Decomposing the magnitude of policy change: theoretical possibilities and an exploratory application to the Common Agricultural Policy

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Please do not cite. This paper is a very early, very rough draft of theoretical ideas that are still being worked through. We aim that the IPSA conference will be a formative experience in helping refine these thoughts. Thanks.

By the way – the largest chunk of this paper is the application of the analysis to the CAP. If you want to skip that, the two sections before and after focus on the theoretical and conceptual aspects of the paper.

Abstract

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**Introduction**

Public policy exists in a dynamic environment. There is, however, disagreement regarding the stickiness of policy when faced with disequilibria in the policy-context. This is muddied further by different definitions of the dependent variable ‘policy’, and different levels of analysis of policy change. We have important tools for helping us understand what constitutes ‘policy’, notably the 3*2 matrix developed by Mike Howlett and Ben Cashore and utilised in a growing number of articles (see, *inter alia*, Cashore and Howlett, 2007; Howlett and Cashore, 2009; Howlett, 2011). This establishes six components of policy, with three ‘levels’ each of policy means and policy ends (Lasswell, 1958). We then have tools which can help us understand the dynamics of policy. In terms of analysing the process of change we have, for example, multiple streams, punctuated equilibrium and, from historical institutionalism, path dependency. This last concept is, in turn, given nuance and a language to analyse policy stasis and change through notions of layering, conversion, drift and displacement. Third, to help us analyse the magnitude of policy change, we have the work of Hall (1993), which gives us three levels of policy change (Hall, 1993).

Despite this, challenges still arise when trying to grasp the precise meaning of terms such as ‘major reform’. Such terms are used frequently in general parlance, but all too often without due consideration given to how we can attempt to explore the implied magnitude of change that a policy goes through with a given reform. The work of Hall, unquestionably important in this part of the literature, remains limiting. Notably, there is a potentially enormous gap between his second and third level changes (see below). Such analysis often also suffers from a rather coarse-grained representation of ‘policy’. A policy is frequently not a single, holistic entity that is moved forwards or backwards, up or down, left or right, by ‘reform’. Instead, it is often a complex mix of different elements, institutions, actors, environment and so on. As a result, policy reform often involves changes just to some elements within a ‘policy matrix’ (Ackrill and Kay, 2006). The work of Howlett and Cashore (hereinafter H&C), thus provides a very helpful way of conceptualising policy, in a much more fine-grained way.

The importance of this cannot be over-stated. Most important of all, it allows us to identify a crucial, but often overlooked, distinction between Hall’s three levels of policy change and H&Cs 6 policy components. That is, Hall’s work looks at identifying ‘policy change’ directly, whilst the work of H&C looks at ‘policy’, which can then be used to analyse policy change. Because a given policy change or reform can consist of changes to many different combinations of those six policy elements within the 3*2 matrix, we are provided with many more than just three types of policy change. Such analysis, based on the work of H&C, lacks the simple clarity of Hall, but analytically is much more flexible and nuanced.

Such a formulation enables us to identify, with some precision, which components of policy might have changed in a given reform. This does not, however, tell us anything about how these changes might have come about. For this, we have such conceptual frameworks as the examples indicated above. In the present paper, for reasons elaborated on below, we utilise historical institutionalist notions of path dependency, given flexibility and nuance (in this case) through the concepts of layering, conversion, drift and displacement (see, for example, Hacker, 2005; Thelen, 2003; Streeck and Thelen, 2005; Mahoney and Thelen, 2010).

That said, what it is about a policy that is path dependent is “an open and empirical question” (Kay, 2005: 558). To this conceptual work, therefore, we must add an exploration of empirical applications, in order to understand why a particular policy might have been reformed in the way it has been. In the present paper, we give context to the theoretical
concepts by analysing the dynamics of reform of the European Union’s Common Agricultural Policy (CAP), over several decades. The CAP provides us with an excellent longitudinal study of a policy which has undergone numerous ‘reforms’ over many years, yet even a cursory glance at which shows clearly that not all reforms are of the same, or even similar, character. Indeed, some elements of the CAP have resolutely remained unchanged since the Treaty of Rome was drafted in the 1950s, well before the CAP was established through the 1960s. Exploring several of these reforms, from the introduction of the dairy co-responsibility levy in 1977, to the 2014 ‘Cioloş Reform’, will enable us to identify the characteristics of each reform in terms of which elements of policy have changed, how and why.

Such work is essentially backward-looking. That said, this process can help us, inductively, to explore whether or not we can identify emergent patterns which might indicate particular links between each of the six elements of policy from H&C, and the notions of layering, conversion, drift and displacement from historical institutionalism. The paper proceeds as follows.

Hall (1993) identifies three orders of policy change: first order policy changes address policy settings/levels; second order changes refer to instruments; third order changes refer to policy paradigms. Hall (1993: 279) argues that ‘first and second order changes in policy do not automatically lead to third order changes’. Furthermore, first and second order changes are the result of endogenous shocks, whilst third order change is driven by exogenous shocks. Third order policy change also requires ideational change (Donnelly and Hogan, 2012). The limitations of this conceptualisation of policy have been well exercised in the literature (add refs). Whilst not dealing with policy change directly, the 3*2 matrix of H&C (see Table 1) provides a more fine-grained conceptualisation of ‘policy’, which can then be used to analysis policy change – and, specifically, which components of policy have changed.

