THE EU'S AGRICULTURAL POLICY RECONSIDERED

A Study on the Legitimacy of the Common Agricultural Policy

Bachelor Thesis
Public Administration (Special Emphasis European Studies)
Bachelor of Arts / Sciences

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Submission: 11. December 2014

ABSTRACT

This bachelor thesis aims to investigate the legitimacy of the Common Agricultural Policy (CAP) of the European Union (EU). It is based on Fritz Scharpf's (1999) concept of output and input legitimacy. From a perspective of output legitimacy, political decisions are legitimate, if they solve problems effectively (measured as the *level of goal attainment*) and serve the common welfare. Input legitimacy is given, if the decisions reflect the interest of the people. To investigate output legitimacy, the thesis makes use of existing impact studies on income, environmental issues, such as biodiversity, and structural effects, also related to rural development. The analysis of input legitimacy focuses on the attitudes of Europeans, using data of the Eurobarometer. The findings reveal, that the Pillar I is limited in its effectiveness and does not serve the common welfare. In contrast, Pillar II is both effective and serves the common welfare, although it is not powerful enough to counteract overall trends on community level. The attitudes of the citizens support these findings, as they are broadly reflected the policies of Pillar II, but not of Pillar I. As Pillar I represents the greatest share of the CAP's financial means, both output and input legitimacy can thus be considered as relatively low.

DISCLAIMER

The views expressed in this thesis are those of the student and do not necessarily express the views of the University of Münster or the University of Twente.

STATEMENT OF AFFIRMATION

I declare that the bachelor thesis submitted here was in all parts exclusively prepared on my own, and that any other resources or other means (including electronic media and online sources), than those explicitly referred to, have not been used.

All implemented fragments of text, employed in a literal and/or analogous manner, have been marked as such.

Valerie Sturm

Kassel, 11. November 2014 _____

Place, Date Signature

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1 INTRODUCTION

The Common Agricultural Policy (CAP) is the first communitised and probably the most controversial policy field in the European Union (EU). Although the expenditures are steadily declining, its share in the EU's budget (2014-2020 budget) still amounts 38% (European Commission, 2013c). Apart from the financial aspect, the CAP plays a central role for all European citizens in their daily lives, as it is concerned with the regulation of the European food production and distribution. It affects, which food is produced, how it is produced and how much it costs. In the early 80s, the CAP thus was known for causing the production of 'butter mountains and milk lakes'. Agriculture and forestry cover 78% of the EU's territory and utilised agricultural area accounts for more than 170 million hectares (European Parliament, 2014). The CAP influences the appearance of the landscape and the natural environment as it encourages and discourages certain forms of agricultural practice. Whereas in its early years of existence, the politics of the CAP could be reasoned by the need for a secure food supply in post-World War II environment, it is questionable, how they can be justified nowadays. In a democracy, politics always have to be justified in front of and at least partly supported by its citizens. This becomes even more important, when considering the broad influence of the CAP. Thus, this thesis will investigate the research question 'How legitimate is the CAP is in terms of input and output legitimacy?'.

Legitimacy research within the EU has focused in the last years primarily on the democratic quality of the EU (Lindgren & Persson, 2010). Follesdal and Hix (2006) for example diagnosed a democratic deficit of the EU. This is also reflected in the efforts of the EU to increase the democratic quality, for example by giving the European Parliament (EP) more power in the decision-making process, especially through the policy of 'co-decision' in which 'EU legislation must be passed jointly by the Parliament and the Council of Ministers' (Tangermann & Cramon-Taubadel, 2013, p. 10). Those discussions about democratic legitimacy focused mainly on the governmental structure of the EU, whereas particular policy areas were hardly addressed. Also, the CAP has barely been explored from a political science perspective. Most investigations are attempted from an economic or a biological perspective. The Organisation for Economic Co-operation and Development (OECD) explored income and environmental effects of the CAP in several studies (see for example OECD, 2004, 2011). Stoate et al. (2009) examined ecological impacts, whereas Happe, Balmann, Kellermann, & Sahrbacher (2008) concentrated on structural effects of the CAP. Renting, Marsden and Banks (2003) explored in a more sociological way the possibilities of rural development. Furthermore, the EU provides a range of evaluation reports on the different CAP measures (see for example Agrosynergie, 2011, 2013; Alliance Environnement, 2007; Kantor Management Consultants S.A. & IfLS Germany, 2012). Still, an analysis of the legitimacy of the CAP is missing in both CAP and EU legitimacy research.

For the analysis of the CAP's legitimacy, this thesis will build upon Fritz Scharpf's concept of input and output legitimacy. Scharpf (1999, 2005) originally describes input legitimacy, although often understood as legitimacy of election and decision-making processes, as attained when decisions represent the will of the people. In contrast, decisions are legitimate from an output perspective, if they solve problems effectively and serve a common good. The theoretical background and the used methodology will be further described in the chapter 2. It is followed by an introduction of the CAP, describing its development over time to provide a better understanding of the current situation of the CAP. Chapter 3 is concerned with the analysis of legitimacy. It will focus on the

CAP between the 2003 reform and the 2013 reform. However, as some elements of the CAP have already been included in earlier times, these will also be taken into account. The 2013 reform will not be included in this analysis, as there is not sufficient data existing at the moment, but an outlook will be given in some places. The chapter starts with the analysis of output legitimacy. As the effectiveness of a policy is one major concern in terms of output legitimacy, the chapter will start with an investigation in this area. The effectiveness will be evaluated by its level of goal attainment. This will draw on economic and biological impact assessments mentioned above, also including evaluation reports of the CAP. These will also be used to assess whether the current course of the CAP promotes a common good. After this an analysis of input legitimacy will follow. Therefore, the attitudes of European citizens towards the CAP will be analysed, using data of the Eurobarometer. Finally, in the last chapter, the findings will be summarised and evaluated, also giving an outlook for further research.

2 THEORETICAL FRAMEWORK

The following chapter will provide the theoretical framework for the thesis. It will introduce the concept of legitimacy and its usage within the research context. Afterwards it will present Scharpf's distinction between input and output legitimacy. Then the term 'legitimacy' will be conceptualized, establishing and defining three criteria for the following analysis.

2.1 The Concept of Legitimacy

The term 'legitimacy' describes the acceptability of a social or political order by the involved members. As debates about legitimacy have a long tradition in political science and philosophy, there exist a great number of different definitions and interpretations. Scott (1998) defines legitimacy as the 'property of a situation or behaviour that is defined by a set of social norms' (Djuve, 2010, p. 409). This definition opens up a sociological perspective and understands legitimacy as a matter of individual values, expectations and attitudes. The affected stakeholders decide their selves on their demands and opinions about legitimacy. This represents the factual acceptance of a political order. In contrast, legitimacy can also be regarded as 'a property or characteristic of regimes which satisfy criteria laid out by the observer' (Barker, 2001, p. 9). This concept relates to objective criteria like justness and fairness, irrespective of the popularity of the arguments. However, in a democracy, legitimacy of public policy always relies on popular consent in some way. Habermas describes this interrelation in his 'circuit of democratic power' between civil society, the public, the political system and public administration: the civil society acts as a watchdog of the system. In the public sphere, normative considerations are debated and translated into political action (Djuve, 2010). Thus, public opinions can give a new perspective and insight. However, even if objective criteria are laid out, these criteria can vary considerably. These different perspectives on criteria for legitimacy were also one of the core disputes between Nozick and Rawls. Nozick stated that a distribution of goods is just, as long as it is built on the basis of free exchange by consenting adults and a just starting position. Rawls on the other hand argued that inequalities in terms of the distribution must benefit the least well off in order to be fair (Djuve, 2010).

Legitimacy studies were for a long time concerned with the legitimacy of the nation state. However, in recent times other actors like international, private or non-governmental actors appeared on the scene, shaped the term 'governance' and draw the interest of legitimacy research. However, none of them could be fully applied to the unique political system of the EU.

One fundamental contribution to European legitimacy studies was Fritz Scharpf's (1999, 2005) distinction between input and output legitimacy. From an input legitimacy oriented perspective, decisions are legitimate, if they reflect the will of the people (government *by* the people). According to Scharpf, input legitimacy can also be understood as the legitimacy of election and decision-making processes. This interpretation of input legitimacy is used most in literature. However, this thesis will refer on Scharpf's traditional understanding of input legitimacy that asks for the will of the people. Output legitimacy, however, is focused on the outcomes of policy processes. It asks whether they solve problems effectively and thereby promote the common welfare (government *for* the people). This distinction also reflects the dispute of Nozick and Rawls on the understanding of legitimacy. However, the question how they both influence each other and if the relationship is one of synergy or trade-off, still remains (Lindgren & Persson, 2010). During the first years of European integration, among academics and practitioners the question dominated whether the EU would bring the expected results. Then the discourse changed towards input legitimacy and it became a critical question whether the EU can fulfil democratic demands (Lindgren & Persson, 2010). The democratic deficit in the EU became a widely discussed topic in EU research – for example Follesdal & Hix (2006) diagnosed a lack of democratic quality. The EU tried to address this problem, for example by giving the directly elected European Parliament more power in the decision making process. In terms of the CAP the EU has to struggle with a lack of democracy as well. However, as this policy problem is widely explored, this thesis will acknowledge this issue but will further focus on other dimensions of input legitimacy: the representation of the interests of the people.

