Common Agricultural Policy: Path Dependence and Historical Sequencing

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Introduction

The Common Agricultural Policy (CAP) of the European Union was created shortly after the inception of the European Economic Community and primarily in order to progress in establishing a common European market. It is widely accepted that, due to the complexities of the European agricultural market, limiting unification to the industrial market would have been simpler. However, France insisted on including agriculture in order to counterbalance the power of industry-led Germany.¹ European Union specialist John McCormick explains that the CAP is primarily a system of taxpayer-fuelled subsidies proposed in 1958 with three primary goals: a single agricultural market, Community preference, and joint financing. He continues to describe the policy as a “common agricultural price support system” that became increasingly expensive as new technology allowed farmers to produce more crops in less time from a smaller area of land.² Any surplus that farmers produced, the European Union was obligated to purchase at a price set at the beginning of each year.

Today the CAP is widely held as a failure, even labelled by The Economist as “the single most idiotic system of economic mismanagement” in wealthy Western nations.³ The shortcomings of the CAP were recognised shortly after its establishment in 1963 (as a provision of the 1958 Treaty of Rome), and in 1968 Sicco Mansholt had already made the first proposals to drastically change the CAP’s course.⁴ However, not only did the CAP remain the most expensive policy of the European Union, its implications only broadened in the years to come. In the last three decades, attempts to change course have been made and the CAP has been altered; however the consequences of such an enormous subsidy programme remain in place. Halting the course of the problems caused by the CAP has proved extremely difficult and time-consuming.

³ Quoted by McCormick, The European Union, 293.
The CAP is criticised on multiple fronts. Most obviously, it is extremely expensive, consuming 45.4% of the EU’s budget in 2006 according to the BBC. This amounts to an annual average of EUR 43 billion, with France receiving the largest amount of aid relative to other EU countries.\(^5\) The European Union argues that this funding is decreasing and should amount to 32% of the budget in 2013.\(^6\) However whether this is a significant difference in real numbers is questionable.

Another common criticism of the CAP is that a substantial amount of funding is used to benefit a small portion of society. Only 5% of the EU population is employed in agriculture, and the agricultural sector contributes only 1.6% of the EU gross domestic product.\(^7\) Furthermore, it is argued that the majority of subsidies go to a small percentage of wealthy farmers, and that the intended beneficiaries (small rural farmers) do not receive any significant aid.\(^8\)

Furthermore, the objectives of the CAP are so poorly planned that they often contradict each other\(^9\) and are therefore manipulated and changed in hindsight. As these objectives are inherently flawed (by creating opposing policy instruments\(^10\)), over time it appears as though the policy goal of the CAP is simply to continue existing in its current form and not necessarily to adhere to a set of pre-established rules and goals. Naturally the definition of what makes a policy “successful” is largely a matter of scholarly opinion. However, it is reasonable to suggest that a successful policy is one that achieves the goals intended by policy-makers. Furthermore, one can assume that contradictions do not produce efficient or desirable results either.

Additionally, the CAP has been plagued by fraud as farmers “fudge” production numbers in order to receive subsidies. Malcolm asserts that, “[t]he massive corruption that flows from [the CAP such as] phantom exports picking up export subsidies, smuggled imports relabeled as EC products, [and] nonexistent Italian olive groves receiving huge subsidies...” is an embarrassment

for proponents of “Europe”.\textsuperscript{11} Naturally it is difficult to determine what percentage of the large CAP expenditure pays for illegal agricultural practices.

Internationally, the European Union’s heavy subsidy policy is accused of causing market fluctuations as well as unfair competition. According to the OECD, “The CAP creates unfair competition in markets of developing countries where agriculture provides livelihoods for the majority of the rural poor”.\textsuperscript{12} Furthermore, bottomless subsidies in the past led to similarly endless surpluses, huge food stores, and the often alluded to “butter mountains” and “wine lakes.” Clearly, the CAP is plagued with problems of all scales and from all angles.

So why has the CAP persisted? Scholars typically point to political or economic elements surrounded by theories of rational choice to explain the continued wastefulness of the policy.\textsuperscript{13} However, there is as much criticism of the CAP as there is support, and most of the continued support of the problem is an issue of legitimacy arguments, not utility. Furthermore, why was the CAP created in the first place when other options existed? The France/Germany compromise theory seems obvious; however this is an over-simplified answer for a complex problem that has been accepted within scholarship largely due to its repetition.