<table>
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<th>Table 1: A Taxonomy of Policy Components</th>
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<td><strong>Policy Level</strong></td>
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<tr>
<td><strong>Policy Ends</strong></td>
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<tr>
<td>Goals: abstract general policy aims</td>
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<tr>
<td>The most general macro-level statement of govt aims and ambitions in a specific policy area</td>
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<td>Examples: Environmental protection Economic development</td>
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<td><strong>Policy Component</strong></td>
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<td>Policy Means</td>
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<tr>
<td>The long-term preferences of govt in terms of the types of organisational devices to be used in addressing policy aims</td>
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<tr>
<td>Examples: Use of coercive instruments Use of moral suasion</td>
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Howlett and Cashore, in developing this 3*2 matrix, do more than simply split each of Hall’s three order of policy into ends and means – although this is important in comparing the two approaches, as they argue that first and second order changes affect policy means, whereas third order changes affect policy ends (Cashore and Howlett, 2007: 537). Specifically, Howlett and Cashore offer a framework that allows for a different conceptualisation of policy changes to Hall’s. With the latter, significant policy space exists between second and third orders of policy change. Moreover, rooted in homeostatic conceptualisations of policy dynamics, it lacks the ability to explain how significant policy changes can occur gradually, in the absence of a significant exogenous shock – in short, it lacks the ability to explain satisfactorily a lot of the policy changes observed empirically (add refs).

This difference arises because a critical difference exists between their starting points. Hall starts with the notion of policy change, which he splits into three orders. H&C, however, start with the notion of policy, which they then split into six elements, and from which policy change can be explored in a much more nuanced and fluid way, given the number of different possible combinations of components that can constitute a given policy reform episode. With such a ‘thermostatic’ model², for example, paradigm change can come about endogenously, driven “by major alterations in end-related objectives and settings…[which]…are likely to follow a classic incremental pattern of development until such time as a built-in thermostatic mechanism is “tripped”, resulting in classic paradigmatic change through changes in policy setting and objectives.” (Howlett and Cashore, 2009: 41-42, emphasis added).

Another important feature of the H&C matrix is that whilst its components are distinct, they represent a structure of nested policy levels. Given this, Howlett’s (2009: 74) observations about policy design also apply substantively to, and similarly constrain, policy reform options:

“This multi-level analysis helps explain some of the real complexity and difficulties involved in successful policy design…, while the fact that the choices and decisions made at each level can usefully be viewed as co-determining each other in a form of embedded or “nested” relationship helps explain the severely constrained nature of actual policy instrument choices…That is, the range of choices left at the micro-level of concrete targeted policy tool calibrations is restricted by the kinds of meso-level decisions made about policy objectives and policy tools, and both of these, in turn, are restricted by the kind of choices made at the highest or meta-level of general policy aims and implementation preferences.”

More specifically, he suggests (page 85), that within each of policy ends and policy means, the lower level is nested within the immediate higher level. Moreover, there are two-way links between policy ends and policy means at the highest level of governance mode, and at the meso-level of policy regime. In order to explore further, within this nested structure, how policy change has come about, we add into the analytical mix historical institutionalist concepts of layering, conversion, drift and displacement (LCDD for short). These terms can be defined as (Mahoney and Thelen, 2010: 15-16):

² The theory of thermostatic institutions is developed inductively by H&C from their study of forest policy in the US Pacific Northwest (Cashore and Howlett, 2007). That case is much more akin to agricultural policy, both politically and structurally, than to the macroeconomic policy context of Hall (1993).
Layering: The introduction of new rules on top of or alongside existing ones;
Conversion: The changed enactment of existing rules due to their strategic redeployment;
Drift: The changed impact of existing rules due to shifts in the environment;
Displacement: The removal of existing rules and the introduction of new ones.

In, for example, Streeck and Thelen (2005: 31) a fifth, distinct, form of institutional transformation, exhaustion, is included. In the present paper, in common with many in this literature, we omit exhaustion and focus on the other four.

Others are beginning to explore how different tools at our disposal can be combined, to provide us with more complex ways of exploring policies and policy change, although this literature remains limited. Kern and Howlett (2009) utilise LCDD to explore how policy change (in the Dutch energy sector) can affect the coherence of policy goals, and the consistency of policy instruments. They do not, however, disaggregate Dutch energy policy down into the 6 elements of the H&C matrix in their analysis. Similarly, Howlett and Rayner (2013) draw on both sets of concepts to explore policy coherence and consistency – to which they add congruence – but as with Kern and Howlett, there is no systematic attempt to explore possible links between LCDD and the elements of the 3*2 matrix.

Rayner (2013) also draws on these different concepts, in his analysis of Canadian and UK biofuels policies. Here, he adds a fourth ‘C’ – compatibility – to the three above, utilising both ideas of LCDD and the elements of the H&C matrix. Rayner’s primary focus, however, is on the four Cs, in contrast to our primary concern, of the links between LCDD and the elements of the H&C matrix. Moreover, the work of Rayner draws on an established literature (add refs) that highlights how layering can have negative impacts on, for example, policy consistency. This, however, is not always observed empirically. For example, Ackrill and Kay (2006) have pointed out that layering enhanced the functioning (de facto, the consistency and coherence) of the EU budget.

Thus to avoid conflating too many theoretical concepts and policy issues in the present paper, we put to one side questions of policy coherence, consistency, congruence and compatibility, and focus instead purely on the possible links between LCDD and the H&C matrix. At the time of writing, we are not aware of any other paper that has attempted this specific analysis (but as noted, this paper is very much work in progress, so do please tell us if you know of anyone else out there doing this).

An Empirical Application: CAP Reform

The foregoing speaks to an important division in the CAP literature. In analysing the CAP and CAP reform, important issues under debate are about how the CAP has changed; and if so, has it changed by a little or a lot (Elton, 2010)? Our narrative of agricultural policy and policy change hinges on being able to describe a pattern of change consistently; this is an essential precursor to explanation. In this regard, the detailed breakdown of policy offered by the H&C matrix offers a fine-grained dissection of our dependent variable, “The CAP”. This, in turn, enables us to provide a more consistent analysis of episodes of policy change, through an appropriate blending of the six elements of policy available to us via this lens.