2.2 Methodology

The first part of the analysis will investigate output legitimacy. Scharpf (1999) describes output legitimacy as the competence of a policy to solve problems effectively and serve a common good with it. The thesis will thus set two criteria for output legitimacy, 'effectiveness' and 'common welfare'. As the CAP is since 1957 the first communitised policy field, it is likely that effectiveness could be maximised over time. Furthermore, communitisation is most suitable for policy fields with cross-border characteristics and challenges, such as environmental issues, that cannot successfully be solved on national level. Thus, the following hypothesis is assumed for output legitimacy:

> **H1: The output legitimacy is high, as the greatest share of the CAP's financial means are spend effectively serves the common welfare.**

The second part of the analysis will focus on input legitimacy and thus, following to Scharpf (1999, 2005) investigate, whether the CAP reflects the will of the people. Therefore it will assess the 'attitudes' of EU citizens towards the CAP. Due to the protest movements against the current course of the CAP, the following hypothesis can be assumed:

> **H2: The input legitimacy of the CAP is low, as the attitudes of the European citizens are mostly not reflected in the mainly Pillar I driven direction of the CAP.**

Effectiveness

The ability of a policy to solve problems effectively can be defined by its level of goal attainment (Djuve, 2010; Hornby & Turnbull, 2010). Therefore, the thesis will first identify goals that are set within the CAP. This will be done by an assessment of legal documents like the relevant European

treaties and current documents and scientific literature referring to the latest reforms of the CAP. They include both goals and measures that are set to attain these goals. It will then be examined, if these goals are attained. This will be based on an analysis of existing studies about the impacts of the CAP. That embraces ex-post evaluation studies of international organisations like the OECD, evaluation reports conducted on behalf of the EU, and articles of peer-reviewed journals. For some issues with a lack of ex-post data, also some ex-ante impact predictions will be used. The studies are carefully selected in terms of their relevance but also their external validity, to ensure that results are representative for the EU. By contrasting the actual outcomes with the goals, it will be assessed, which goals are attained to what degree. However, the approach involves some risks. For some issues, data material is rare and assessment becomes especially difficult when baseline data is missing. This includes also the problem of not clearly formulated goals or missing quantitative objectives. Furthermore, EU-wide evaluations are very complex and it can be difficult to draw clear conclusions for EU-level. This becomes especially difficult for issues with a high degree of subsidiary that allow different designs and implementation patterns on national or regional level. Finally, some studies do not use data material from all European countries, but select a sample of countries. Even if high attention is paid to the representativeness of this sample, this includes always some threat for external validity. Yet, this thesis uses many studies from different sources in order to try to diminish these risks.

Common Welfare

The next criterion shall examine, whether this actual orientation of the CAP serves the common welfare by promoting common goods. Scharpf (1999) suggests that it should be measured by looking at the public interest, following normative considerations about distributive justice. Thus, to define common goods, this thesis laid down three indicators: common goods are goods that all European citizens (1) sustainably benefit from (2), but that cannot be provided and regulated by the market (3). First, the good has to provide a benefit to all European citizens, not just to the agricultural community, the rural population, the citizens of a certain country or in dependence of the wealth of the people. Thus, they provide a benefit apart from profession, location, or wealth. Second, the benefit has to be sustainable. The Brundtland Commission defined sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' (World Commission on Environment and Development, 1987, p. 41) Thus the common good is here not just understood as a satisfaction of needs at short notice, but as something that the society benefits from in the long run. Sustainability is often understood as consisting of three pillars: economy, society and environment. Thus, in order to be sustainable, the common good has to provide long-term benefits for economy, society and the environment. Finally, the common good cannot be regulated by the market. This may be due to information asymmetries, information deficits or egoistic motives. It results in a lack of capacity of the market to successfully provide this good. In the analysis, it will be assessed, whether the current course of the CAP serves common goods or counteracts them. The chapter will be structured by the current content of the CAP, as identified in chapter 3 and 4.1.1. It will probe by the means of the three indicators, whether the different elements of the CAP promote common goods. This analysis will rely on the same and additional impact assessment studies like the analysis of effectiveness. It therefore also includes the methodological risks involved in these studies.

Attitudes

Following Schmidtke & Schneider (2012), in the empirical legitimacy research two methodological approaches dominated so far: the empirical enquiry of attitudes and the investigation of political behaviour. Lately, the investigation of political communication established and built a third methodological approach. This thesis will focus on the first approach, the exploration of attitudes, to analyse input legitimacy. Behaviour is usually assessed by compliance or protest behaviour. In this context, this could be membership in parties or organisations that support the current course of the CAP (compliance) or the participation in protest movements. However, to gain significant and comparable results, the findings would have to be interpreted against the background of national characteristics, such as for example participation patterns. The third approach, political communication, is based on discourse and content analysis and hence usually based on media data. However, there is no single European media, but many different national media. Therefore, both approaches go beyond the scope of this thesis. Nevertheless, an analysis of behaviour and communication towards the CAP would provide valuable insight and could be an interesting subject of further research.

The criterion 'attitudes' will investigate the will of the people and to what degree it is reflected in the CAP. In order to evaluate 'attitudes' towards the CAP among European citizens, this thesis will make use of the Eurobarometer. There exists a Special Eurobarometer that surveys the perceptions, expectations and desires of EU citizens towards European agriculture and the CAP. The survey is conducted by TNS Opinion & Social on behalf of the Directorate-General for Agriculture and Rural Development. The Special Eurobarometer surveys EU citizens from all European member states that are at least 15 years old and have a sufficient command of the national languages to answer the questionnaire. The sampling method within the Special Eurobarometer is a multi-stage, random (probability) method as carried out by the Directorate-General for Communication (European Commission, 2014). The thesis will rely on the Special Eurobarometer No. 410 (2014) that collected data in 2013, as it is most likely to have fully captured attitudes resulting from the 2003 reform and at the same time allows a forecast for the 2013 reform. The investigation of attitudes, especially using quantitative data, always implies some problems. First, the need for legitimacy is probably overestimated, as at least some respondents follow due to apathy, cost-benefit calculations or out of habit. If those have to give an answer in a survey, this does not necessarily represent their actual motivation. Furthermore, information deficits can also distort the results of the survey (Scharpf, 2005; Schmidtke & Schneider, 2012). This is especially problematic for agriculture. Whereas in some countries in the EU the share of workers in the agricultural sector is still high, the relevance of the agricultural sector is declining in most European countries (Eurostat, 2014). In conjunction with trends like urbanisation and industrialisation this may lead to an alienation of the citizens from agricultural production, what in turn could increase information deficits. Second, it is questionable, whether construct validity can be assumed, especially when using secondary data. As there are different possible indicators, it is difficult to determine the indicator that provides the most valid results. Third, quantitative surveys are not capable to identify individual criteria or grading within the criteria. Thus, respondents cannot rate individually chosen objects in the light of individual scales (Schmidtke & Schneider, 2012). Thus, the findings of input legitimacy have to be treated with caution.

3 THE COMMON AGRICULTURAL POLICY

Since 1957, with the Treaty of Rome, the CAP is a communitised policy field in the EU. It was developed against the background of World War II with the primary goal to provide a secure food supply. Since then, it has undergone fundamental changes (Nilsson, 2004). The following chapter will give an overview of the development of the CAP.

In 1960, the three principles for the CAP emerged. These had a strong influence on the development of the CAP. The principle of market unity (1) build a single market for agricultural goods from all member states and free movements for them within it and with a single tariff regime applying to trade with third parties. Furthermore, within the principle of community preference (2), a system of supporting the price of farm commodities should make agricultural commodities of community origin more attractive than equivalent goods from other countries. Financial solidarity (3) ensures that community policies are financed on a joint basis from a budget to which member states contribute on an agreed formula. This enables areas with the greatest problems to be given appropriate resources (Henrichsmeyer & Witzke, 1994; Hill, 2012).

The CAP's Early Years – Production Support

In the first years of its existence, the course of the CAP was oriented towards a secure food supply, improving productivity and the provision of a fair standard of living for the agricultural community, as stated in Article 39 Treaty of Rome. Family farms should be safeguarded and its economic and competitive capacity rose. At this time, governments were assumed to 'rule' societies in a more Keynesian tradition of welfare and social bounded liberal markets. The CAP therefore continued the protectionist policy of most member states on EU level by intervening in the domestic markets for agricultural commodities in the EU and protecting these markets from international competition. These interventions were arranged as Common Market Organisations (CMOs), one for each major commodity. CMOs were highly complex arrangements designed to keep the prices that farmers received above world market prices. Instruments to ensure the high price level included among others import taxes, intervention buying or export subsidies. Raising market prices was seen as a way to stimulate productivity without necessarily causing market imbalance. The price level that was set by the EU was determined in consideration of the development of current production costs in agriculture. This should ensure an average increase in agricultural incomes that was comparable to the general rise in incomes. The policy resulted in a strong expansion in agricultural production that exceeded domestic demand. This did not only close import gaps, but even generated a production surplus for some commodities and caused high market-related expenditures. In the early 70s, also first approaches of an agricultural structure policy were developed. These promoted primarily investment instead of labour mobility so that it further encouraged capacity expansion and technical progress. The restructuring of agriculture was also seen as an opportunity for receiving remuneration comparable with what farmers could earn in other sectors of the economy (Henrichsmeyer & Witzke, 1994; Hill, 2012).

