policy. Bonnen (1997) describes how the Congressional agricultural committee structure evolved to include a large number of subcommittees in the 1950s and 1960s to account for the needs of the sector and, by doing so, created new vested interests. Browne (1988) and Orden, Paarlberg and Roe (1999) describe in some detail how commodity groups became permanent and influential components of the policy process for farm bills. Many analyses of the U.S. farm bill recognize how the diversity of interests represented in the bill has been critical to continued Congressional support (Browne, 1988; Orden, Paarlberg and Roe, 1999). Recently, Orden, Blandford and Josling (2009) conclude that domestic subsidies for agricultural producers are likely to remain unchanged unless dramatic changes occur in this coalition.

Rent-seeking provides a well used and widely accepted explanation for legislative support of farm programs. TCE and TCP deepen the analytical framework by addressing the issues of the value and time consistency of the political exchange between interest groups and legislators. North (1990) argues that it is difficult to measure the value of an exchange between legislators and special interest groups. Time consistency is a problem, as neither group can be certain that the other party will fulfill their part of the bargain and no institutions exist to enforce these political contracts (Dixit, 1996; North, 1990). Additionally, unforeseen economic developments on the domestic or international level can change the value of legislation favouring particular groups. All of these factors contribute to the difficulty of making credible commitments in political markets.

The contract is a mechanism for making credible commitments, and in theory perfect contracts specify outcomes for all possible contingencies. We argue that the longevity, predictability and precision of the farm bill provide elements of a contract between farm bill constituents and legislators and hence increase the ability of legislators to make credible commitments. Farm bills usually contain a well defined set of programs. The parameters that determine payments are specified, and frequently contingencies are detailed to account for changes in world prices. The introduction of new programs is usually conducted with substantial input from the agricultural interests involved. These characteristics give the farm bill some features of a contract, although it is admittedly an incomplete contract as not all eventualities are specified. It is more difficult to address the concern that legislators vote to support the agricultural sector without assurance of continued support from the beneficiaries;

however, ample literature supports the claim that both sides meet the terms of this implicit contract.

Due to the returns from political markets concerned with agricultural policy, Congress has fiercely guarded its power in this arena. As discussed earlier, in 2002 Congress passed a farm bill incongruent with the U.S. negotiating stance in Geneva. In 2007 the administration presented a farm bill to Congress with key measures to achieve WTO compliance, including reducing cotton loan rates, allowing fruits and vegetables to be grown on base acres and changing the basis of counter-cyclical payments (Orden, Blandford and Josling, 2009). Congress rejected the administration's proposal and in July of 2008 passed a bill with enough votes to be enacted despite a presidential veto.

As illustrated on a micro level with this case study, a degree of incoherence between the mechanics and direction of domestic agricultural policy as expressed in the farm bill and in WTO agreements is the result of the history of the delegation of trade policy and the much later inclusion of the details of domestic farm policy in multilateral negotiations, with only marginal institutional adjustments to accommodate the change. The URAA resulted in numerous commitments by the United States to constrain its agricultural policy and to recommence negotiations in 1999. Recognizing the continuing importance of agriculture in future negotiations, the 2000 Trade and Development Act created the position of Chief Agricultural Negotiator within the USTR to conduct trade negotiations and enforce agreements of concern to U.S. agriculture. To increase coordination between the two bodies, the USTR briefs Congress on the progress and content of trade negotiations. However, the effectiveness of these efforts in creating agreement on policy directions has varied depending on the issue and the leadership of the USTR (Blustein, 2009). In 2002 the farm bill included a clause authorizing the Secretary of Agriculture to make adjustments to program parameters of the farm bill if necessary to maintain compliance with U.S. commitments under the WTO. These are all examples of marginal adjustments within an existing institution to minimize the cost of adapting to a new challenge, namely, the emergence of agriculture as an important issue in trade negotiations.

The EU has not received significant criticism in recent years of the nature directed at the United States for a lack of connection between the CAP and EU obligations under the WTO. Agriculture in the EU has been subsidized for a long period of time and the EU has received substantial criticism for its high, although steadily declining, subsidization of the sector.

In the EU the same institutions are involved in both domestic and international agricultural and trade policy development and negotiations. The European Commission proposes changes to agricultural policy to the European Council (see figure 2). When the EC discusses agricultural issues the agricultural representative of each state attends and the council is referred to as the Agricultural Council. The Special Committee on Agriculture consists of experts from each national ministry of agriculture and the EC Directorate General on Agriculture, and it undertakes preparatory work for the Council's decisions. The Council is responsible for making decisions on agricultural policy. However, with the implementation of the Lisbon Treaty the Council must now consult with the European Parliament about changes to agricultural policy.