In the remainder of this article, a hypothesis about path dependence and positive feedback in the CAP will be presented first and research methods explained. Next a review of the relevant literature addressing the most common explanations for why the CAP was created will be provided, as well as criticism of these explanations. Then the current theories dealing with the persistence of the CAP will be discussed and also evaluated. Third, an overview of path dependence theory in the field of political science will be provided along with an explanation of why a path dependent approach to explaining the onset and continuation of the CAP may be applicable. Then existing literature will be used to briefly differentiate between path dependence in sociology versus path dependence in political science. An analysis and interpretation of certain events will follow, while concluding with a summary of how historical sequences on cultural and economic levels indeed led to the adoption of the Common Agricultural Policy.

Hypothesis and methodology

This research largely consists of a combination of historical analysis and application of path dependence theory from an economic theory and political science perspective. Because the historical patterns and political climate surrounding the CAP align well with many other examples of path dependent sequences, it is probable that CAP was not adopted due to fear of food shortages or simply because a compromise between Germany and France was needed. Rather, the hypothesis of this endeavour is that the adoption of the Common Agricultural Policy was the result of two series of reactive sequences caused by the promotion of corporatism during WWII by several large ideological groups and the nature of agriculture as a risk market. These two sequences met at a critical historical juncture, which led to the adoption of the CAP. Second, this research illustrates that the CAP has persisted due to several self-reinforcing processes and variables that make it difficult if not impossible to reverse paths.

This research consists of an analysis of the effect of historical sequencing on policy making in the European Union. Narrowly speaking, how likely is it that path dependence and timing may have caused the path that led to the adoption of the CAP? A qualitative historical analysis has been conducted, working backward through time to finding linkages between events that are necessary or sufficient causal linkages. Instances of “lock-in” have been noted, where a historical path has diverged so that it is difficult or impossible to reverse or change course. Events must have a clear legitimacy, power, utility, or functional linkage, and later events cannot be predicted by earlier ones. These connections are addressed in the analysis.

Literature review

Competing Theories Regarding CAP

There are three primary theories that generally dominate discussions surrounding the CAP: a political (France/Germany compromise addressed in the introduction), an economic, and a hybrid theory. Nedergaard describes economic functionalism as proposed by Munk, explaining the CAP and other similar agricultural policies as dependent on “whether or not a country is a net exporter of agricultural products ... [and] the level of difference between the income of farmers and non-farmers.” He elaborates upon Munk’s theory, stating that it assumes “that the behaviour of the political system is an outcome of the maximization of a social welfare function based on egalitarian value preferences and that these preferences are relatively stable.” However, this
approach is criticised by Nedergaard on multiple fronts. For instance, there is no reason for farmers to heavily invest in both domestic and EU-level lobbying if agriculture is purely a function of economics. Additionally, the income-difference premise of the theory fails to account for other industries whose workers have large income disparities, nor does it explain why the wealthiest 20 percent of farmers receive 80 percent of the CAP funding. Thus, while economic factors clearly contribute to the fray, it is impossible to completely ignore political factors in explaining the creation of large agricultural policies.  

The political and economic hybrid argument that Nedergaard proposes as an alternative to pure economic welfare theory suggests that financial burdens of farmers combined with high selective incentives for organisations, alongside the void of counterbalancing powers in agricultural policy-making, led to a CAP that is difficult if not impossible to reform without external pressure. Though this may have been a more plausible theory a decade ago, today it seems less likely for several reasons. First, financial burdens of poor farmers still continue as the majority of CAP funding is allotted to wealthy members of the industry. Thus, it seems unreasonable that after a half-century poor farmers would still be organising to fight for a policy that does not benefit them. Second, there are now significantly fewer incentives for farmers to organise themselves, which one can assume by the quickly decreasing power and support of the farm lobby within Europe. Third, there are counterbalancing powers in agricultural policy both externally and internally. Externally, industry has always played a role in competing with agriculture for funding and political support, not least of all by the argument that integration of agriculture was France’s counterweight to Germany’s strong industrial might. Internally, wealthy machine farmers and small private landowners really have no apparent incentive to cooperate.