The strong increase in both market-related expenditures and production surplus finally led to the insight that agricultural price policy had to be restricted. Furthermore, budget constraints of the EU budget became a critical determinant for the CAP. At this time, in the 70s and 80s, the share on the EU's budget accounted for about 65%, respectively 73% (Henrichsmeyer & Witzke, 1994; Tangermann & Cramon-Taubadel, 2013). Hence, agricultural price policy became more cautious at times; but when income pressure increased again as a result and at the same time the pressure

on the EU budget relieved, agricultural prices were raised again. This 'stop and go' policy did not send clear signals and prevented farmers from making investment and production decisions. Thus, production growth was further encouraged. The production surpluses also affected the agricultural structure policy. The problems of investment promotion became increasingly obvious and thus the structural policy shifted towards the promotion of mobility, such as support for occupational change like vocational retraining. The retraining of the agricultural labour force, together with the industrialisation of rural regions, should allow a gradual settlement of the problems of marginal farms. However, in light of the increasing overall employment problems, these politics only had limited effects (Henrichsmeyer & Witzke, 1994).

Facing Overproduction and High Expenditures - Towards a More Restrictive Market Policy

The ongoing problems of high agricultural expenditures and at the same time a weak income situation finally led to significant changes in 1984. The EU introduced a quota system for milk and a long-term restrictive price policy for most other commodities, especially cereals. The introduction of the milk quota was a significant system change, as it implied a system of governmental quantity control for a central agricultural policy area. This resulted in a tense situation in the early 80s, when overproduction led to 'milk lakes and butter mountains'. The alternative to state control would have been radical price cuts. However, due to the economic importance of milk production for many farms, this was assumed as socially not acceptable. To avoid a greater system of state control, other commodities with less social impact were not limited in production, but applied to a restrictive price policy. Furthermore, a quota system for all other commodities would have limited the agrarian potential and export opportunities of some member states. These changes finally could restrict production growth (European Commission, 1998; Henrichsmeyer & Witzke, 1994).

However, these achievements were impaired – due to a special organisation of border adjustment, some member states could elude the restrictive price policy. Thus, 1988 the EU decided on a package of measures to ensure the implementation and improve the performance of the restrictive price policy. It included 'stabiliser mechanisms' that set production thresholds for important commodities. If these would be exceeded, the administrated prices should be reduced. Furthermore, the package included the 'agricultural guideline' that should steadily reduce the share of agricultural expenditures on the total budget of the EU. Other flanking measures should support production adjustment and structural change. This included for example a set-aside premium to foster extensification or premiums within pre-retirement programs. However, they still only had a limited impact. In contrast, the 'stabiliser mechanisms' successfully led to a more restrictive price policy and to a decline in production growth (European Commission, 1998; Henrichsmeyer & Witzke, 1994).

From Market Support to a (More) Market-led System

If the CAP would have been continued like that, this would have led to an ongoing price decrease. As a result, not only production growth would have decreased, but also farm income. Furthermore, the upcoming GATT negotiations increased the political pressure. These required 'Green box subsidies' that 'include government services and non-crop specific payments that are thought not to stimulate production.' (Mattison & Norris, 2005, p. 611) This led to a fundamental reform in 1992, the MacSharry reform. Market and price policy should be more market-oriented and income and socio-political objectives should be attained by other means. This was supposed

to solve the fundamental conflict between allocation and distribution goals. For this purpose, internal support prices were essentially reduced to world market level. As lower revenues were expected as a result, direct payments per hectare for some crops and per head of animals were introduced as compensation. The reform also introduced other 'accompanying measures' concerned with agri-environment, early retirement, forestry (European Commission, 1998; Henrichsmeyer & Witzke, 1994; Hill, 2012; Schmid & Sinabell, 2007).

A Change in the Agenda – Including Environmental Issues and Rural Development

The Agenda 2000 contained a restatement of the objectives of the CAP, even if they do not carry the weight of the objectives set out in the 1957 Treaty of Rome. Increased importance was attached to food safety and food quality, the integration of environmental goals into the CAP, the promotion of sustainable agriculture. Furthermore, it replaced the notion of productivity with this of competitiveness. These themes can be interpreted as the political reaction to food scandals, BSE, genetically modified organisms and consistently the 'changing consumer distrust in the quality of food stemming from conventional agriculture' (Renting et al., 2003). However, it still includes the 'fair standard of living for the agricultural community' that is hardly specified and has often been used to justify large amounts of spending. Yet, the role of the CAP in providing this fair standard of living was qualified by the notion of alternative job creation for farmers and their families. The collateral background of Agenda 2000 was to prepare eastward enlargement of the EU, which took place at 01/05/2014. It was a big challenge to respond to the hopes of about 100 million citizens whose average purchasing power was roughly one third of that of the current consumer in the Union and who lived in states that expanded the whole agricultural area by half and doubled the agricultural labour force (European Commission, 1997).

In reaction of these two great challenges, it further scaled down market price support that should henceforward only constitute a safety net and increased direct payments for compensation (Hill, 2012). Apart from that, it caused a significant change as it introduced Pillar II of the CAP. Pillar I is focused on market-support, whereas Pillar II is directed at rural development and the environment. Pillar I accounts for about three quarters of the total CAP budget (DG Financial Programming and Budget, 2014). It includes direct payments, the protection of domestic markets and export support (Wehde, 2013). Pillar II is with 22% considerably smaller and is aimed at rural development (DG Financial Programming and Budget, 2014). It shall support and mitigate structural change in agriculture, improve environmental protection and stabilise rural structures. It was the primary goal to establish an instrument that flanks and complements market and price policy and at the same time finances non-marketable services for nature protection and landscape conservation. Pillar II embraces multitude of different measures that can be categorised along three axes: (1) improving the competitiveness of the agricultural and forestry sector, (2) improving the environment and the countryside, (3) improving the quality of life in rural areas and encouraging diversification of the rural economy. The financial situation of Pillar II is significantly worse than that of Pillar I. Although financial means have been increased due to EU enlargement, the relative share in EU15 states dropped. Furthermore, Pillar II is based on co-financing. The establishment of Pillar II did not introduce a wholly new support measure or an increased financial support, but it increased the significance of sustainable development (Nilsson, 2004; Nölting, 2006).

