

Koester, Ulrich

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Decision-Making Problems of the Council of Agriculture Ministers

by Ulrich Koester, Göttingen *

Joint decisions each year on agricultural prices by the Council of Ministers of Agriculture are a requisite of the European Community's Common Agricultural Policy. It is however more and more difficult to reach joint decisions on these prices. Divergencies of national aims and economic starting positions (in regard to growth, inflation, unemployment, balance of payments position) are often held responsible for this fact in the public discussion. While not questioning the relevance of these factors the present contribution focuses on the importance of institutional rules for the divergence of national interests.

In the context of the increasing difficulties of reaching joint decisions on agricultural prices in the EC Council of Agriculture Ministers it will be attempted in the following to answer two questions¹:

- (a) Are the present rules for the making of decisions the best ones that can be conceived?
- (b) How are the decisions reached to be judged from the political point of view?

The first of these two questions is to be examined because the stipulation of de facto unanimity in the Council of Agriculture Ministers is nowadays thought to be at the root of the protracted decision-making process and in need of reform. The second question is to be considered with special regard to the suitability of the present agricultural market system for the achievement of particular political aims.

The Present Decision-Making Rules

Although de jure decisions of the Council of Ministers of Agriculture require in principle only a majority vote, unanimity is in fact the rule. A unanimous decision is in any event required when an individual member country declares the possible outcome of the vote to be crucial to the realization of national interests. In the following it will therefore be examined whether the rule of de facto unanimity is to be regarded as a positive or a negative factor as far as its effects on integration are concerned.

That the unanimity rule tends to draw out negotiations in the Council of Agriculture Ministers cannot be denied. It also tends to shift the cost of agreement on agricultural prices to third coun-

tries; the tendency is thus to try to externalize the costs of agreement. These drawbacks of the rule of unanimity as practised at present, significant though they are, must be weighed against the respective advantages of this and other voting procedures before a positive or negative judgment can be passed on the present voting rules.

In general, it may be said with Buchanan and Tullock², the best possible voting rule from a national point of view is the one which minimizes the interdependence costs. The interdependence costs indicate the national costs of the supranational decision-making process. They consist of the "likely external costs" and the costs of reaching a consensus. The former are indicative of the national disadvantages of collective decisions; the latter are a measurement of the national expenditure of time, concessions, etc., needed to bring about a certain decision. The greater the "likely external effects" of non-unanimous decisions in the Council of Agriculture Ministers for a country, the more strongly will it plead for a unanimity rule as the stipulation of unanimity makes it avoidable for one particular country to be — permanently or temporarily — exploited by the other member countries of the EC and, perhaps, to be turned into the paymaster of Europe.

If it can be demonstrated in the following that, because of the present institutional rules of the EC and the different starting positions of the

* Göttingen University.

¹ Cf. U. Koester, *EG-Agrarpolitik in der Sackgasse. Divergierende nationale Interessen bei der Verwirklichung der EWG-Agrarpolitik (EC agricultural policy in a blind alley. Diverging national interests in the implementation of the EEC's agricultural policy)*, Baden-Baden 1977.

² Cf. J. M. Buchanan, G. Tullock, *The Calculus of Consent*, 2nd ed., Ann Arbor 1967.

member countries in regard to preference functions and opportunities for the attainment of their objectives, decisions by the Council of Agriculture Ministers will invariably give rise to "likely external costs", it follows that the rule of unanimity is probably hampering the integration process less than would be the case with possible majority-voting rules.

Unanimity Rule Superior

How institutional rules cause "likely external costs" to arise can be illustrated by the rules on the financing of market order outlays: Market order outlays arise as a result of intervention costs, e.g. for storage, and in particular through compensatory payments for exports. When the production exceeds the demand in a country, the EC — and not the particular member country — is liable to dispose of the surplus. The EC finances its spending for this purpose from so-called own resources, i.e. from its income from levies and customs duties, as well as from direct contributions by the member countries. These direct financial contributions are not however the only common financial costs falling on the individual member countries; surrendered revenues from equalisation levies may have to be added, and savings in the way of compensatory export payments may have to be subtracted.