That said, we do not attempt in this paper to analyse every reform of every aspect of the CAP. Instead, we focus here primarily on the principal multi-commodity reforms: ‘guarantee

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3 This empirical discussion draws on Kay and Ackrill, 2010, also updating Ackrill and Kay, 2013.
thresholds’ in 1982, ‘stabilisers’ in 1988, the 1992 MacSharry Reform, Agenda 2000 in 1999 (split between Pillar I and Pillar II), the Fischler Reform of 2003, the 2009 Health Check and the 2014 Cioloş reform. The exceptions to this concern two key reforms to the dairy (or milk and milk products) regime: the 1977 co-responsibility levy; and production quotas, first introduced in 1984. In the discussion that follows we identify changes to specific components of the CAP as addressing either ‘ends’ or ‘means’, and level ‘i’, ‘ii’, or ‘iii’ which, as Table 1 showed, refer respectively to the micro, meso and meta levels of policy. As will be seen in Table 3, which summarises this policy discussion, we also identify three drivers of policy change: B (EU budget concerns), T (international trade concerns) and E (environmental concerns, broadly defined to include ‘multifunctionality), and are explained in the text below. Before we look at the CAP in detail, Table 2 sets out the objectives laid down for the CAP in Article 39 of the Treaty of Rome (also Article 39, TFEU).

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<th>The Objectives of the Common Agricultural Policy</th>
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<td>a</td>
<td>to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;</td>
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<tr>
<td>b</td>
<td>thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;</td>
</tr>
<tr>
<td>c</td>
<td>to stabilise markets;</td>
</tr>
<tr>
<td>d</td>
<td>to assure the availability of supplies;</td>
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<tr>
<td>e</td>
<td>to ensure that supplies reach consumers at reasonable prices.</td>
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Initially the dominant form of CAP support was price support, the argument being that free market prices were inadequate to deliver a ‘fair standard of living’ for farmers. This featured annual rounds of ‘price fixing’, which involved changing (raising) the institutionally-determined prices endogenous to the CAP, which then influenced the level of ‘market’ prices (Ackrill, 2005: 458). This constituted recalibration of instruments (means i), but was not policy ‘reform’, merely part of the policy process. Thus early ‘reforms’ (in 1977 and 1982, analysed below) involved (means ii) changes to instruments, altering the way recalibration (means i changes to support prices) was undertaken. At this point, with the CAP only up and running for a few years, there was no desire – and no perceived need in many quarters – to contemplate changes to means iii instrument logic, let alone changes to policy ends.

But with the CAP still quite young, why were reforms undertaken at all? The answer lies in the budgetary context within which the CAP operated – and continues to operate. The EU budget has always been subject to an annual balanced budget rule whereby, in any year, expenditure should not exceed a pre-determined revenue ceiling. Initially, total EU spending was well below the revenue ceiling, but it started to rise rapidly through the 1970s, driven by rising CAP spending. Under price support, higher prices stimulate production which, set against relatively static demand, eventually results in surpluses. The storage and disposal of these surpluses results in increased spending on intervention storage and export refunds. Thus early CAP reforms were motivated by the goal of trying to stop, or at least slow down, the rate at which spending was approaching the ceiling set on the EU budget as a whole (Ackrill, 2000a). At this stage, the ceiling had not actually been reached, so the budget constraint was not binding.

It is also vital to note that, under price support, high prices were the means by which the principal policy ends (at both levels ii and iii) were to be achieved. They were also, however, driving increased production, which pushed up EU budget spending. Thus, as we shall see,
until changes were made to move away from price support, policy makers faced the problem that arose because of the budget constraint, between means i and ends ii and iii. Furthermore, at the time CAP spending was the main example of ‘compulsory expenditure’ (Ackrill, 2000a), the essence of which meant that support spending could not be controlled directly, only influenced via (means i) changes to the existing instruments.

Until the late 1970s, CAP spending was dominated by the dairy regime. At its peak, it took one-third of total CAP spending and one-quarter of all EU spending. Thus the first attempt to contain growth in CAP spending focused on this. The 1977 dairy co-responsibility levy was a new (means ii) instrument, layered into the existing price support structure. It was a levy on dairy farmers, set at no more than 3% of the support price, to help cover the budget costs of dealing with the dairy surpluses. Given that support prices were typically 40-60% above world market prices at this time, such a cut (means i recalibration) in the prices paid to farmers would have been of no consequence. In practice, however, the co-responsibility levy was offset by additional price rises during the annual rounds of price fixing, thus negating any possible effect on production decisions and actually, therefore, making the budget situation worse, as well as raising prices further to consumers (Hubbard, 1986).

Whilst this was utterly ineffective as a ‘reform’, the EU budget did then benefit from a period of high world commodity prices, which reduced the budget outlays related to price support. From 1979, however, surpluses began to emerge elsewhere (notably cereals and beef) and, as world prices fell to more ‘normal’ levels, the first multi-commodity reform, ‘Guarantee Thresholds’, was introduced in 1982. These also involved layering-in a new instrument into price support. If production exceeded a certain level, the (means ii) ‘guarantee threshold’, price cuts (means i) would be triggered, albeit by no more than 3%. This ‘reform’ shared two unwanted characteristics with the dairy co-responsibility levy. First, in implementation it turned out to be a misnomer, with all production still supported (support was still open-ended). Second, any price cut was imposed only after the annual price fixing process had been undertaken, as a result of which, prices continued to rise (Ackrill, 2000b: 58). With both of these reforms, we therefore see that there was no change in (means iii) instrument logic.