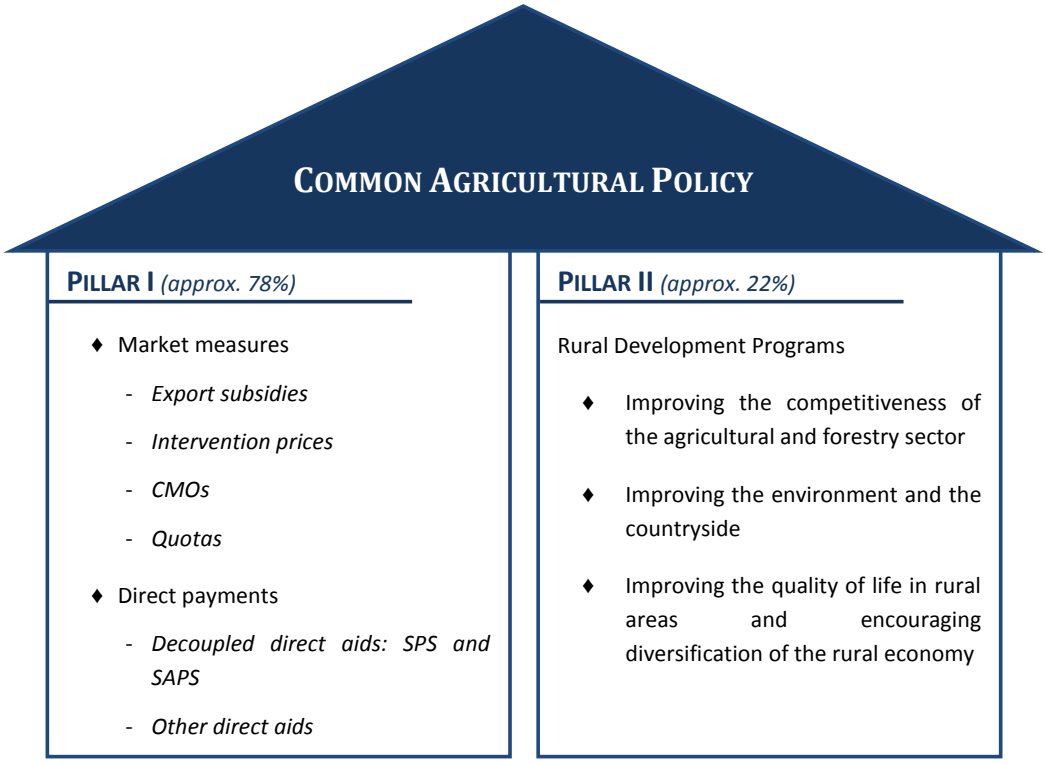

Figure 1: The Structure of the Common Agricultural Policy

The 2003 reform also brought significant changes. Its central element was the 'decoupling' of direct payments. Instead of area or headage payments, it introduced single payments that were implemented on a historic or regional basis. This will be explained in detail in the following chapter. However, some commodity-specific payments could be maintained. Furthermore, single payments were now coupled to certain conditions – called 'cross compliance'. Cross compliance already existed before, but on a voluntary basis. Now it is conditional to receive direct payments. It includes ecological standards and requirements for humans, animals, plants and animal protection and obliges farmers to maintain the land in 'good agricultural and environmental condition' (EU Council Regulation no. 1782, 2003). Besides, the 2003 reform introduced mandatory 'modulation'. This describes the reduction of direct payments and the transfer of this money to Pillar II. The 2008 Healthcheck only marginally adjusted the new approach (European Commission, 2004; Nilsson, 2004).

Coupling the Decoupled – With Environmental, Redistributive and Rural Development Requirements

In 2013, the EU decided on a new reform that has now three primary goals: profitable food production, sustainable management and balanced territorial development (European Commission, 2013a). Direct payments with the cross compliance obligation should be maintained, but with the goal of internal and external convergence. Internal convergence implies that payments are no longer distributed based on historical references. Instead, member states have different options to reach more similar levels of payments per hectare. Until 2019, all farmers shall receive at least 60% of the national or regional average. Furthermore, member states are free to cut payments for those who receive more than the average up to 30%. With the introduction of the 'greening', 30% of direct payments shall from now on only be allowed when

certain agricultural practices beneficial for climate and environment are respected. These include three main elements: maintaining permanent grassland, crop diversification and maintaining an 'ecological focus area' of at least 5% of the arable area of the holding. Furthermore, a redistributive payment for the first hectares and a small farmers scheme, that allows an annual 'flat rate payment' with less administrative burden, has been introduced on a voluntary basis. Pillar I now also includes an increased payment for young farmers that is mandatory. Besides, member states are free to guarantee some coupled payments – not more than 13% of their national envelop – to cushion negative effects of the internal convergence. Furthermore, Pillar I measures can now also be guaranteed for least favoured areas on an optional basis (European Commission, 2013b).

All in all this brief historical overview has shown that the CAP has been constantly changing, developing from a protectionist policy that was focused on a secure food supply towards a more market-led policy that still supports farmers' incomes, but also acknowledges the need for environmental protection and rural development.

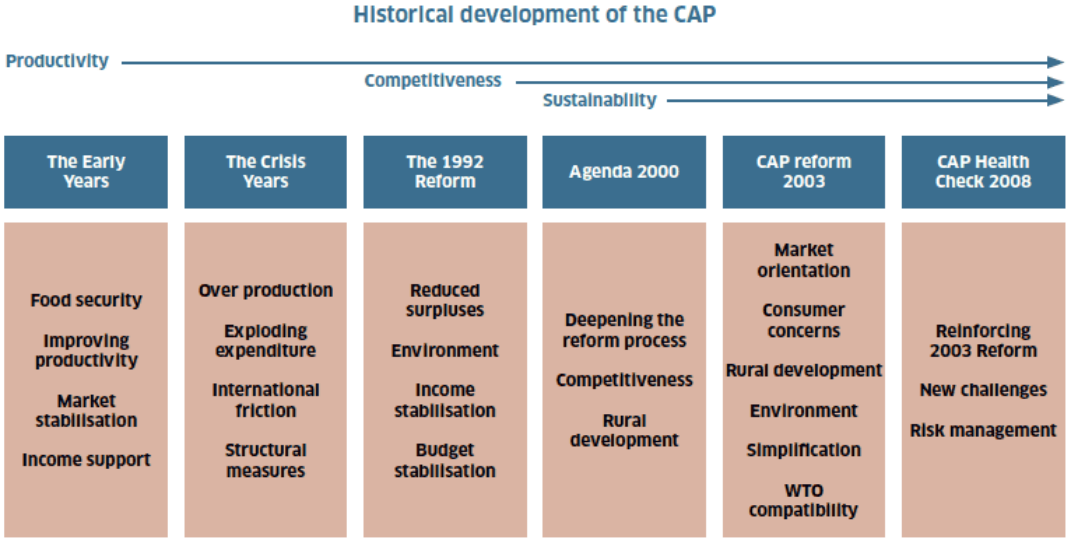

Figure 2: Historical Development of the CAP

(European Commission, 2009)

4 Analysis

4.1 Output Legitimacy

This section will explore the output legitimacy of the CAP. It is based on Scharpf's (1999) definition of output legitimacy and will in this regard first evaluate the effectiveness of the CAP and then investigate, whether the current policy of the CAP serves the common welfare.

4.1.1 Effectiveness

Effectiveness is here understood as the level of goal attainment. Thus, the following will first identify the pursued goals of the CAP. It will then be analysed whether these goals are actually attained.

The goals of the CAP have first been set out the Treaty of Rome (1957) and since then have been hardly adapted. Since the Lisbon treaty, the article concerned with agriculture is included in the Treaty on the Functioning of the European Union (TFEU). Article 39 states the objectives of the CAP as follows:

> *1. The objectives of the common agricultural policy shall be:*
> *(a) 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;*
> *(b) thus to ensure a **fair standard of living** for the agricultural community, in particular by **increasing the individual earnings** of persons engaged in agriculture;*
> *(c) to **stabilise markets**;*
> *(d) to assure the **availability of supplies**;*
> *(e) to ensure that supplies reach consumers at **reasonable prices**.*

They are supplemented by Article 42 Treaty of Rome, respectively TFEU. It allows support for rural areas that otherwise might be suffering from the increasing competition and specialisation that can arise from a common market in agriculture.

However, these objectives are quite vague and comprise internal inconsistencies. For example, it is not further specified, whether paragraph (b) addresses all members of the agricultural community or just those which are capable of competing. Furthermore, there is a possible conflict between increasing the earnings of persons engaged in agriculture and assuring reasonable consumer prices. Besides, the objectives are lacking a concrete problem solving approach. Thus they can rather be interpreted as a legal base for decision-making. Even if the objectives set in the treaties have hardly changed, other concerns have influenced the course of the CAP – such are for example growing environmental concerns or attempts to move to a closer monetary union (Hill, 2012).

As policies are made in a dynamic real-world environment with changing problems that require well adapted actions, it is more significant to look at the objectives that are reflected within the current course of the CAP. Thus, the analysis will concentrate on the objectives that can be deduced from the actions that are taken. Whereas in the early years of the CAP it has been a primary goal to guarantee a secure food supply and support family farms by the means of market-support measures, the course of the CAP has changed over time (Nilsson, 2004). Market-support measures drastically decreased to reduce market distortion and deadweight losses. Agricultural markets should be less protectionist and more market-led (Henrichsmeyer & Witzke, 1994). As compensation and as farm incomes are per working unit still 40% below average (European Commission, 2010), other income support measures, direct payments, were introduced and are since Agenda 2000 concentrated in Pillar I. Thus, income support still plays a major role in the CAP. Furthermore, structural agricultural policies to support rural areas gained more importance over time and are since Agenda 2000 represented in Pillar II of the CAP. As environmental concerns gained in growing importance since the early 70s, it was gradually incorporated in the CAP. Since Agenda 2000 it has a more institutionalised framework, as 'agri-environmental measures' are included in axis 2 of Pillar II, and became obligatory (Nölting, 2006). In 2003 reform, environmental concerns are furthermore represented in the cross compliance obligation

(European Commission, 2004). Thus, the form of the CAP between 2003 and 2013 clearly emphasises three goals: income support, conservation of the natural environment and rural development.

Income Support

Income support is widely provided by the direct payments for farmers and farm income increased even more with the introduction of the single farm payment with the 2003 reform. Before, payments were coupled to production and supported certain commodities. Under the 2003 reform, payments were 'decoupled' and two single farm payment schemes were introduced. The first scheme, the Single Payment Scheme (SPS) is applied by the EU15 states, Malta and Slovenia. The payments under the SPS can be delivered by either a historical or a regional or hybrid model. In the historical model, payments are based on what a farmer received during a reference period. Thus, aid levels per hectare are different. In the regional model, all payments within a region are summed up and then divided by the number of hectares in the region. Most countries make use of the historic model; some use the hybrid models. The regional model is only chosen by Malta and Slovenia (European Commission, 2012b). The other single farm payment scheme is the Single Area Payment Scheme (SAPS) that is applied by the new member states, except for Malta and Slovenia. Here, the whole national envelope is divided by the number of hectares in the country. The new member states have a ten-year transitional period, during that payments gradually increase to finally reach the same level as the EU15 countries (European Commission, 2012a). Commodity-specific payments could be partially maintained, but only to a minor part (European Commission, 2004).