Any change of agricultural prices results in a redistribution of the costs of the common agricultural financing. A 1 % rise of the butter price, for instance, has the effect of the British consumer having to support the producers in the partner countries. The transfer flow set in motion by a 1 % change of the butter price in 1975 was as follows: Great Britain — EUA 8.8 mn, Italy — EUA 2.8 mn, France + EUA 2.1 mn, Germany + EUA 2.5 mn³. These figures show the "likely external costs" of an agreed increase of the common butter price. Similar divergences were observed when other common agricultural prices were raised. If a country wants to avoid substantial disadvantages to itself from common pricing decisions — as the United Kingdom in the case of butter price rises in 1977 — it will prefer the rule of unanimity which gives it an opportunity to obtain Community concessions (such as the butter subsidy for the UK in 1977) in return for its consent to the raising of prices. With marginal changes in the common financial costs involving as large sums as at present, it is to be feared that while a departure from the rule of unanimity would make it easier for the Council of Agriculture Ministers to arrive at decisions, the disintegrative

forces would be strengthened thereby and the EC might even break up as a result.

It can be conceded that the indicated "likely external costs" of a rise of the common prices have so far not been the decisive factor in the voting of the EC Agriculture Ministers but it must be assumed that the experience with other new institutional arrangements will eventually be repeated in this field: The longer rules apply, the better do its shortcomings become known and the more frequently will such shortcomings be exploited in individual instances.

To sum up, the answer to question (a) is that the present decision-making rules come most probably nearer to the optimum than would decisions by a simple majority vote.

A positive view of the present decision-making rules of the Council of Agriculture Ministers does not however necessarily imply a positive view of the results arrived at in the decision-making process. This question will have to be examined now.

Achievement of Democratic Objectives

The following reflections start from the premise that the governments of the EC member countries are at present based on democratic principles. To be examined is therefore whether the EC's agricultural market order system makes it easier to achieve certain democratic objectives of society in the individual countries or more difficult.

It is to be examined in particular

(a) whether the representatives of the member governments at the common agricultural negotiations fully reflect the preferences of the electorates in the member countries:

☐ Does the present structure of the agricultural market arrangements give the electorates an opportunity to make their preferences known?

☐ Are the political representatives obliged to act in accordance with the collective will or does the present system give them the possibility of disregarding the wishes of their electorates and bringing personal aspirations to the fore in the common negotiations?

Only if these conditions are fulfilled can there be certainty that the will of the electorates of the individual member countries will be given expression in the common agricultural negotiations in Brussels.

There is another question which needs following up:

(b) Democracies which are organized as market economies will function the better the less chance there is of externalizing the effects of private

³ Cf. U. Koester, *Ibid.*, p. 79, and (by the same author) The redistributive effects of the common agricultural financial system, in: *European Review of Agricultural Economics*, Vol. 4, No. 4 (1978).

actions and the less "likely external costs" are caused by collective decisions. Private actions will give rise to external costs whenever an individual is in a position to pass on the negative effects of his action to other individuals. In this case it can happen that the benefits from the private action are privatized while its drawbacks are socialized. This implies a coincidental violation of the principle of equivalence — of parity of action and reaction. Collective decisions cause "likely external costs" to arise if they generate negative effects on individual members of a collective⁴.

Revelation of Voters' Preferences

As to (a): Do the present agricultural market arrangements give the electorates an opportunity to bring their preferences to the notice of the political agents⁵?

To answer this question we must assume certain modes of conduct on the part of the electorates. Following A. Downs⁶, it is assumed here that the electorates adopt a rational attitude to the maximizing of the benefits accruing to them. A voter will therefore only indicate his preferences to the political agent if he hopes to derive an advantage from doing so. This advantage could consist of action by the political agent in the interest of the voter.

The voter must however also bear in mind that there is no point in revealing his preferences unless he possesses information about the different effects of possible alternative decisions by the political agent. Whether a voter gathers such information depends materially upon its cost⁷. The cost of the information — on the various alternative decisions to choose between and on their effects — will be the greater the more difficult it is to obtain. A rationally acting voter will incur such costs only if he can expect that indication of his preferences may induce the political agent to act in his interest.