The institutional arrangements for policy decisions discussed above, and represented in figure 1 for the United States and figure 2 for the European Union, are illustrated in the case studies below.

The Blue Box: A Case Study of U.S. Policy Disconnection

This case study of the negotiation of the blue box, a component of the Domestic Support Pillar of the URAA, illustrates the nature of the disconnection between trade negotiations and farm bills. When the Uruguay Round negotiations came to an impasse in 1992, the United States and the EU met separately and negotiated the Blair House accords. Both the United States and the EU wanted to negotiate further provisions that would allow the continuation of current agricultural programs, as neither wanted to be forced to implement politically difficult cutbacks in agricultural subsidies.

A key element of the accords was the creation of the blue box, a new category of payments to producers that were accompanied by supply control measures. Inclusion of the blue box into the URAA would allow both the United States and the EU to subsidize producers beyond the limit negotiated for the production-distorting policies included in the amber box. However, one year later, after the implementation of the URAA, the U.S. Congress passed the 1996 farm bill and eliminated deficiency payments. This essentially made the blue box irrelevant for the United States (Glauber, 2010; Goodloe, 2009; Josling, 2009), and the United States did not report blue box expenditures after 1995.

In 2002 the Congress enacted a farm bill that introduced a new policy of counter-cyclical payments (CCPs). At this point in the ongoing Doha Round negotiations the United States faced pressure to reduce its domestic support categorized as amber box. In response, U.S. agricultural trade negotiators proposed a revised blue box that would include counter-cyclical payments. Negotiations over the revised blue box cost the United States some negotiating capital in terms of market access provisions with the EU. Shortly afterwards the U.S. Congress passed the 2008 farm bill and introduced a new optional program of whole farm insurance named the ACRE program. Farmers must choose whether to participate in ACRE or in traditional commodity programs. As ACRE is clearly a policy that fits within the amber box and was anticipated to be a "good deal" for most farmers, it was consequently anticipated that amber box expenditures and thus the U.S. aggregate measure of support would increase despite international pressure on the United States to decrease amber box support (Goodloe, 2009). These developments cast doubt on the usefulness of the negotiated "new blue box." So, U.S. trade officials have twice used valuable time and capital to negotiate provisions they believed would assist U.S. agricultural interests (Glauber, 2010; Goodloe, 2009), and in both cases their successful efforts on the blue box have been made irrelevant by subsequent policy decisions of the U.S. Congress.

Transaction cost politics stresses the difficulty of making credible commitments in political markets (North, 1990; Dixit, 1996; Epstein and O'Halloran, 1999). The U.S. Congress makes credible commitments to agricultural interests in the United States as implemented through the farm bill, although some changes in direction have taken place. The problem arises when negotiations under the WTO directly conflict with Congressional interests in the farm bill. Trade policy was delegated for a long period of time before domestic agricultural policy became a significant part of the negotiations, and Congress continues to guard its own authority over farm legislation. These conflicts have resulted in an overall loss of credibility for the United States as it negotiates for increased constraints on domestic agricultural policies as a part of trade negotiations. It also means that at times the United States has spent scarce capital negotiating for provisions that it subsequently hasn't used. The marginal institutional adjustments that have been made to coordinate the farm policy and trade negotiations for agriculture are insufficient to provide substantial coordination between Congress and the USTR. More significant changes would need to be enacted by Congress; however, as the USTR bears the brunt of the costs of this disconnection in terms of reduced credibility and negotiating capital, Congress has insufficient motivation to bear the cost of change. Congress likely would not have authorized inclusion of agriculture in the negotiations if this required an accompanying reduction in Congressional authority over U.S. farm programs. TCP argues that a broad view must be taken to appreciate how an institution will evolve to minimize its overall transaction costs. More substantial institutional changes could be made to ensure the coordination of agricultural policy and trade negotiations; however, the costs of institutional change appear to overwhelm the costs of the current level of policy disconnection.

EU Case Study: CAP Reform and the Uruguay Round Negotiations

The case study on the EU illustrates a much tighter connection between their domestic policy and their strategy for trade negotiations. In 1986 the EC embarked upon the Uruguay Round of GATT negotiations with promises to domestic constituents that mechanisms of the CAP would not be called into question. Without a commitment from the EC to include agriculture, however, the Australian and U.S. delegations were unwilling to negotiate (Swinbank, 1996). The EC offered concessions by October 1987. The agreement on the new negotiation strategy was limited in scope and still preserved the fundamental mechanisms of the CAP (Swinbank, 1996).