Nedergaard’s theory argues that small farms and large farms were competitors where the small farms had the incentive to organise while large farms had the resources. This theory rests on the assumption that the costs of organising politically were less than the costs of market coordination due to the nature of agriculture. However, this can only be reasonably accepted if a bottomless subsidy programme was expected by the lobby before any policy making began,

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15 Nedergaard, 396.
which is unreasonable in an era where quick technological advancement was the norm and increased output could be expected. Despite all this, the CAP still persists.

Neither purely political theories nor purely economic theories can account for the complexity in the policy foundations of the CAP. Neither can the existing theories of compromise between both fields, as they fail to account for the realities of the circumstances. Thus, an alternative must be introduced that takes all the factors into account: economic theory, political theory, and the reality of agricultural policy that has emerged in recent decades.

Path Dependence Theory
Path dependency theory originated in the field of economics to explain why seemingly inefficient technologies succeeded and sometimes monopolised markets despite better alternative technologies. This was a challenge to the idea of utility and rational choice championed by neoclassical theorists, which assumed that in the long run, the “best” option will always be most successful in the market. Path dependency was thus used to explain the success and persistence of technologies such as the QWERTY keyboard design or the success of VHS over Betamax.\(^{16}\)

Roughly, path dependency means that historical sequencing matters. Events that occur earlier in a sequence have more power to alter the course of history than events happening at a later time.

This idea is often illustrated by an example called the Polya urn process: A large urn contains one black ball and one red ball. A person blindly chooses one ball, and then replaces it with another ball of the same colour. If this is continued until the urn is full, several assumptions can be made. First, if this procedure is repeated over many trials, it is likely that each trial will produce a different result. Second, as more balls are drawn, the red to black ratio will reach equilibrium, as later draws have a much smaller effect on the final outcome. Third, sequencing is thus quite important, as the random selections in the beginning of the trial have significant importance on the final result. This illustration is often referred to in discussions surrounding path dependence.\(^{17}\)

Over time social scientists, in particular those interested in political institutions and policy-making, have begun to use path dependent approaches in their analyses. The definition of path

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dependence is better illustrated through an example by Margaret Levi than by a direct conceptualisation:

Path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice. Perhaps the better metaphor is a tree, rather than a path. From the same trunk, there are many different branches and smaller branches. Although it is possible to turn around to or clamber from one to the other – and essential if the chosen branch dies – the branch on which a climber begins is the one she tends to follow.\(^\text{18}\)

The primary idea to remember is that once an institution or policy has been established, it is often difficult (if not impossible) to reverse course, as the costs of reversal outweigh the expected benefits of an alternate choice. Secondly, early historical events cannot be explained on the basis of prior events or initial conditions.\(^\text{19}\) As with the Polya Urn example, it is impossible to determine the course of a path early in a sequence.

There are two types of path dependence sequences. First, reactive sequences are a chain of events in which each event is necessary or sufficient to cause the following event. Causal linkages between events can be utilitarian, functional, power, or legitimacy based. Furthermore, later events can alter or reverse earlier events.\(^\text{20}\)

Second, self-reinforcing sequences occur when later events reinforce earlier events. These are “characterised by the formation and long-term reproduction of a given institutional pattern.”\(^\text{21}\) Reactive sequences can and often do give way to self-reinforcing sequences. Also referred to as positive feedback processes, self-reinforcing sequences have four main characteristics: (a) they are unpredictable as early events weigh heavily on the outcome and are largely random; (b) they are inflexible as it is difficult to shift paths late in a sequence; (c) they are non-ergodic, meaning that “accidental” events do not cancel out with time (since they determine the path of the sequence); and (d) they are potentially inefficient, as in the long run other more efficient paths may have been avoided due to the costs of changing. In other words, choosing a new, albeit better path may not be worth the costs, or at worst, may not even be