1984, however, marked a reform that, finally, went beyond tweaks to instruments and their recalibration. In that year, the balanced budget rule was broken, the budget constraint was now binding, and with the dairy sector still dominating EU spending, it was the focus of this reform. A quota on milk production was introduced, via a ‘superlevy’ layered into the existing price support structures. It was similar in basic design to (means ii) instruments introduced in 1977 and 1982, but its calibration was hugely different. Depending on the implementation option chosen by each member state, production in excess of the quota level would trigger a levy of either 75% or 100% of the support price.

This reform option thus began to address policy ends, but without threatening the still widely supported (means iii) instrument logic embedded in price support. As noted earlier, high prices stimulate production which drives up budget spending. The superlevy contains the growth in production, and in spending (support is no longer open-ended on all production, in itself an ends ii change), but retains high prices on the remaining production. The superlevy was a (means ii) change, but it also represented a change at the ends i level, as it sought to address the contradiction between supporting farm incomes via high prices, and containing the rising budget spending driven by the high prices and rising production. Moreover, whilst

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4 Actually, it was broken in 1983, but the response was to carry over the excess spending to 1984.
the original calibration of the quota level had a significant built-in surplus, over the following years that was reduced – a means i change to the superlevy – to reduce budget spending further, but again without affecting support prices. Thus the recalibration of the production quota replaced recalibration of support prices.

Dairy production and spending thus contained, attention turned to other sectors where similar problems were growing. This led to the ‘Stabiliser’ reform of 1988 – although, unlike 1984, a rise in the revenue ceiling in 1986, and favourable currency movements, meant the budget constraint, temporarily, was not binding. The 1988 reform, as with dairy quotas, took certain features of the 1977 and 1982 reforms and developed them slightly. Specifically, if production exceeded a ‘Maximum Guaranteed Quantity’ (MGQ being as much of a misnomer as ‘guarantee thresholds), support prices would be cut by up to 3% of the support price. This time, however, there was no accompanying ‘normal’ price rise implemented first; and, crucially, the price cut would be automatic if the MGQ was exceeded. This represents a small but important step in the evolving CAP, because this was a change in (means iii) instrument logic: the automatic price cut represented changed regulatory preferences. That said, in the absence of binding constraints, the stabiliser reform lacked the changes to policy ends that were part of the 1984 dairy reform.

It should also be noted that the original proposal was for a stabiliser trigger based on spending levels, not production levels. This, however, was a (means ii) instrument that challenged higher-level policy ends, something that national governments were still unable to contemplate. This led to a build-up of pressure for which the notion of ‘thermostatic change’ is particularly apt. This pressure also arose because, in 1988, there were changes to the operation of the EU budget, notably the introduction of Multiannual Financial Frameworks (MFFs). These set out, for several years at a time, the amounts to be spent under the main policy headings, including the CAP. The failure to address spending directly in the CAP reform, however, led to a significant incongruity between, on the one hand, the CAP and CAP spending; and, on the other, the EU budget. Specifically, nothing had been agreed with the CAP reform to ensure CAP spending actually respected the limits set out in the MFF. As a result, CAP spending continued to rise, as in the late 1970s abated only temporarily by a short-lived rise in world commodity prices.

Moreover, by 1992, a second constraint and reform driver was putting pressure on the CAP – international trade talks. Specifically, the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT) were challenging the basis by which farm incomes were supported under the CAP. This is because of the trade-distorting nature of price support (for more on CAP-GATT links, see Kay, 1998; Ackrill, 2000b) – although this primarily related to means iii; the trade pressure did not necessarily threaten the policy ends of the CAP (as explored below). Agreement on agriculture in the GATT would require the price support instruments of CAP support to be replaced, at least in part, by instruments that were not as trade-distorting. Thus it was no longer enough to layer individual instruments into the edifice of price support. Instead, new types of support instrument would be required, instead of price support, within the CAP. This is also predicated on the EU not being willing to contemplate changing (ends iii) policy goals. The key features of the CAP reform that was agreed within the EU, and which then facilitated an agreement on agriculture in the GATT, saw a significant recalibration of support prices (a reduction of about 30%, rather than the 3% or so of previous reforms). Direct payments for farmers were then introduced as an alternative and additional means of transferring money to EU farmers. These payments had a fixed unit
value, a limit on the total number of payments that could be made, and eligibility for which was not directly related to current production (they were, in the jargon, partially decoupled).

This was an interesting development because, by 1992, the EU budget constraint was again binding, yet reducing price support and introducing these new direct payments raised the budget cost of the CAP. Crucially, however, once they had been phased in (over three years), spending on these direct payments had a ceiling built-in. Thus the cost of this part of the CAP would not change, regardless of how much farmers produced. Moreover, by partly replacing high prices with these payments, transfers from consumers were replaced by transfers from taxpayers, which made the total cost of the CAP more transparent, and made the budget cost more progressive in terms of its impact on individuals.

Thus the combination of budget and trade pressures led to a thermostatic switch flicking, as a result of which there was a shift from price support to direct payments. This is a profoundly important change in terms of the evolution of the CAP, and marked a shift in means iii instrument logic that has continued to be developed to this day. It thus illustrates extremely well the distinction between the ideas embedded in Hall’s view of policy change, and the thermostatic view of policy change which arises from H&Cs view of policy. It also represents the start of a long, slow, process of displacement, whereby price support has been replaced more and more by other instruments, notably directly payments.