Direct payments had an overall positive effect on farm income (OECD, 2011). With the shift away from market price support, the payments could more effectively be transferred into income. Single payments do not provoke many market distortions, as their primary impact is on land. Thus, farmers do not have additional expenditures to follow policy incentives. This entailed that 99% of the value of single payments is transferred to the land market and deadweight losses are drastically reduced. In accordance, the income effect of the CAP increased significantly from 2004 onwards and the level of production distortion trends downwards. The CAP still includes market support measures; however, the production impact has been reduced by two-thirds between 1986 and 2008. The proportion of transfers that finally receive the farmers and landowners increased from about 50% in 1986 to 90% in 2008 (Agrosynergie, 2011; OECD, 2011). An evaluation report on direct payments found out, income support is still needed by most farmers, as they do not reach a certain reference benchmark (regional GDP per employee). Yet, direct payments are also granted to farmers above the benchmark (Agrosynergie, 2011).

However, the fact that the single payments are directed at land, involves the problem that the payments are capitalised into land values and thus into the land rental rates. Hence, they do not longer benefit the farm households (that were intended to benefit from the payments), but landowners. As the share of rented land has increased from 29% in 1986 to 50% in 2008, only half of the increase in producer surplus to land in 2008 was assumed to benefit farmers and the other half to benefit landowners. Still it has to be considered, that landowners possibly are also farmers (OECD, 2011).

Conserving the Natural Environment

CAP reforms fundamentally influenced the environmental impact of agriculture as it influenced production mix and management practices. Over the last 25 years, it adapted old policy measures and introduced new ones that meet environmental concerns. Such include for example supply control measures (for example by the use of milk quota or set-aside obligations), the shift away from production-based payments to single payments, the introduction of environmental conditionality (cross-compliance) and the introduction of incentive payments to encourage environmentally beneficial management practices, such as agri-environmental measures under Pillar II (OECD, 2011). Even if it is not always possible to clearly distinguish between environmental influences from agriculture and other sources, two broad trends can be identified for agriculture in terms of environmental consequences: marginalisation/abandonment and intensification/concentration of production (OECD, 2011; Stoate et al., 2009). Furthermore, it is difficult to separate the influence that the CAP has on agricultural management decisions. Other factors, like for example market requirements, can also play a role for or against environmental-friendly management (Baldock, 2004). Due to the variability in which CAP measures are funded, designed and implemented nationally and regionally, overall assessments become even more difficult. As this chapter is concerned with goal attainment, the following analysis will concentrate on measures that have the intended goal to benefit the environment – cross compliance and agri-environmental measures under Pillar II.

The 2003 reform introduced an environmental conditionality, 'cross compliance', for the receipt of direct payments. It should not only guarantee compliance with standards of EU legislation, but also promote more sustainable agriculture and prevent unwanted side-effects of the introduction of single payments (such as land abandonment). In general, land should be kept in 'good agricultural and environmental conditions'. The introduction of cross compliance had a positive effect on the compliance with existing regulations (Alliance Environnement, 2007). Some member states even extended their baseline of environmental standards, due to the flexibility to interpret 'good agricultural and environmental conditions' (OECD, 2011). However, in most member states, cross-compliance does not exceed existing legislation and hence does not bring substantial improvement (Bennett et al., 2006). Environmental organisations criticised the weak approach of cross compliance, as the introduction of conditionality could have had great potential. In contrast, farmers' organisations tend to complain about a loss of competitiveness in the European markets due to differences in implementation between member states. However, such a distortion of competitiveness could not be identified (Alliance Environnement, 2007; Tangermann & Cramon-Taubadel, 2013). OECD (2010a) refers to the difficulties of such a homogenous regulation for a heterogeneous agricultural and environmental background. Brady (2011) predicted only small impacts of cross compliance on productive regions, as land use would remain largely unchanged. For marginal agricultural regions he predicted a negative impact on biodiversity and landscape due to the homogenisation of land use. He highlights the environmental benefits that would result from specific, targeted measures that respect the heterogeneity of agri-environmental conditions across the EU.

The agri-environmental measure is the oldest and most significant measure for the environment. Within Agenda 2000 it became part of Pillar II of the CAP was introduced as the only compulsory measure within rural development policy. Agri-environmental schemes are designed, targeted and delivered at national or regional level and are co-funded by the member states (Nölting,

2006). Thus, they have a high level of subsidiarity that allows designing schemes that fit to the heterogeneous conditions in the EU. This opportunity to react to the differing needs and environmental priorities, as well as the institutional capacity in the different regions is important to achieve the intended environmental objectives (Brady, 2011; OECD, 2010a). On the other hand, this allows designing and implementing schemes with limited environmental benefits (OECD, 2011). The budget for agri-environmental measures increased over time and is now in many member states the major source of environmental funding. It accounts for 22% of the Pillar II budget with approximately 22% of total utilised agricultural area under some form of environmental management in the 2007-13 programming period (Cooper, Hart, & Baldock, 2009; European Commission, 2014b). Agri-environment support two main types of agricultural management: on the one hand low input systems (such as extensive farming systems, particularly grassland systems) and on the other hand systems with more complex management requirements for the maintenance and restoration of particular habitats, species or geographical areas. The priorities of agri-environmental schemes expanded over time. Maintaining and enhancing the character of cultural landscapes and protecting farmland diversity have been core priorities in 1980, as well as in some of the recent schemes. Most member states use agri-environmental measures to support organic farming practices. Other issues, such as improving water quality and soil functionality and the maintenance of sustainable water resources gained importance. With the 2009 Health Check, climate change became a new priority that shall be met through Pillar II (OECD, 2011).

Agri-environmental measures can enhance farmers' awareness of environmental problems and potential and exhibit opportunities for action (Herzon & Mikk, 2007). However, the environmental benefits resulting from agri-environmental measures are controversial, especially due to the difficulties to quantify environmental benefits achieved (Kleijn et al., 2006; Kleijn & Sutherland, 2003; Whittingham, 2007). Still, evaluations have shown benefits for biodiversity, as many schemes focus on low intensity systems, on extensifying production and on reducing agrochemical inputs. Furthermore, agri-environmental measures shall in general benefit maintaining landscape patterns (D. Kleijn et al., 2006; Oréade-Brèche, 2005) and have a positive effect on water quality (Agra CEAS Consulting, 2005; Kantor Management Consultants S.A. & IfLS Germany, 2012). Benefits that have been identified mostly rely on the reduction of inputs, the use of cover crops on arable land, appropriate arable rotations, arable reversion to grassland, organic agriculture and the introduction of buffer strips of varying widths alongside water courses (OECD, 2011). Central and eastern European member states proved to achieve conservation targets less. This is because of small budget allocations, inefficient schemes, and a lack of advisory services or of political will (Keenleyside, 2006).

However, altogether agri-environmental measures were a successful instrument to improve the environmental impact of agriculture, even if their impact on the overall environmental situation was limited. This can be explained by their limited financial scope and environmental developments outside of the agricultural sector. However, to allow a better evaluation of agri-environmental measures, a better data situation is needed. Due to criticism of the European Court of Auditors (2005), new indicators were developed to facilitate greater integration of environmental concerns within agriculture, together with the introduction of the Common Monitoring and Evaluation Framework. This will provide some baseline indicator data that allows agri-environmental measures to develop into a tool with sufficient flexibility, effectiveness and transparency (OECD, 2011).

Rural Development

Rural development measures have their origins in the structural agricultural policy of the CAP. With Agenda 2000, they were specified and separated to Pillar II. Agriculture plays an important role in rural development policy. Currently, a trend of concentration can be observed, as the number of farms and agricultural employment decreases, whereas agricultural GDP increases. However, the share of agriculture in regional GDP is small and decreasing, even if in some regions still a significant proportion of the rural population depends on agriculture. In most regions, agriculture is a main land user (OECD, 2011). Thus, agriculture in rural regions needs special support. The support provided by Pillar II aims to safeguard employment to prevent rural depopulation, limit ageing of the population, create new sources of income for farmers, foster return to nature-oriented, environmental and animal friendly farming systems and provide special support to disadvantaged and marginal regions (European Commission, 2014c). It therefore makes use of a range of measures. Their number is steadily increasing, during the programming period 2000-2006 Pillar II embraced 26 measures (EPEC, 2004). The design and implementation of rural development programs is left to national or regional governments that also co-finance the programs. This leads to a great variety of different schemes. On the one hand, that allows programs well adapted for the specific needs and characteristics of a region and implies a high level of subsidiarity. On the other hand, it makes monitoring and evaluation more difficult. However, RDPs are subject to regular mandatory evaluations and thus there exist ex ante, mid-term and ex-post evaluations that provide information about their effectiveness.