\(^{21}\) Mahoney, 529.
possible given the costs. We see this for instance with electoral policies and other institutions: Often, choosing an electoral policy is essentially an educated guess, the consequences and potential inadequacies of which are not clear until several election cycles later. At this point, the costs (literally financial obligations as well as figurative costs) of restructuring such an integral part of a democracy may not be worth eliminating downfalls of the status quo. Since earlier events weigh more heavily than later ones, history and sequencing matter. Furthermore, later events may have little or no effect at all on the workings of history. Path dependence and positive feedback can be transferred to political science for four primary reasons, according to Paul Pierson. First, the central role of collective action in politics dictates that the results of our actions are contingent on the actions of others. This is similar to the dependence on predicting the consumer in economics. Collective action has high start up costs and leads to positive feedback due to adaptive expectations of participants. Second, because of the high density of institutions in politics, once a particular institution or policy is in place, the rules apply to all whether or not they agree, and these rules are backed up by force. The rules of the game are clearly established and supported, thus they are difficult to change. Third, the role of political authority leaves room for selective policy changing. That is to say that a despotic president in a democratic system could conceivably alter election rules to protect his incumbency or maintain and enforce his ideological belief, thus potentially leading to a self-reinforcing pattern of events. Last, politics are complex and opaque, and “trial and error” solutions are typically too expensive or difficult. Learning never occurs in politics, and confirming information is incorporated while disconfirming information is disregarded. Pierson also suggests that political science may be even more susceptible to path dependency than economics because goals in politics are typically “winner-take-all”.

24 Pierson, Politics in Time, 32.
25 Ibid. 34.
26 Ibid., 36.
27 Ibid., 38-9.
28 Pierson, Increasing Returns”., 258.
Path Dependency in European Institutions

The existence of path dependent sequences has been analysed before on the national level. Juliet Johnson writes about path contingency in post-crisis institutions in post-communist countries, where uncertainty leads to reverting back to old institutional forms. It is important to remember that path contingency, though related to path dependency, is different in that it treats policy choice as an independent variable, arguing that “the relative importance of institutional legacies is contingent upon the type of policy choices made by state actors.” Politicians have a need for stability due to the election motive, causing ineffective institutions to remain. She also compares passive institution building, which are market based, versus active institution building, which alters both the institutional structure but also practices and values. In politics, the short-term is often more important than the long-term because of incumbency.

Analysis

Reactive Sequences Leading to the CAP

The first part of the analysis consists of considering two reactive sequences of events (cultural and political) characterised by a critical juncture that created a third sequence (economic). Each sequence will be discussed in relation to the illustration provided (see figure I).

The cultural sequence consists of a series of links beginning with the rise in Fascism and Progressivism that characterised the WWII era (A). Fascism is an authoritarian and nationalistic ideology with corporatism as one of its principle values. Corporatism is a system of social organisation in which economic, political, religious, etc. groups cooperate to form collective bodies. Progressivism, or a political ideology favouring change and reform, rose in the 19th and 20th century in Europe after industrialisation led to harsh working and living conditions for many Europeans. The combining forces of these two ideologies (Fascism and Progressivism) led to a sharp rise in corporatism during WWII (B). Corporatism, largely an ideological reaction to Marxism, led to the organisation of citizens along industrial or vocational associations. As corporatism was a reaction to Marxism, the need to organise along strictly industry-oriented (as opposed to class-oriented) lines arose, causing the promotion of interest groups that transcended

30 Johnson, 256.
social boundaries (C). In other words, where during the industrial era group organisation was often in the form of labour unions or social sectors, the ideological shifts during WWII instead caused group organisation to be along the lines of career field. The result was an ideologically founded cooperation between wealthy owners of large farms and modest owners of small farms that would not have happened otherwise simply because of political or economic reasons. It is crucial to note that each of the events in the sequence is necessary or sufficient to cause the following event.

Several key conclusions can be drawn from this first sequence. First, the last event (organisation of farmers) cannot be predicted by the first event (rise in Fascism and Progressivism). Though these ideological shifts are necessary or sufficient in leading to following events, each event by itself is not enough to predict the outcome. Second, had these ideological shifts happened at a different time in history (say, while industry was strong or before the industrialisation of Europe), a different historical path would have been created. This alludes to path dependence because it implicates the strong importance of timing.