An analysis of the effects of agricultural policy decisions shows that the voter requires a wide range of extremely complex information in order to be able to judge the various alternatives of an EC agricultural policy. Most voters will therefore be constrained by the costs of obtaining information, so much so that rational voters will not concern themselves with the problems of the EC's agricultural policy at all.

⁴ Cf. G. Kirsch, *Ökonomische Theorie der Politik* (Economic theory of politics), Tübingen 1974, p. 46 ff.

⁵ "Political agent" is the term used in the present article, following the literature of the "new political economics", to designate the political decision-maker.

⁶ Cf. A. Downs, *Ökonomische Theorie der Demokratie* (Economic theory of democracy), Tübingen 1968, p. 26 f.

⁷ Cf. A. Downs, *ibid.*, p. 215 ff.

Nor will they decide otherwise because of the possible advantages to them if they can sway the political agent's decisions in their interest: Agricultural policy decisions in the EC have a more or less direct impact on the prices of individual agricultural products or on the level of agricultural prices as a whole. If the individual voter examines how his welfare may be affected by a slight modification of the decisions, he will usually find that it does not really matter. Changes of agricultural prices have little impact on the individual household, and the individual voter will therefore be fairly indifferent to such price decisions — at least as a consumer. The voter who is an agricultural producer on the other hand sees things differently.

The agricultural policy decisions of the EC have a far stronger impact on the welfare of the producers of agricultural products than on that of the consumers, and this means that producers will therefore keep themselves better informed about the alternative decisions of EC agricultural policy to choose between and their effects even if the gathering of information is as costly. As the producers are moreover organized in representative

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bodies and as they are kept informed by their central federations, we can see that the producers do indeed know much more about agricultural policy issues than do the consumers. Consequently they are also better placed for bringing their preferences to the notice of the political agents. It follows that when political agents take the revealed preferences of the electorates into account, they will pay much more regard to the interests of the producers than to the consumer interests.

Summing up, we may thus note that the general bias of democratic governments in favour of the producers' rather than the consumers' interests is strengthened by the EC's agricultural market order system. This would suggest that the agricultural policy decisions of the EC do less justice to the overall welfare than would other, more intelligible arrangements for the agricultural markets which involve less costly gathering of information.

Bias in Favour of the Producers

Have the political agents to act in accordance with the expressed preferences if they are out to attract as many votes as possible at the next elections?

The present agricultural market order system of the EC seems hardly to be such as to compel the political agents to act in accordance with the collective will. On the contrary, it gives the impression of being an excellent arrangement for political agents who want to attain their own particular objectives. Since the farmers are a relatively cohesive group of voters and much better informed about the agricultural policy of the EC than the consumers, governments are normally inclined to favour them at the expense of the rest of the population, in the hope that they can thereby gain more votes⁸. The political agents will find such a strategy the easier to pursue the less obvious is the effect of their actions to other voters and the less political harm the outcome of negotiations does to them among other voters. In the case of the EC's agricultural policy both these conditions appear to be given: On the one hand it is not very clear what burden the nation as a whole and the non-agricultural population will have to shoulder if the incomes of the farmers are raised by a particular price policy; on the other hand the political agents will easily find excuses for supporting the cause of agriculture by advancing the argument that their bargaining powers in the supranational authority are narrowly circumscribed and a boycott might cause the system to collapse, which would be bad for everybody⁹. From all this follows that the institutional arrangements of the EC's agricultural policy create among the political agents a bias in favour of the

agricultural industry. If the agricultural policy were decided on the national level, this would not happen to the same extent.

The following actual observations tend to bear out these suppositions:

☐ The average measure of protection for the agricultural production in the EC has increased since the Community was formed.

☐ The benefits and drawbacks of the EC's agricultural policy are rarely — if ever — mentioned by the political agents before parliamentary elections in individual member countries. They obviously realize that the electorate is not greatly interested in these problems and that few votes are to be gained by pointing to benefits for the own country or speaking of the drawbacks for others.