RDPs showed to rather have an impact at the beneficiary level than at the level of the whole rural economy and population. This means that measures indeed have a positive impact and attain their particular goals, but are not capable to counteract overall structural trends (EPEC, 2004; Kantor Management Consultants S.A. & IfLS Germany, 2012). Still, their capacity to generate positive, economic and environmental impacts should not be underestimated. Pillar II measures proved to have a positive effect on rural incomes (Kantor Management Consultants S.A. & IfLS Germany, 2012). Vocational training could improve working conditions and farm management and thus led to an increase in income. Farm investment measures reduced production costs and sometimes improved quality of production, what in turn increased income. However, investments support could not relocate production from sectors with production surpluses in other sectors. Sometimes, production surpluses even increased, but only at EU, not at local level (Agra CEAS Consulting, 2005). Furthermore, Pillar II measures generated employment at local level (Kantor Management Consultants S.A. & IfLS Germany, 2012). Although labour was used more efficiently, investments were often used to provide jobs. Furthermore, they could reduce workload and hard physical work. Measures on supporting diversification also had a positive impact on farm and off-farm employment (Agra CEAS Consulting, 2005).

Least favoured area (LFA) payments fostered the maintenance of traditional landscape features. Even if assessment of is difficult due to a missing historical or geographical comparison group, they are assumed to have a positive impact, especially in regions, where LFA payments have a high share in income. The number of farms that quit declined due to LFA measures, especially livestock farms. However, they rather encouraged continuing land use in general, but only had little influence on the type of land use. A positive development of employment could be observed in least favoured areas, but the impact of LFA measures on this development could not be determined. At large, LFA measures contribute to compensate economic consequences of natural

disadvantages and thus support the continuity of land use and the maintenance of rural communities (Agra CEAS Consulting, 2005; Kantor Management Consultants S.A. & IfLS Germany, 2012).

In contrast, the support of young farmers and early-retirement did not have a significant impact on the time when farms were taken over. Other external factors here seemed to have a greater influence. Furthermore, a positive impact of investment support on animal welfare could be observed in several member states (Agra CEAS Consulting, 2005). The effects of RDPs were not sufficient to achieve overall stabilisation of rural population due to the massive influence of external factors. However, several measures, such as renovation and development of villages, protection and conservation of the rural heritage and basic services for the rural economy and populations, had an impact on maintaining the countryside alive and improving the attractiveness of rural areas. Measures that built a capacity for local actors to resist to decay and adapt to change, especially diversifying agricultural activities income sources, have been critical to improve the sustainable development of rural economies and communities (Kantor Management Consultants S.A. & IfLS Germany, 2012).

OBJECTIVE	LEVEL OF GOAL ATTAINMENT
Income Support	+ Direct payments had positive effects on income - Negative effects through capitalisation in land values *Result: low-medium level of goal attainment*
Conserving the Natural Environment	+ Agri-environmental measures under Pillar II were successful in reaching their particular goals - Agri-environmental measures only had a limited impact on macro level - Low to negative effects of cross-compliance *Result: rather high level of goal attainment*
Rural Development	+ RDPs under Pillar II were successful in attaining their particular goals - RDPs were not capable to counteract overall structural trends *Result: high level of goal attainment*

Table 1: Overview of the Effectiveness of the CAP

4.1.2 Common Welfare

Another criterion for output legitimacy is whether decisions serve the common welfare, respectively promote common goods. As presented in chapter 2.2, common goods are defined along three indicators: they have to benefit the whole society in the EU (1) in a sustainable way (2) and cannot successfully be provided by the market (3). The following chapter will analyse, whether the current course of the CAP, as identified in the previous chapters, promotes such common goods.

Pillar II

Currently, the CAP exists of two pillars. Pillar II aims to improve rural development, with a special emphasis on preserving the environment. The environment is a good that is present for everyone

in the EU and beyond – not only in its positive effects. Environmental damages can affect all citizens, irrespective of their own contribution to the causation of the damage. The environment provides resources for future generations and constitutes the basis of living, for example in form of fertile soils. Thus, it represents an ecological sustainable good. Due to the omnipresence of the environment and difficulties to quantify the costs of environmental damage, environmental costs are not included in price calculations. There are attempts of the market to provide environmental-friendly goods, for example by the means of bio labels; however, they were not yet successful to change the production patterns of the conventional market. As agriculture is a main contributor to environmental degradation, the issue of environment becomes especially important in this context. Regarding the findings of the previous chapter, it can therefore be concluded that the measures to prevent environmental degradation, namely cross-compliance and the agri-environmental measures of Pillar II, serve a common good.

Another objective of Pillar II is to foster rural development. This does not directly affect every single person in a society, but has overall effects that have in long-term at least indirect implications for all citizens. Rural development aims to support rural communities to avoid rural depopulation. Especially young people shall be encouraged to stay in rural communities in order to sustain living communities and prevent ageing of the rural population. This has positive effects on both the environment and the society. The environment can benefit from the maintenance of agricultural areas and short transportation routes; the society benefits from easing the pressure on urban areas. Furthermore, small-scaled farming areas foster the autonomous local food supply. In the light of limited availability of fossil fuels for the transportation system, increasing uncertainty due to the climate change and the limits of the growth paradigm, local economies with an autonomous food supply become in the long term increasingly important. All these developments cannot be provided by the market as it lays in the nature of markets to support competitiveness with specialisation and concentration. The measures on rural development under the scope of Pillar II, as described in the previous chapter, can therefore be considered to promote a common good. However, it should be critically noted that even if small-scaled farming areas are supported, none of the measures are concerned with self-sufficiency. The EU has a relatively high self-sufficiency rate[1] on most goods, but is with a self-sufficiency rate of 5% in 2007-09 absolutely dependent from the import of soybeans that are needed as animal feed (OECD, 2011).

Pillar I

Apart from Pillar II measures on environment and rural development, it is questionable, whether the measures for income support, namely single payments under Pillar I, serve a common good. Several authors criticised that they do not have a positive effect on the common welfare (see for example Hill, 2012; Lakner et al., 2013). Direct payments have been introduced to compensate for the loss resulting from phasing out production-based payments. They should constitute a stable income source and therefore assure the farmers. However, it is not further specified, whether this measure should support all farmers, only competitive farmers or economically disadvantaged farmers. Moreover, the phasing out of commodity-specific payments is dated back about two decades by now. That raises the question, whether they can now otherwise be justified, for example by serving a common good, like environmental protection or rural development. In the following, it shall be first evaluated if Pillar I has an impact on the common goods identified

[1] Self-sufficiency rate is the domestic production as percentage of domestic consumption.

before, namely environment and rural development. Afterwards it shall be concluded whether Pillar I can thus be assumed to serve a common good, according to the three indicators.

The shift from production based payments to single payments had indirect effects on the environment. Production based payments influence farming systems and practices fundamentally. This has both positive and negative impacts on the environment (Tucker, Hart, Baldock, Farmer, & Hegarty, 2010). With regard to the livestock sector, they can on the one hand lead to an increase in livestock numbers that is associated with water pollution, livestock waste, fodder production and greenhouse gas emissions. On the other hand, such payments can also support grazing livestock with low stocking intensities in economically disadvantaged farming areas and with it prevent abandonment (Gay, Osterburg, Baldock, & Zdanowicz, 2005). Extensive livestock farming is considered beneficial for landscape and biodiversity in many high nature value areas (Baldock, 1996). Yet, the shift from production-based payments to single payments was generally expected to reduce the pressure for the expansion of production, with positive effects on the environment, for example by reducing the incentive to convert grassland to arable land (Baldock, Dwyer, & Vinas, 2002) (IEEP 2005). However, it was expected that the impacts of this shift would be more significant in less productive regions, whereas land use in productive regions would hardly change. It was predicted that grazing livestock numbers would decrease; consequently in some regions under-grazing and first stages of abandonment could be observed. But on the other hand, it was predicted that arable area would slightly decrease in favour of grassland. This would lead to reduced manure and reduced mineral fertiliser use, resulting in reduced greenhouse gas emissions, reductions in nitrogen surpluses, reduced grazing pressure and increased soil organic matter (Brady, 2011; OECD, 2011; Schmid, Sinabell, & Hofreither, 2007). Another study predicted a positive effect on the sustainable use of water, as crops with high water requirements were no longer favoured in payments (OECD, 2010b).

Thus, the shift from production based payments to single payments can be considered to have a generally positive impact on the environment. However, the findings do not suggest that this impact is of an on-going nature and that they foster a steady improvement of the environment, as they primarily concentrate on the impacts of the shift from production based to single payments. The introduction of a conditionality, cross-compliance, could not significantly improve the impact of single payments on the environment. As described in the previous chapter, it is expected to have only little impact in productive regions and maybe even a negative impact in marginal regions, due to its homogenous character (Brady, 2011; OECD, 2010a). With the 2013 reform, the 'Greening' has been introduced that coupled 30% of the direct payments to environmental conditions. It includes crop diversification, maintaining permanent grassland and maintaining an 'ecological focus area' of at least 5% of the arable area of holding. It will rise to 7% from 2017 on (European Commission, 2013b). The first two measures are not expected to have considerable influence on existing farming practices. Maintaining of 7% 'ecological focus area' is expected to have significant influence on especially biodiversity (European Commission, 2011). However, a lower proportion of 'ecological focus areas' are expected to have only little influence (Lakner et al., 2013). Even if some positive impacts of the Greening are predicted, it will probably only have little net effect (Westhoek et al., 2012).