The second sequence deals with the economic nature of the WWII and post-WWII era. First, agriculture by nature is a risk market, and agriculture prices are more subject to fluctuation than other industries (F). Weather, resources, labour, politics, and machinery all coordinate to provide a successful or unsuccessful harvest. That is to say, farmers themselves are often playing a game largely founded on chance when trying to predict outputs. During WWII, this risk was heightened intensely due to severe food shortages caused by the war (G). War often destroys land, farmers might have been drafted, and food supplies were often intercepted or destroyed by enemy forces. This heightened risk of the agricultural sector is critical to note because it demonstrates two aspects of path dependence that are crucial to this line of logical sequencing: First, these earlier sequences will play a significant role in determining the course of the path. Second, the chance coordination of these events in a particular moment in history also is sufficient to change the course of our path. The causes of these WWII food shortages (drafting, destruction of land, no profits due to intercepted food supplies) led thus to extreme unemployment and civil unrest among farmers, particularly in France, which at the time was an agriculture-based industry (H).
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Figure I: Path Dependence in the Common Agriculture Policy

Key:
A – Rise in Fascism; rise in Progressivism
B – Rise in corporatism during WWII
C – Promotion of interest groups that transcend social boundaries
D – Cooperation between wealthy owners of large farms and modest owners of small farms

F – Nature of agriculture as a risk market
G – Unstable supply made more severe by WWII food shortages
H – Agriculture prices more subject to fluctuation than other industries
I – Extreme unemployment and civil unrest among French farmers (agriculture-based industry)

L – Political organization into strong lobby
M - Adoption of Common Agricultural Policy (guaranteed purchase of surplus)
N – Overproduction without checks
O – More surplus
P – Large payments to farmers
Q – Budget problems, environmental problems, economic problems

Figure I: Path Dependence in the Common Agriculture Policy\(^{32}\)

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\(^{32}\) Graphic template based on that of Goldstone, found in Mahoney (2000), 534.
Thus, the chance historical meeting (i.e. critical juncture) of wealthy and poor farmers having an ideological foundation for cooperation (D) with extreme unemployment and unrest among farmers (H) coordinated to determine the political sequence. If farmers had the ideological basis to cooperate without any economic reasons, their organisation would have been a waste of time. In other words, if farmers are enjoying a successful harvest, they have no incentive to take the time to cooperate politically despite the fact that their goals or ideologies may align. Furthermore, if unemployment and tension had grown in farmers without the ideological foundation for cooperation, poor farmers and wealthy farmers would have had no incentive to organise because of their conflicting interests. That is, wealthy farmers would be more likely to try to absorb small farms than to try to cooperate with small farmers. Thus, it is clear that history and sequencing are crucial.

The chance coordination of these two events (ideological coordination and economic incentive) led farmers to organise into a strong lobby (L). The unmatched force of the farm lobby pushed the passing of the CAP and guaranteed purchase of surplus (M). As much of Western Europe was agriculturally based, and farmers were strongly united, few other industries could match their power. Because of the incentives provided from guaranteed surplus, overproduction of resources without checks became the norm (N). Extreme overproduction led to more surplus (O) and therefore large payment to farmers (again, remembering the guaranteed purchase of surplus by the government) (P). These exponentially increasing payments caused or at least largely contributed to the current budget, environmental, and economic problems within the EU (Q).

Self Reinforcing Sequences

Two things regarding self-reinforcing sequences can also be noted by looking at this illustration. First, the problems caused by the CAP are self-reinforcing. Sequence (N)-(O)-(P) will continue to replay itself. In other words, overproduction leads to surplus, then surplus leads to increased income, then increased income leads to the purchase of better equipment/more employees/more land, and the sequence starts again (see figure 2).

Unless an external factor such as weather, politics, war, or another external factor intervenes to end the cycle, it will continue infinitely. For instance, if workers at large farms organise into a union and strike, then large farmers might be reduced in power, income, and consequently in
production. Or, if consumers begin to boycott produce from large farms due to the use of a certain pesticide, a similar result can be expected. Otherwise, the more revenue farmers have, the more they will produce. This explains why wealthy farmers are rewarded much more by the CAP than poor farmers, the intended recipients.