The limits on eligibility for the direct payments are also important as they change (ends i) settings. Determining initial values for the payments was a (means i) calibration, aligned the recalibration of price support. The shift from price support to direct payments represents a (means ii) change in instrument, such a shift in regulatory preferences being the concrete manifestation of the (means iii) changes in logic. The budget pressure influenced both settings and calibrations (the lowest, programme settings level, of both policy means and policy ends). Linked to both budget and trade concerns, price support promoted production, but years of growing surpluses saw the policy focus start to shift away from production levels per se. Thus the reform also represents a change, albeit subtle at this stage, in (ends ii) policy objectives. Even so, with direct payments (partially) replacing price support, but nothing more, it is plausible to argue that the (ends iii) goals of policy remained unaltered.

We finish discussion of the 1992 reform with two observations. First, as noted previously, we address only some ‘CAP reforms’. Partly this is because the 1992 reforms (and also 1999 and 2003, as we shall see) focus on the ‘cereals complex’ – which includes sectors such as oilseeds, substitutes in production; and livestock, for which cereals represent inputs in production. Second, we recognise that growing concerns over food safety, animal welfare and the environment (‘E’ factors in Table 3) were starting to become part of the policy discourse at this time. In contrast to some, notably Elton (2010), we argue that budget and trade concerns defined both the timing of reforms and the limits of feasible policy responses. Elton, 2010, is one who argues a number of these factors were influential even in 1988. We argue that their impact is seen in subsequent reforms.

For analytical purposes, we split the 1999 ‘Agenda 2000’ reforms into two, as it created two distinct, but inter-related, ‘pillars’ for the CAP. Existing instruments and functions directed essentially at farm incomes became known as Pillar I, with a mixture of new and re-branded ‘structural’ measures known as Pillar II: rural development. The latter incorporated a range of measures previously funded through the Agricultural Guidance section of the EU Budget and Objective 5 of the structural funds. This reflected the discourse of ‘multifunctionality’ and the
'European Model of Agriculture'. The Pillar I element of the 1999 reform simply continued the 1992 reform, with further joint recalibration of price support and direct payments, to reflect a continued shift from coupled to decoupled support and the channelling of more spending via direct payments that price support instruments.

That said, disagreement between the European Council and the Council of Agriculture Ministers saw, in effect, a double reform, with the second partially-reversing the first. This was because the first agreement, the former believed, would see CAP spending exceed an informal ceiling they had agreed a few weeks previously. By partly reversing the cut in support prices and reducing the size of the increase in direct payments, the overall rise in budget costs was curtailed (see Ackrill, 2000b: 116-127 for details). Thus budget pressure, working through the (ends ii) policy objective of budgetary discipline (an over-arching policy principle introduced in 1984), constrained the (means i) recalibration of CAP support instruments. This can also be seen as an (ends i) change to settings, as the recalibration occurred in support for specific agricultural commodities, so as to respect a new desired level of budget spending at the macro level of the CAP.

Pillar II, however, was a more significant reform, as shown in Table 3. Whilst some of the individual instruments were already operating as part of other EU policies, the 1999 reform brought them together under the CAP, added new instruments into the mix, and increased the amount of spending channelled through those instruments. For the first time, there was significant instruments and budgetary resources for a range of environmental and related activities. This (we argue) represented the first reform driven to a significant degree by these environmental factors, delivering a first change to (ends iii) policy goals. Also, at this stage Pillar II represented a new set of instruments added alongside Pillar I instruments, with additional budget resources provided for them, rather than representing displacement, in the way direct payments began to replace price support in Pillar I.

Pillar II instruments, unlike Pillar I, were co-funded between the EU budget and the member states, a new departure for the CAP, bringing a new (means iii) logic to CAP instruments. Moreover, Pillar II represented a menu of policy options, that member states could then choose from – another new departure for the CAP (and also representing a means iii change). Some of these new instruments were also, in trade policy terms, fully decoupled – thus offering a direct response to the decoupling agenda of the trade pressure (whereby spending on such instruments is not yet constrained at the international level). This reflected new (ends ii) objectives delivered by new (means ii) instruments.

By the time the mid-term review of the 1999 reform took place, in 2002, the WTO Doha Round talks were underway. One aspect of the CAP coming under scrutiny was the nature of the EUs direct payments. They were partially decoupled from production and, following the 1999 reform, were the conduit for more money, and some countries were pushing for full decoupling. Thus when Commissioner Franz Fischler tabled a reform proposal, it addressed this specifically (and thus focused, once again, on the commodities of the cereals complex). The essence of the reform was to merge the product-specific direct payments from 1992 into Single Farm Payments (SFPs). This, unusually, represented a (means ii) change in policy instruments without an accompanying, directly-linked, (means i) recalibration. This, in turn, was a response to an (ends ii) adjustment, whereby the partial decoupling of the existing payments should be replaced by the (more or less) full decoupling of the SFPs. This change

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5 For reasons we do not analyse here, countries could retain some of the post1992 partially-decoupled payments.
also included responses to environmental concerns. SFP eligibility is conditional on farmers respecting a range of environmental cross-compliance conditions – practices which must be undertaken for the payments to be made.

The 1999 reform introduced another new element to the CAP – modulation. This involves top-slicing a small percentage of the direct payments and recycling it into Pillar II measures. Initially it was voluntary, with take-up very limited (Lowe et al., 2002). The 2003 reform, however, made modulation compulsory, starting at 3% in 2005, rising to 5% in 2007 (Swinbank and Daugbjerg, 2006: 57). Also agreed in 2003 was a new rule on financial discipline, which will trigger cuts in direct payments if total CAP spending exceeds a certain level. With both modulation and financial discipline, additional instruments are layered into the policy mix, both of which involve recalibration, although in very different ways. In addition, with modulation a direct link is now made between two distinct sets of policy instruments, via the EU budget (whereas previously a country had to opt to make this link by adopting modulation). With Pillar II, a new set of instruments were introduced for the 2007-2013 programming period, aligned with the relevant MFF period but with the sums available for these measures decided separately, as part of the MFF negotiations.