Farm structure and rural development have undergone fundamental changes in the last decades. The share of farms with more than 100 hectares increased significantly in some countries between 1990 and 2007, whereas the number of full-time farmer equivalents fell by 22%

between 1995 and 2007 (OECD, 2011). Although agriculture in the EU is still dominated numerically by small farms, relatively few larger holdings farm most of the agricultural area and produce a corresponding share of its agricultural output (Tangermann & Cramon-Taubadel, 2013). The fact that support by farm size is highly unequally distributed, as 25% of the largest farms receive 73% of Pillar I payments (OECD, 2011), contribute to the question, which impact Pillar I measures have on regional development. Daniel and Kilkenny (2009) found out that both production based and single payments can decrease spatial agglomeration and can provide an incentive to locate in lower population density regions. However, some other findings contradict this assumption. Pillar I payments benefit mainly larger farms with higher than average levels of income per farm (OECD, 2011). Single payments have their lowest rates in regions, where enduring land use would be most important from an environmental perspective and where marginalisation is most likely to occur (Agra CEAS Consulting, 2005). This either contributed to speed up the exit of smaller-sized farms from the sector or to the growth of some smaller-sized farms. A greater downward trend can be observed in livestock farms. Furthermore, in contrast to more specialised farms, mixed farms are more likely to quit. Thus, direct payments led to a greater concentration and specialisation (Agrosynergie, 2013).

The capitalisation of support for land prices that already occurred after the introduction of headage and area payments within the 1992 MacSherry reform and continues with the introduction of single payments further contributed to a decline in competitiveness in already disadvantaged regions (OECD, 2011). Apart from direct payments, the phasing out of milk quotas is expected to concentrate production in competitive regions with lower production costs. In disadvantaged regions, higher production and transportation costs are expected (Alliance Environnement, 2008).

The shift towards single payments had also an impact on employment. Mattas et al. (2011) predicted a change in enterprise mix – cereals and oilseeds were expected to decrease in favour of fodder crops, whereas milk and sheep would remain the same and beef production would drop. This was expected to lead to a decrease in on-farm and off-farm employment in all regions and for all farm types. Yet, the overall expected implications for regional economies in terms of employment are low, as both the share of agriculture in employment and the number of employment multipliers in agriculture is low in most regions. Another sub-goal for rural development is to encourage income diversification. This is still limited in many EU member states and the extent to which reforms had an impact on income diversification is uncertain. However, due to the introduction of single payments, farm households lost an incentive to diversify income sources, although the removal of the requirement to produce was expected to free labour for non-agricultural activities. A lack of skills, access to market opportunities and off-farm jobs further hindered income diversification (Brady, 2011; OECD, 2009).Thus, measures of Pillar I had a rather negative impact on rural development. They had not only negative implications for employment and income diversification, but also disadvantaged already economically marginal regions. A simulation conducted by OECD (2011) has shown that a flat rate payment similar to the SAPS scheme would reduce inequalities in distribution and would benefit marginal farms. A similar approach is included in the 2013 reform with ‘internal convergence’ that converges the single payments to each other in the member states.

It can be recognised that Pillar I payments did not have a positive impact on the environment or rural development. Quite the contrary they counteract the environment and rural development.

They neither provide another benefit for the whole society, as subsidies are spread thinly without any strong requirements for a special purpose. As direct payments, that compose the greatest share of Pillar I payments, do not distort market action, it could be argued that they foster the competitiveness and production capacity of European farmers and thus support economic growth. However, economic growth is limited and thus not capable of providing a sustainable basis of living. In contrast, it has been shown that further concentration and specialisation, that are the underlying characteristics of competitiveness, harm the natural environment and rural development. Especially in the context of agriculture, this could have fundamental impacts in the long term, as food supply is dependent on the environment and will increasingly rely on local food supply structures.

All in all, this analysis of output legitimacy of the CAP has shown that the effectiveness of income support measures is limited, whereas the effectiveness of Pillar II measures can be considered as good, but not strong enough to have a significant impact on overall trends. The analysis of common welfare, however, has shown that exactly these measures also promote common goods, whereas income support measures are not considered as beneficial for the society.

4.2 Input Legitimacy

This section of the analysis is going to investigate the input side of legitimacy. Scharpf (1999, 2005) argues that decisions are legitimate from an input perspective, if they reflect the interest of the people. Thus, this chapter will draw on the attitudes of European citizens to examine their expectations and perceptions towards European agricultural policies and contrast it with the CAP. The investigation of attitudes of European citizens towards the CAP is based on data from the Eurobarometer (European Commission, 2014a).

4.2.1 Attitudes

Most European citizens (92%) find that agriculture and rural regions play an important role in the future of the EU. More than a third of EU citizens find them even very important. This represents not only the opinion of the rural population, as their answers are close to average (56% compared to 51%). The great importance that EU citizens attach to agriculture provides a good basis to justify the existence of the CAP. In addition, most citizens think that the CAP does not only serve farmers (77%). This view is even more represented in the new member states of the EU (84% compared to 74%). The following will further look into detail of EU citizens' expectations and contrast them with the current course of the CAP.

For the detailed analysis of EU citizens' expectations, two questions are chosen to identify the priorities of the citizens – what citizens think should be the two most important function of farmers in the society and what citizens think are the most important reasons to maintain agriculture in all parts of the EU. This will be then verified by certain questions about the existing measures of the CAP. European citizens think that the two most important functions of farmers are the provision of diversity of products and to maintain economic activities and employment in rural areas (38%, respectively 36%). This is followed by the protection of the environment (32%) and the autonomous food security (29%). The first aim, the provision of diversity of products, is in another question also considered as an important issue by 87% of the respondents, and as even a very important issue by 40%. Yet it is not exactly represented in the CAP. As the CAP reduced market distortions, it led to a better supply-demand balance. If consumers wish a great diversity of products, this could hence lead to an equivalent supply. However, the reduction of market

distortions also increased orientation towards international competitiveness that includes specialisation and division of labour. As consumer behaviour is not only led by the origin of products but also by price, it is not likely to expect that the diversity of production within the EU will be explicitly fostered. Thus, the CAP does not play a significant role in encouraging diversity of food production. The second priority, maintaining economic activity and employment in rural areas, is explicitly supported within Pillar II of the CAP. However, Pillar II consists only of about 22% of the total CAP budget (DG Financial Programming and Budget, 2014).

Regarding the question, what citizens consider as the most important reasons for maintaining agriculture in all parts of the EU, two answers dominate with percentage rates over 50%. First, agriculture is seen to benefit the society by the production of secure food and compliance with environmental and animal welfare standards (59%). Secondly, agriculture is perceived as an important economic factor in rural areas (53%). The first answer covers a broad range of issues. However, these issues can be both found in the cross compliance regulation and in Pillar II measures. Even if cross compliance has much lower standards as Pillar II measures, they both cover the mentioned issues. The second answer is again explicitly supported within Pillar II of the CAP. The functions to support the environment or to secure autonomous food security only compose 32%, respectively 29%.

If European citizens are interviewed on existing measures of the CAP, they evaluate them generally quite positive. All measures are viewed as 'good' by at least 88% of respondents. The best rating receives the support for young farmers. This is currently only supported within Pillar II of the CAP, but with the implementation of the 2013 reform, it will also be part of Pillar I. Guaranteeing food supply receives the second-best rating. It is not directly supported by the CAP. Pillar II measures can be interpreted as an indirect mean, as they encourage maintaining agriculture disadvantages regions. However, also Pillar I measure could be interpreted as supporting food supply, as they support the survival of all farms by income support. Generally, guaranteeing a secure food-supply is probably not clearly represented in the CAP, as it already has a high self-sufficiency rate, except for soy-beans (OECD, 2011). Ensuring a fairer and more targeted way of support is the third-best rated item. This is currently a point of criticism of the CAP, as Pillar I measures are spread thinly and undifferentiated. The 2013 reform will tackle this issue by the mean of 'internal convergence'. Practices that benefit the environment compose the next item. These are primarily represented in the agri-environmental measures of Pillar II, but also slightly in the cross-compliance obligation. Surprisingly, rural development, supported by Pillar II, has the worst rating, although it was amongst the highest ratings in the other questions mentioned above. However, the bad rating in this question can again be qualified by a question that asked for the opinion towards support for vulnerable farms with climate, health and economic difficulties. This receives the absolute majority (more than 70%) in all member states, with 91% of the citizens considering it as 'important' and 48% as 'very important'.