Second, and perhaps more important, is (D): Cooperation between wealthy owners of large farms and modest owners of small farms. This is also self-reinforcing. In politics, as in economics, the costs of cooperation and organisation are typically high due to time and space. Thus, once the incentive to cooperate exists and the link between various interest groups is made, the cooperation is unlikely to dissolve provided their interests do not change. Therefore, wealthy and poor farmers will cooperate until the original incentives disappear. A break in this cycle would require small farm owners to realise that they are not benefiting from the CAP and thus dissolve their alliance with large farms, as an example. A similar change in course could be expected if large farms discover that is it more efficient to buy out and absorb small farms than it is to cooperate with small farmers. Either way, external factors are always involved in the dissolution of self-reinforcing sequences.

![Figure 2: Self-Reinforcing Sequence](image_url)
Recently we are seeing that perhaps these incentives have in fact disappeared or are beginning to. Why the CAP began is a question that, once answered, provides little basis for action. However, knowing why the CAP has persisted will in the future allow social scientists and politicians to figure out how to change course. In a self-reinforcing sequence, breaking course involves external factors intervening to change the climate of the cycle. In other words, the self-reinforcing sequence of the CAP will continue until one of its contributing elements (the farm lobby) dissolves or loses interest. As farming societies has shifted from France, where they were located fifty years ago, to less politically organised EU member states (such as Spain, Greece and Portugal), the decline in the power of the farm lobby has become an accepted norm. In other words, in countries where politics are less likely to allow for citizens to organise, unite, and have influence in policies, lobbying is not a valuable tool for the farm industry to implement. Perhaps the next few decades will thus see the decline in policy power or even the abolition of the CAP. Such research is beyond the scope of this paper, but is important in determining why EU policies are formed and why they persist.

Conclusions

One might argue that the economic sequence of the illustration is not path dependent because outcomes can be predicted by earlier events. However, this case is an exception because it was not simply the nature of agriculture that led to civil unrest; rather it was the combination of the nature of agriculture in France and food shortages caused by the war. France was an agriculture-based society (more so than other European countries at the time), thus not only were its workers unemployed but the citizens were starving. Furthermore, civil unrest alone is not enough to organise politically. That is to say, political organisation cannot be predicted simply by the nature of the agriculture industry. It was necessary to have cooperation between small and large farmers, who in the post-WWII era had very competing interests. Thus, the cultural sequence becomes important, and the economic sequence is indeed path dependent.

The findings of this study suggest that if WWII had been predicated by different ideological structures other than fascism, or perhaps been a war fought over different reasons altogether than ideology, the CAP may have never happened. Or, if corporatism had become so popular a few decades earlier, small farmers and large farmers would have been able to coordinate their products sooner (i.e. before the war and consequent food shortages), and thus would not have
had the incentive to organise politically. Consequently, this research shows that sequencing and timing in history of seemingly irrelevant (or not sufficiently relevant) paths do indeed matter.

Further research on the theoretical level must address how, if the outcomes of path dependent sequences cannot be predicted, they can at least be controlled. On the European level, the political cooperation of the EU shows characteristics of path dependence, as it is a unique case in the structuring and organisation of the citizenry despite fervent opposition. A supplementary study with more ambitious aims may be able to explain possible power linkages between historical events that have allowed the European elite to perhaps force the idea of a political Europe onto the citizenry, as some may argue.

What is clear is that not all events in history can be explained in simple political or economic terms. Sometimes luck or coincidence plays a significant, if not defining, role. Due to the occurrence of path dependent sequences in European Union politics, it is important that policymakers understand that their power is not overarching, and regardless of the amount of resources or support a particular policy may have, the real outcomes it produces may not coincide with the intended outcome. Thus, political and economic theorists as well as politicians themselves must cooperate more fully in order to better structure the laws and policies that govern societies.

Moving forward, it will be interesting to take these theories into consideration when analysing the effects of the Greek (and possibly Portuguese and Spanish) budget crisis on the CAP. As has been demonstrated, path dependent cycles or sequences are broken when the party interests change. That said, it is quite possible that changing budgetary interests of politicians (from appeasing French voters or lobbyists by use of the CAP to using funds to solve the economic problems of other member states) will lead to the end of the CAP’s strength. In conclusion, future research about the budgetary implications of the current economic crisis on CAP funding will have to analyse these changes as a means to validating or invalidating the arguments made in this research.
Bibliography


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