☐ When the member countries took stock of the EC's common agricultural policy, it was found that none regarded the present agricultural policy system as in need of reform and that all fully endorse the basic principles of the agricultural policy of the EC. This may seem surprising in view of the exposed problems of the EC's agricultural policy, but bearing in mind that the present system gives the political agents far more scope for decisions than any other system which would provide more transparency, their preference for the present system — with all its shortcomings — is understandable. The present system seems to offer a better means for the achievement of the personal aims of the political agents than other, more transparent, systems.

Significance of External Effects

As to (b): The importance of system-induced external effects and "likely external effects" for a democracy with a market economy orientation.

The system-induced divergences between national interests are to be examined in the following in regard to their importance for the viability of democracies with a market economy orientation.

As the member countries of the EC are at present still politically autonomous, the pursuit of divergent national objectives by individual members is perfectly conceivable and can indeed be observed in actual fact. The significance of divergent national political aims comes to light when individual countries call their voters to the polls, which they do at different times. Individual countries will not unnaturally try to realize different political aims at different times with different intensities.

⁸ Whether the farming community voted at the last election for other parties is irrelevant to the attitude of the government parties. Crucial is whether the government party sees a chance of gaining more votes than it will lose by a policy of favouring agriculture.

⁹ This also explains why "likely external costs" do arise at present despite the rule of unanimity.

On principle, there exist no objections to such practices. With regard to the integrative force of the institutional arrangements misgivings are however apt to arise on the ground that the realization of national political objectives involves external costs. If, for example, a member country (perhaps France in 1976) believes that it can preserve its democratic system by securing higher incomes for its farmers who are known to vote en bloc as their own interests suggest, it will under the present system have to press for higher agricultural prices in the EC negotiations. As however price increases are, as demonstrated, conducive to net transfer payments between the EC member countries, the achievement of political aims in one country may lead to other countries being saddled with the cost.

This may have two effects both of which operate against integration: One is that countries in a position to cause external costs by realization of national political objectives may increasingly tend towards such political objectives, with the result that a heavier burden is put on their partner countries; the other one is that EC member countries called upon to shoulder such external costs may see cause to leave the EC or, at least, to downgrade the EC and desist from working for more integration.

It has been mentioned that "likely external costs" arise because collective decisions involve different cost levels for different members of the collective. As unanimity is at present required in the EC whenever an individual member country considers the decision in question very important, it could be surmised that such "likely external costs" cannot in fact materialize. Textbooks dealing with the "new political economics" ¹⁰ assume indeed that "likely external

costs" cannot arise under a unanimity rule. But as far as decisions by the Council of Ministers of Agriculture are concerned, such costs may be expected to arise despite the stipulation of unanimity: Every single member country is aware that the existence of the EC would be at risk if no agreement were reached in common negotiations in Brussels. In the search for a compromise the individual member country has therefore to consider which disadvantages it will have to accept if agreement is reached, and likewise what losses it would suffer if the survival of the EC were jeopardized in the absence of a decision.

As the agricultural price policy is at present at the focus of the EC's agricultural policy and it has just been indicated which divergent national interests are affected by price variations, it may be inferred that the present system predicates the existence of "likely external effects". From this it can be inferred further that the agricultural market organization of the EC is not advancing integration but if anything impeding its progress. It can be expected that this effect of the agricultural market organization will become more injurious with the continuance of the EC-organization. Only when the member countries have gained full information about the external effects and about the "likely external effects" will they be able to make the fullest use of the system in keeping with their national interests. This however implies coincidentally that the disintegrative forces will grow stronger and that one country or another may possibly reach the conclusion that its "likely external costs" are excessive compared with the benefit bestowed on it by the existence of the EC. Those who are, not least for political reasons, interested in the continuing existence of the EC should therefore work for a modification of the agricultural market arrangements so as to lessen this source of peril to the work of unification.

¹⁰ Cf., e.g., G. Kirsch, *ibid.*, p. 46 ff.

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