2009 saw the so-called Health Check which, as the name implies, represented a more modest set of changes, albeit covering a wide range of commodities and dimensions under the CAP. These represented changes only to means i and ii, instruments and calibrations. It removed an obligation, introduced in 1992, for farmers to set aside some land from production (in turn reflecting one of the philosophical underpinnings of SFPs, that there be less policy direction given to farmers about what they should be growing and doing with their land). As a result of this change, other measures were introduced to try to preserve some of the environmental and wildlife benefits that had been unforeseen positive consequences of set aside. Moreover, more of the 1992-type payments had to be incorporated into single payments. Finally, modulation was extended and the environmental cross-compliance requirements for receiving single payments simplified, reflecting a growing concern for ‘E’ factors.

Despite the modest nature of the reforms themselves, the removal of the set-aside obligation merits further consideration. This does not conform to the notion of institutional exhaustion because, rather than sowing the seeds of its own destruction (Streck and Thelen, 2005: 29), the context within which it was introduced changed and thus rendered this instrument unnecessary. Yet nor does it conform to institutional drift, because it was not subject to ‘deliberate neglect’ (Streck and Thelen, 2005: 31). Instead, we offer this as an example of what might (inelegantly) be called unlayering. The context of this change has included the gradual displacement of price support with direct payments, as a result of which EU prices have fallen. With strong world food demand and higher world food prices, not only has the need for containing production changed, but so too has the context of exports, with most now needing little or no export subsidisation. The instrument was thus removed from the panoply of CAP policy instruments. This also reflects another wider agenda affecting not only the CAP but all EU policies, that of legislative simplification. Rather leave the instrument in place but set the set-aside rate at zero (the situation prior to the reform), it was discarded.

The 2013 Cioloş reform has had a longer gestation period that other recent reforms, with the reform proposals published in October 2011. It is also more complex than many recent

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6 After which several months have been spent working on a range of aspects of the detailed implementation of the new policy.
reforms, so we focus here only on the principal features. Looking first at direct payments, there remain environmental cross-compliance requirements, but these have been simplified. Beyond this, however, 30% of payments have now been made conditional on ‘greening, compliance with additional environmental measures. A further 2% (maximum) is to be used to fund a scheme to support young farmers in the industry. Modulation is retained. Additional voluntary elements include additional funds for areas with natural constraints.

These represent multiple means i and ii changes, albeit defined within an over-arching budget limit, or envelope. It is not absolutely clear whether greening represents a means iii change – but the reform taken overall implies a greater use of direct payments to deliver environmental goals. To the extent that this is additional to previous (and current) cross-compliance measures, this does suggest an evolving sense of the logic of direct payments. Given also the specified use of direct payment monies to support young farmers, previously supported explicitly through Pillar II, interpreting this as a means iii change is given added plausibility.

Another over-arching feature of the reform is that it builds on earlier iterative changes to try to move further towards flat-rate payments across the entire EU. The reform includes elements to achieve this both within individual member states, and across countries. This has given rise to two features of the reform that really stand out. The first is the introduction of another new instrument – reverse modulation. This allows countries to take some pillar II funds and move them into Pillar I. The second allows countries to provide some support via coupled payments, where the move towards payment convergence causes local difficulties. This reverses a trend of decoupling started in 1992. Interpreting this is not straightforward, however, given its links to the wider goal of payment convergence. It is thus not a stand-alone measure and cannot, of itself, be read as marking a general reversal of policy reforms (Daugbjerg, 2009). Moreover, the trend towards decoupling has been driven by trade concerns which remain valid. Indeed, given the nature of the Uruguay Round Agreement on Agriculture, it is highly unlikely this reform would have been agreed were it to lead to the EU violating its commitments on coupled support.

With price support, the instruments are retained, but they will only be activated if a market is in crisis. Thus, unlike set-aside, they have not been removed (or unlayered), because they may still be needed, under specific conditions. This also indicates that the displacement of price support by various types of direct payment has not been total, de jure, but currently is total, de facto. Another key decision taken in 2013 that will be implemented in the coming years, is the removal of the remaining production quotas. This is an example of means ii, but also ends ii, unlayering. Unlike the set-aside decision, however, in this case it is also part of the displacement of price support with direct payments.

The rural development instruments on the policy menu are once again changed and, in a manner reflecting all EU policies, have now been aligned more closely with the goals of the Europe 2020 programme. It is to be implemented under a new Common Strategic Framework, alongside Cohesion and Fisheries policies, to enhance the coordination of the policy response. 25% of the rural development envelope must still be devoted to issues relating to land management (which sits alongside the greening and cross-compliance elements of direct payments) and climate change (reflecting another over-arching EU policy). This development is interesting as it represents a change to the ends ii (objectives) of the CAP, but this is a change which is ongoing across all EU policy areas. Does this therefore represent an ends iii change? We argue not, because ends iii, changes to policy goals at the meta-level, have been defined in the relevant literature as referring to government aims and
ambitions in a specific policy area, in our case agriculture and the CAP. This does, however, raise an interesting issue for further research, about how one can interpret and utilise the 3*2 matrix to explore overlapping policy areas.