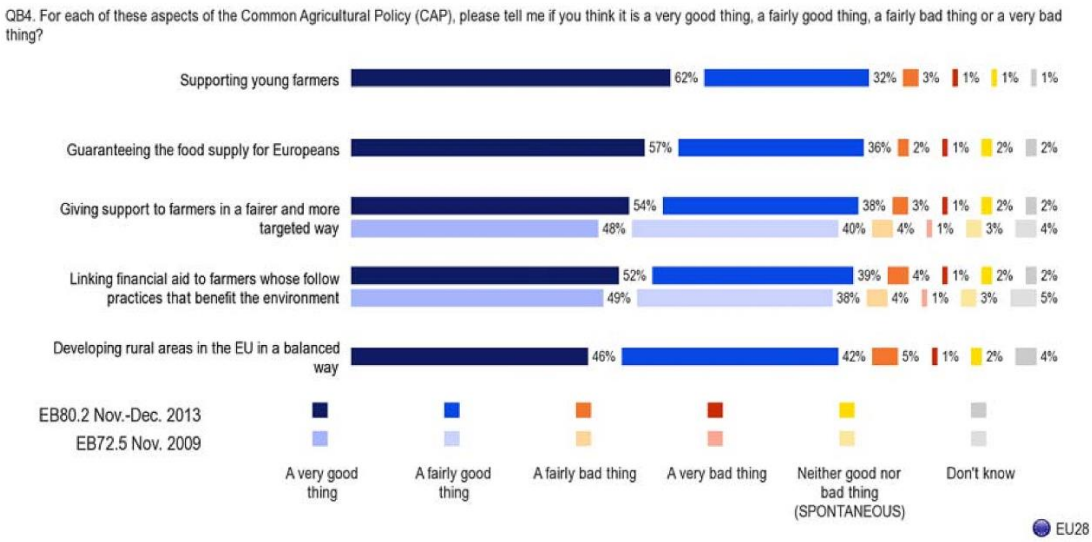

Figure 3: Eurobarometer Results of a Question on CAP Measures

(European Commission, 2014a)

It is remarkable that most questions within the Eurobarometer do not cover Pillar I measures and ask for example for direct income support with only little conditionality. Nevertheless, it becomes obvious that rural development is considered as an important issue for agriculture. The protection of the environment is also often mentioned as an important aspect. Both are included in Pillar II of the CAP. However, Pillar II consists only of approximately 22% of the total CAP budget (DG Financial Programming and Budget, 2014). It is therefore highly questionable, whether this adequately represents the prioritisation of European citizens. Furthermore, some aspects are not represented in the CAP at all – European citizens seem to highly demand diversification of food supply. Yet, the CAP is rather focused on competitiveness that is based on the use of comparative local advantages and thus fosters specialisation. Finally, the last investigated question indicates that EU citizens support most targets that are met by Pillar II measures, but also measures that will be introduced with the 2013 reform in Pillar I.

Surveys always carry the risk of distorted answers due to information deficits. The Eurobarometer includes some questions that can be interpreted as a control measure for the information deficit. On the one hand, they enquire the objective knowledge of European agriculture by posing three statements that should be ranked as right or wrong. The statement 'The United States produces more agricultural products than the EU' (wrong) has been answered as 'right' by 46% and as 'wrong' by 27%, with 27% that did not know the answer. The statement 'In the EU, on average, incomes in the agricultural sector are lower than incomes in other sectors of the economy' (right) has been answered as 'right' by 61%, as 'wrong' by 17%, with 22% who did not know the answer. The statement 'Farmers represent around 10% of the working population in the EU' (wrong) was answered as 'right' by 46%, as 'wrong' by 26% and 28% did not know the answer. The average right respondent rate is 38%, whereas in average 36% give a wrong answer and 26% do not know the answer. Thus, only a third of respondents are well informed on European agriculture – however, it is doubtful, whether these questions serve as good criteria of an information deficit. Regarding the other questions described above, it would have been useful to see, what European citizens know about the relationship between agriculture and the environment, the relevance of agriculture for rural development or challenges that farmers face in agricultural management.

Beyond, the Eurobarometer enquires the objective knowledge of the CAP. It figures out that 64% of EU citizens have already heard of the support that the EU gives European farmers under the scope of the CAP. However, only 8% know details about it. Hence, both questions indicate, that there exists an information deficit towards European agriculture and the CAP.

5 FINDINGS AND CONCLUSION

This thesis aimed to investigate how legitimate the CAP is in terms of output and input legitimacy, based on a legitimacy concept of Scharpf (1999, 2005). The analysis of output legitimacy investigated the effectiveness of CAP measures and explored whether they serve a common good. The analysis of input legitimacy then explored the attitudes of European citizens towards the CAP, relying on the outcomes of the Eurobarometer (European Commission, 2014a). In the following, the findings of the analysis will be summarised and contrasted against each other to receive an impression of the degree of overall legitimacy of the CAP. The chapter will then conclude with some recommendations for further research.

The analysis of output legitimacy revealed different results. The introduction of single payments reduced deadweight losses and thus enhanced income transfer. However, due to the capitalisation into land values accompanied with increasing renting rates, single payments are to a large extent transferred to land-owners. Apart from the question if land-owners are farmers their selves, the payments do not benefit the intended recipient. Thus, the effectiveness of providing income support by direct payments is limited. The objective to preserve and enhance the natural environment is supposed to be attained by two measures: cross-compliance and agri-environmental measures within Pillar II. Even if cross-compliance represents an attempt to include an environmental conditionality for direct payments, it proved to have only little impact on the environment. In contrast, Pillar II measures had a positive impact on different fields of the environment – such as biodiversity, landscape patterns and water quality. Due to their heterogeneity they could fit to regional problems and requirements and thus provide successful support. This becomes also valid for the objective of rural development that is also supported by Pillar II payments. Rural development programs successfully improved diverse problems in rural areas of the EU by providing well adapted support measures. However, support for both environment and rural development were not able to hold up general trends on community level. Thus, even if the measures have a positive impact on the environment or rural development, their scope is not big enough to stop the overall trend of environmental degradation and structural change. The evaluation of the common welfare reveals that Pillar II measures are also those instruments of the CAP that serve a common good most. Direct payments under Pillar I can be considered as more beneficial for the environment than production-based payments. However, these assessments are only related to the comparison of production-based to direct payments. Direct payments their selves do not provide any benefits for the environment, except for the marginal impacts of cross-compliance. On rural development they even have a negative impact as productive farms receive a greater amount of payments than marginal farms that would need them most. Additionally, direct payments were introduced to reduce market distortions. This means on the other hand that agriculture became a subject of the market forces and thus needs to improve competitiveness. That fosters further concentration with negative implications for rural development and also for the environment. Furthermore, this implies an internal inconsistency of the CAP: whereas Pillar II provides effective measures that serve a common good,

namely the environment and rural development, Pillar I payments support further concentration and industrialisation and thus counteracts Pillar II measures. This does not only have overall negative implications for the environment and rural development, as Pillar I measures are financially better equipped. It also implies a waste of financial resources, as Pillar II measures are used to correct damages that are caused by Pillar I payments. The findings of the analysis of input legitimacy support these results. European citizens value those measures that are aimed at rural development and environmental protection most. Nevertheless, they also expect European agriculture to produce a wide variety of products. This is so far not an objective of the CAP, but could be included in Pillar II measures. It is not self-evident that findings of input and output legitimacy support each other, as attitudes are often influenced by information deficits, a lack of interest or cost-benefit calculations. However, that the analysis of the attitudes yet reveals results similar to output legitimacy reaffirms its significance. With respect to the hypotheses set before, it can thus be concluded that hypothesis H1 is refused, whereas hypothesis H2 is supported.

With regard to these findings, it could be recommended to strengthen Pillar II and reduce the scope of or totally dissolve Pillar I. However, so far this is not the current course of the CAP. But still the 2013 reform of the CAP undertook some steps that will improve some points of criticism. It improved environmental impacts of Pillar I by the introduction of the 'Greening' and reduced distributional inequality of direct payments by the introduction of 'internal inconsistency'. It would be interesting to investigate, how these changes will influence the legitimacy of the CAP, especially as the 2013 reform advertises with the slogan 'Public Money for Public Goods'. For further evaluations it would be helpful to improve the data situation, especially of Pillar II measures. This could be enhanced by setting up quantitative indicators and determining a baseline situation. In regard of the wide scope of measures within Pillar II, this would improve the quality of evaluation reports. With regard to input legitimacy, this thesis could only investigate attitudes towards the CAP. Yet, it would provide additional insight to investigate the behaviour and communication towards the CAP. As protest movements have been reported across the EU, it is questionable whether this represents a general or just a marginal refusal of the CAP. Furthermore, it could be interesting to reveal the points of criticism within the protest movements. An analysis of public communication about the CAP would indeed complete the picture of input legitimacy, but due to the non-uniform media in the EU this would require a broader study.

Though there are contradictions and disappointments in the actual CAP, it can, with regard to the historic development since the Treaty of Rome over different stages of political evolution till the situation of today, be recognized that increasing attention is paid for the unity of sustainability in agriculture and the welfare of European citizen. This transcends the rather quantitative attitude of the CAP's beginnings.

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