In April 1989 the EC agreed to substantial reductions in agricultural support but was unable to agree on an acceptable final offer for the GATT negotiations by the October 15, 1990 deadline, leading to collapse of the negotiations on December 6, 1990. Five days later the EC commissioner for agriculture, Ray MacSharry, announced the Commission's intention to propose revolutionary changes to the CAP, while still claiming that domestic agricultural reforms and the GATT talks were unrelated. Tanner and Swinbank (1996, 88) refute this claim, stating "It seems clear that the MacSharry reforms proposal had its origin in the internecine struggles of October 1990, as the EU sought to produce a GATT offer to meet international obligations."

The crux of MacSharry's original proposal was to reduce farm prices. When the draft of MacSharry's reforms was debated by the Agriculture Council, the discussion ended in deadlock. The EC arranged an acceptable compromise: reduced support prices for many major commodities were exchanged for increased direct payments to compensate farmers facing a loss of income. MacSharry's reforms were significant and cut the cereal intervention price by 30 percent along with smaller cuts in beef and butter over a three-year time frame. These reductions were compensated for by payments per hectare of cereals and higher premium payments for dairy and beef. The reforms also enabled the Commission to reduce arable area, in order to control surpluses, through set-aside policies.

In January 1991 the Commission formally submitted the final CAP reform document to the Council. In September 1991, the United States, the EC, Japan and Canada determined that the MacSharry proposals would enable continued GATT negotiations (Coleman and Tangermann, 1999). After Germany and France reluctantly agreed, the MacSharry reforms were finally adopted in May 1992 and simultaneously spurred the Uruguay negotiations. MacSharry then went to Washington D.C. to forge an agreement in agriculture announced in November 1992 as the "Blair House accord." MacSharry's integral role in both domestic and international EU policy ensured that the CAP reform was compatible with the accord. The conclusion of the Uruguay Round on December 15, 1993 in Geneva mandated no further adjustment to the CAP.

In 2003 the EU again undertook significant reform of the CAP. Swinbank and Daugbjerg (2006) evaluate numerous forces behind the reform, including enlargement, the balance of expenditures between rural development and price and income support, budgetary pressures and the WTO negotiations. They conclude that the WTO negotiations were a driving force. In further work Daugbjerg and Swinbank (2007) argue that CAP reform takes place within the context of WTO negotiations so that farm ministers can avoid blame for the decision, as when CAP reform is part of a broader package, the decision is passed to the European Council. The bottom line is that current EU processes have produced a cohesive policy that has enhanced the EU's ability to negotiate. Blustein (2009, 137) supports this argument, noting that Lamy, then the EU commissioner for trade, came to Montreal with a hand strengthened by major reform of the CAP, claiming "We have done our homework and now it's up to others to do theirs."

For our purpose of evaluating the institutional arrangements that produce connection between the CAP and the WTO, it doesn't ultimately matter if domestic or international pressures played the larger role in CAP reform, as long as these pressures were melded into one cohesive vision for policy. A key point is that in the EU coherence is partially due to the pivotal role played by the Commission in both CAP reform and trade negotiations. The policy process ensures that all players have significant input into proposals for both trade negotiations and agricultural policy. The fact that decision making for both agricultural policy and trade were delegated from the national to the supranational level in the 1950s and 1960s has been a major factor in creating a policy process that does not respond to the same immediate pressures and political markets as the U.S Congress. As a result, the EU has been better able to sustain a vision for its agricultural policy over time.

Conclusions

The EU has had a cohesive domestic agricultural policy and trade policy due to the policy processes developed to delegate decision making to the supranational level and the key role of the Commission and Council in both. This may change with the increased role of the European Parliament due to the Lisbon Treaty. In contrast, the U.S. Congress delegated authority for trade negotiations and implementation over time to the USTR, while keeping the historical role of Congress for agricultural policy. Authority was delegated to the USTR when trade policy was largely concerned with manufactured goods. Critically, the United States has never had a systematic and widespread system of subsidizing manufacturing equivalent to the farm bill for agriculture and so no experience in coordinating these aspects of policy. It is likely Congress would not have supported inclusion of agriculture in WTO negotiations if a formal change, namely a reduction, in their authority and power to enact domestic farm legislation had been required.

The dysfunction that has resulted for the United States has not been costly enough, particularly to Congress, for the country to contemplate changes to address the lack of coordination. The brunt of the costs are arguably felt by the USTR, whose ability to make credible commitments in trade negotiations is diminished, along with its ability to fulfill its organizational mission for trade liberalization. Marginal changes have been made to increase coordination and consultation between Congress and the USTR on agricultural policy without making any changes in Congressional power over agricultural policy.

The Kennedy Round required four years to negotiate, the Tokyo Round seven years, the Uruguay Round nine years, and negotiations under the Doha Round have already surpassed ten years. As significant changes in agricultural policy are phased in gradually, implementation has occurred over five years for developed countries. Effective trade negotiations require a vision for domestic agricultural policy and the ability to make credible commitments at home and abroad. This is a big task for policymaking and one that the U.S. Congress is poorly structured to achieve. Constructs from transaction cost politics are useful in understanding the problem but do not provide a normative solution. If anything, TCP stresses the difficulty of making significant institutional change due to the reluctance of those with power to part with it.