**An Initial Analysis of the Reforms**

Table 3 summarises our interpretation of these CAP reforms, expressed in terms of the six elements of the H&C matrix, and the relevance of the three drivers of CAP reform, budget, trade and environment. Looking first at the lower part of the table, it is clear that there have been far more changes to policy means than policy ends. Looking at both policy means and ends there is, broadly, a rise in the number of the six elements altered in each reform up to 1999, with a modest falling away since. It is also noticeable that 1999 was the first reform where all three reform drivers played a significant role in changes to those components of the H&C matrix.

Reflecting further on what drove different reforms, the budget factor has always been present, with the financial discipline measure reaffirmed in the latest reform. That said, as reforms have built-in greater direct controls endogenously into the CAP, the nature of budget-related reforms has changed, as the layering-in of fiscal discipline shows. Trade concerns played a crucial role in that period when agriculture was on the agenda of the Uruguay Round and, whilst active, the Doha Round talks. That said, the reforms that took place took the CAP, over a period of time, to a position where policy-makers now believe the policy is much more aligned with the demands of those pressures going forward…at least insofar as export subsidisation and domestic support are concerned. One aspect of the CAP that has not been addressed to such an extent is that of market access, an issue that remains on to be addressed.

### Table 3: a summary of reform means, ends, and reform drivers

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**Source**: Amended version of Ackrill and Kay, 2010: 141.

**Notes**: B, T and E refer to, respectively, the presence of budget, trade or environmental reform pressures; PI and PII refer to the two elements of the 1999 reform that addressed, respectively, Pillar I and Pillar II (see main text);
The underlined crosses indicate that these policy ends were not introduced in 1999, but were developed further in 1999, following their introduction in 1992.
The ‘(x)’ indicate that the reform was motivated by budget considerations but, as explained in the text, the budget constraint was not binding.

Whilst there is not unanimity in the literature on the role of environmental concerns driving the CAP (add refs), our reading of the policy is that it has been influential since the 1999 and that, unlike the budget dimension in particular, environmental concerns will continue to have a significant role shaping the CAP going forwards. A key distinction here is between the budget driver, which is concerned primarily with overall spending, and the environmental concern (and now, to a lesser extent than previously, trade) with the distribution of spending. With trade, the concern is about the distribution of spending between instruments that distort
trade to different degrees – and reforms have driven this away from price support towards partially decoupled and, increasingly, more fully decoupled, direct payments and rural development. With environmental concerns, however, the distribution of spending between instruments that differ in their ability to promote environmental concerns can still be shifted a considerable way, from Pillar I to Pillar II – especially given the debate over the relative effectiveness of each Pillar to deliver on this agenda, the extent of cross-compliance and greening of direct payments notwithstanding (Matthews, 2012).

What this suggests, therefore, is that the CAP has changed fundamentally over the last few decades, but has done so in a way that is much more consistent with a thermostatic than a homeostatic process. This also illustrates an advantage of utilising the H&C matrix of policy, which offers multiple combinations of factors that can constitute policy change, than using the approach of Hall, which offers just three notions of policy change. If there has been paradigm change, it has crept up on us quietly, rather than jumping out at us as a result of the sort of change of direction that Hall observed with UK macroeconomic policy.

How though, has this creeping change occurred? A central feature of CAP reforms over the decades is incremental changes (add refs) that have led to the steady accumulation, not only of individual instruments, but of parallel clusters of instruments. We thus now have price support, partially decoupled (post-1992) direct payments, decoupled (post-2003) direct payments and rural development. In the foregoing, we highlighted the layering of new instruments onto old. This was analysed in terms of layering within each of these clusters. What we see over the decades, at the level of the policy matrix we call the CAP, is the layering-in of new ways to transfer financial resources to farmers, agriculture and the rural economy, redistributing the total amount of money between each cluster, but without removing any cluster. We are now at the point where price support currently has a default setting of ‘inactive’, but this can be activated if market conditions deteriorate sufficiently. That said, we have reached this point despite numerous arguments between member states over the years, especially by those who have opposed the removal of price support.

We have in our discussion identified two examples of ‘unlayering’. Production quotas were part of the price support cluster of instruments. This is now irrelevant to the remaining function asked of price support, of tackling short-term market crises, whilst other changes to the CAP over the years have removed the underlying reasons why quotas were introduced in the first place. Set-aside has also been removed as a policy instrument and as a (cross-compliance) pre-condition for the receipt of direct payments. In this case, not only has the cross-compliance shifted to environmental factors; there has been a fundamental shift in the domestic and global contexts of agricultural policy, which render efforts to contain production in that way not only unnecessary but unseemly. That said, it has also taken the progressive displacement of price support with direct payments, and the accompanying convergence of EU and world prices, to enable the EU to remove both quotas and set-aside as means of constraining production from the CAP.

Policy stickiness and opposition to the removal of policy instruments have had a profound impact on how the CAP has evolved. Thus layering (at the ‘micro’ instrument cluster level and the ‘macro’ level of the CAP as a policy matrix) has been the dominant form of transformation. Yet as we have seen, and in contrast to much of the literature outlined earlier, this has not necessarily led to incongruities and inconsistencies in the policy at the meso and micro levels. Arguably, where the CAP does give rise to these concerns, it is at the meta-level, especially of (ends iii) policy goals. Thus successive, progressive reforms have taken
the CAP in a direction which has allowed for the unlayering of redundant individual instruments and, more significantly, for the de facto displacement of the original (and highly problematic) policy cluster of instruments that constitute price support.