References

Bertini, Catherine, August Schumacher Jr., and Robert L. Thompson (co chairs). 2006. Modernizing America's Food and Farm Policy: Vision for a New Direction. Report of the Agriculture Task Force of the Chicago Council on Global Affairs, Chicago.

Blustein, Paul. 2009. *Misadventures of the Most Favored Nations: Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System*. New York: Public Affairs.

Bonnen, J. T. 1977. Observations on the Changing Nature of National Agricultural Policy Decision Processes: 1946-1976. Paper presented to the conference Farmers, Bureaucrats and Middlemen: Historical Perspectives on US Agriculture. Sponsored by the National Archives and Records Service and Agriculture History Society, Washington DC, April 27-29.

Browne, William P. 1988. *Private Interests, Public Policy and American Agriculture.* Lawrence, Kansas: University Press of Kansas.

Cochrane, W. 1993. *The Development of American Agriculture: A Historical Analysis*. Second Edition. Minneapolis and London: University of Minnesota Press.

Coleman, W. D., and Stefan Tangermann. 1999. The 1992 CAP Reform, the Uruguay Round and the Commission: Conceptualizing Linked Policy Games. *Journal of Common Market Studies* 37(4): 385-405.

Daugbjerg, Carsten, and Alan Swinbank. 2007. The Politics of CAP Reform: Trade Negotiations, Institutional Settings and Blame Avoidance. *Journal of Common Market Studies* 45(1): 1-22.

Destler, I. M. 1986. *American Trade Politics.* First edition. Twentieth Century Fund.

Dixit, Avinash K. 1996. *The Making of Economic Policy: A Transactions-Cost Politics Perspective.* Maryland: Massachusetts Institute of Technology.

Dryden, Steve. 1995. *Trade Warriors: USTR and the American Crusade for Free Trade.* Oxford: Oxford University Press.

Dür, Andreas, and Hubert Zimmerman. 2007. Introduction: The EU in International Trade Negotiations. *Journal of Common Market Studies* 45(4): 771-787.

Epstein, David, and Sharyn O'Halloran. 1999. *Delegating Powers: A Transaction Cost Politics Approach to Policy Making Under Separate Powers*. Cambridge: Cambridge University Press.

Glauber, Joseph. 2010. Personal communication, January 6.

Goodloe, Carol. 2009. Personal communication, January 8.

Josling, Timothy. 2009. Personal communication, February 12.

Meunier, Stephanie. 2005. *Trading Voices: The European Union in International Commercial Negotiations*. Princeton: Princeton University Press.

Noland, Marcus. 1997. Chasing Phantoms: The Political Economy of the USTR. International Organization 51(3): 365-87.

North, Douglas C. 1990. *Institutions, Institutional Change and Economic Performance*. New York: Cambridge University Press.

Orden, D., R. Paarlberg, and T. Roe. 1999. *Policy Reform in American Agriculture.* Chicago: University of Chicago Press.

Orden, David, and David Blandford. 2008. Farm Support Policies of the United States: Review and Prospects for Minimizing Production and Trade Distortions. Workshop of the United Nations Food and Agriculture Organization on OECD Non-Distortionary Farm Policies, Rome, December 1.

Orden, David, David Blandford, and Timothy Josling. 2009. Determinants of Farm Policies in the United States, 1996-2008. Agricultural Distortions Working Paper #81, www.worldbank/agdistortions.org.

Runge, C. Ford. 2006. The Doha Disaster: How a Cowardly Congress Cossets Agribusiness. *The American Interest*, October 2nd.

Swinbank, Alan. 1996. *Farm Policy and Trade Conflict: the Uruguay Round and CAP Reform.* Ann Arbor: University of Michigan Press.

Swinbank, Alan, and Carsten Daugbjerg. 2006. The 2003 CAP Reform: Accommodating WTO Pressures. *Comparative European Politics* 4(1): 47-64.

Tanner, Carolyn, and Alan Swinbank. 1996. *Farm Policy and Trade Conflict: The Uruguay Round and CAP Reform*. Ann Arbor: University of Michigan Press.

Whalley, J., and C. Hamilton. 1996. *The Trading System after the Uruguay Round*. Washington DC: Institute for International Economics.

Woolcock, Stephen. 2005. European Union trade policy: domestic institutions and systematic factors. In Kelly, D., and W. Grant (eds), *The Politics of International Trade in the Twenty-first Century: Actors, Issues and Regional Dynamics,* 234-252. Basingstock, UK: Palgrave.