This raises an important point regarding market access. Originally the ‘threshold price’, the minimum import price for CAP products, was an intrinsic part of price support. This changed as a result of the Uruguay Round Agreement on Agriculture, through the process of tariffication. This converted the previous ‘variable import levies’ into fixed import tariffs. This represented the decoupling of import barriers from CAP-specific policy instruments – a shift which is now, for example, reflected in the EU budget, where no longer are revenues identified separately from agricultural and from industrial import tariffs. In short, market access remains an issue for agricultural commodities, but it ceased to be a part of the price support cluster of policy instruments under the CAP two decades ago.

The earlier discussion identified one example of policy change that could have been seen by some as exhaustion, but which we argued it was not. Moreover, we have found no example of policy drift in our case study. There is, however, one further dimension we believe has had an important part to play in CAP reforms that, because it has played a key role in describing key features of the broad shift in the CAP, we have left until last – that of conversion. Table 2 sets out the five objectives of the CAP, as laid down in the Treaty of Rome – and which, as noted earlier, have remained unchanged ever since. That said, it would be entirely wrong to claim that the purpose of purposes of the CAP have remained similarly unchanged.

We can defend this claim at the micro level, by pointing to the multitude of reforms implemented over the decades, including many smaller and sector-specific changes not reported here. At the macro level of the CAP, what does all this add up to? Decoupling may have been shaped in particular by trade policy concerns and the GATT/WTO, but this has also been expressed in recent reforms as freeing up farmers to produce what they want in response to practical and market signals, rather than responding to policy signals. In the wake of the second world war, a policy which encouraged the expansion of production was understandable and, arguably, sorely needed. More recently, however, he focus has shifted to addressing the downsides of the resulting intensification of production, such as environmental degradation, animal welfare, the quality and safety of food, and so on.

Throughout this period, one feature of the CAP that has not changed greatly is EU spending on the CAP. In total, real spending has been declining for at least a decade, as has the share of the EU budget spent on the CAP. Nominal spending, however, has been much more sticky downwards. Indeed, even the distribution of CAP spending between member states has been remarkably stable, given the magnitude of some of the reforms to redistributive policy instruments analysed above. The principal example of a reform cutting nominal spending significantly is the reform of the dairy sector. This, not surprisingly, was the only reform implemented under a fully binding constraint at the EU budget level. As an aside, given the importance of the dairy industry to the Netherlands, it is also a major reason why the Netherlands went on to become the largest net contributor to the EU budget in per capita terms, because of this loss of EU expenditures not offset significantly by other policies.

So what? The objectives for the CAP as laid down in the Treaty of Rome have proved totally sticky. The policy discourse around the CAP, however, has changed fundamentally. Unofficial restatements of policy objectives for the CAP have appeared in various policy documents over the years (refs and concrete examples). These have reflected directly the
shift in the focus of the CAP on the ground, introducing not only the new instruments analysed earlier, but also new concepts such as the European Model of Agriculture, and its promotion of the multifunctionality outputs of EU agriculture. In short, policy makers and defenders of the CAP have sought new ways to justify the maintenance of CAP spending.

How applicable is this analysis to other policies? An initial exploratory answer to this question is that it is probably most relevant to other policies that are established in order to deliver policy outcomes via fiscal redistribution. One consequence of redistributive policies is to establish winners and losers, whose fiscal positions are likely to change should the policy be reformed. One of the remarkable features of the 1992 CAP reform was that, despite the significance of the change in policy instruments, with direct payments channelling much more money than the old price support, the distribution of transfers between member states changed very little (Ackrill et al., 1997; 1998). There remained some opposition based on the notion that price support was somehow a ‘market’ based mechanism, whilst direct payments were like social handouts that demeaned farmers, but the reform did raise direct EU budget spending on the CAP – which always helps facilitate change. The ability to design such a reform that had so little impact on the distribution of transfers across countries was, however, a remarkable achievement.

The other major influence on these distributional aspects of the CAP was the 2004 EU enlargement. By this point, there were to be no more significant increases in total CAP spending so the accession agreement, driven by the EU15, ensured that any net redistribution of funds away from themselves and to the new member states, would happen slowly, over a ten year period. Moreover, the design of the payments meant that even once fully phased in, their unit values would be less than those paid in (most) of the EU15 countries. Commissioner Cioloş, a Romanian, sought to address this in the reform package he measured, but even he had to recognise the challenges he faced and the political reality of getting agreement, over what would otherwise be his ideal policy goals. The initial Impact Assessment examined four alternatives for the convergence of payments across member states. The one incorporated into the formal proposals was the least redistributive. As a result, the goal of full convergence by 2020 was abandoned.

We have thus seen in the CAP, a policy that has created very strong vested interests for a variety of reasons, notably financial, a policy that has been very hard to reform, and has changed only slowly, over many years. Moreover, arguably given those difficulties, most of those changes can best be represented as policy layering. Yet, when put together, the policy has changed hugely, but not in a homeostatic way. The vested interests created by fiscal redistribution have had a profound impact on how the policy has changed. The reforms have been influenced by both endogenous and exogenous factors. The policy has been ‘reinvented’ in order to defend the existence of the policy, protect vested interests, yet also respond to these varying pressures (with varying degrees of success, admittedly). This is an excellent example of conversion.

**Preliminary Conclusions**

Thus, we might conclude, policies which are redistributive, which establish fiscal winners and losers, yet which overall have strong vested support, may well be expected to feature layering as a major part of policy reforms, conversion over time as pressures to change emerge but which can be deflected by re-framing policy discourses over the motives for those fiscal transfers, and maybe even unlayering, but are less likely to witness drift and exhaustion, given that it is unlikely that such policies cease to have the attention of policy-
makers, given the presence of strong vested interests. Displacement is possible, but given the foregoing and as illustrated so clearly by the CAP, that can be a very long, slow process, edging iteratively towards a thermostatic switch than one characterised by homeostasis.

References


