

Christopher Audland

Notes for talk to be given to the Harvard Seminar on European Community and Atlantic Affairs, on 29 September 1980

THE EUROPEAN COMMUNITY - TOWARDS A NEW POLICY MIX .

- The EC has just entered one of those periodic bouts of constructive tension which have been a characteristic of its 23-year life.
- It is about to undertake, following the crisis over the budgetary problems with the UK, a major re-assessment of the development of its policies.
- There is nothing unusual about this.
- Indeed, it is thus that the Community has often moved forward in the past.
- Not by a smooth flow, along a carefully predefined path; but step by step, and stage by stage.
- As/limits of a particular stage are reached, pressures build up towards a crisis.
- The next step is not laid down in advance, but is determined by a host of internal and external factors of a political, economic and constitutional nature.
- So far, almost all of these steps have taken the Community in the direction of an extension of its powers and responsibilities.
- There has been, I think, only one really substantial backwards step.
- That was the so-called Luxembourg Agreement of 1966, under which member states in effect undertook not to take decisions by majority vote, whatever the Treaty provisions might be, in cases where very important interests of a member state were at stake.
- I do not wish to underestimate the significance of the Luxembourg Agreement.
- But - for reasons on which I would be happy to expand - it should not be overestimated either.
- Otherwise, the results of successive periods of tension have been positive.
- This is not really surprising.
- The logic of the Treaty of Rome, and the underlying momentum of the Community, are powerful forces.

/The Treaty objectives are broad.

- The Treaty objectives are broad.

2

- They include notably a determination "to lay the foundations of a closer union among the peoples of Europe", especially in the economic and social field.

- As to actual policies, the Treaty is specific about only a few, setting down for each of them the institutional arrangements necessary to their achievement.

- It contains specific provision in this way for the establishment of a customs union, a CAP, a trade and competition policy, a social policy, and the free movement of people, goods and services between member states.

- But for the rest, as in all political arrangements which endure and really work in practice, the Treaty is flexible and dynamic.

- There is an "open door" clause. It is to be found in Article 235, which says this. "If action by the Community should prove necessary to attain one of the objectives of the Community, and this Treaty has not provided the necessary powers, the Council should take the appropriate measures."

- In the early years, little or no use was made of this Article, most of the attention of the Community's institutions being devoted to putting into practice the policies clearly specified in the Treaty.

- But after a few years, the Community moved beyond what could be precisely foreseen and provided for by the founding fathers.

- And so, a steadily increasing use has been made of Article 235.

- This has especially been the case since 1973, when the accession of Britain, Ireland and Denmark changed the character of the Community in significant ways.

- The list of legislative acts based on Article 235 is now impressive and very long.

- It is on the basis of this Article, inter alia, that we have constructed a European Regional Development Fund, a European Monetary System, and a system of Community loans of substantial dimensions.

- I hope that you will bear with me if I now run over some of the salient points in the history of the Community's development.

- My aim is to trace the way in which the Community's policies have grown and extended.

- I think this is useful, because it has very clear implications for the future.

- Only two years after the Luxembourg Agreement, serious difficulties once again arose in the Community.

- The UK, Ireland and Denmark were knocking at the door for the second time.

/But there were internal

- But there were internal problems too.
- These were resolved at a summit meeting of the Six at the end of 1969.³
- It produced a package of far-reaching proportions.
- Enlargement was to take place.
- At the same time, the Community was to be completed and strengthened.
- The transitional period, which had been designed to cover the first few years of the Community's life, was to be concluded.
- The Community was to be endowed with its own sources of income so that it would no longer have to rely on annual contributions from member states.
- The budgetary powers of the EP were to be strengthened.
- A plan was to be made for moving towards EMU.
- The Community was to develop its activities in the R & D field.
- And there was to be a move to what we now call political co-operation.
- All of these things were accomplished in the next few years, though the EMU plan came to grief when it was actually put into effect.
- I remark in parenthesis that political co-operation, conceived only 10 years ago, has now become a major activity.
- Political co-operation is looser than the Community mechanisms.
- It operates essentially in the foreign policy field.
- But it is of growing importance, and the interplay between it and the Community's activities under the Treaty is becoming steadily closer.

- As the moment of British, Irish and Danish accession drew near, it became necessary to set the Community some new objectives.
- This was done at the first summit meeting of the Nine in the autumn of 1972.
- Again, there was agreement to develop some existing policies, and to launch new ones.
- The new ones were notably in the fields of regional, environmental, energy and industrial policy.
- Important progress has since been registered on all of these.

- In 1973/74, the newly enlarged Community nevertheless faced a fresh crisis.
- Quadrupled oil prices, the disruption of the world monetary scene, and unexpected changes of government in three of the largest member states, had given rise to serious difficulties.

/Moreover, the switch from

- Moreover, the switch from Conservative to Labour in the UK had provoked a British demand for "re-negotiation" of the accession arrangements. 4
- There was a clear need to close ranks.
- At the end of 1974 a package of decisions once again emerged from a Community summit.
- Something was to be done to correct any adverse impact on Britain of the own resources system.
- The Treaty provisions envisaging direct elections to the EP were to be put into effect.
- And Community summits - hitherto conducted on an ad hoc basis - were to be systematised.
- Since then, they have been called European Councils, and they take place regularly three times a year.

- How can one characterise all this?
- One can I think see a successive pattern of development of Community policies, until either the limits of previous understandings have been reached, or major unforeseen difficulties have arisen.

- Tension builds up, and from this eventually emerges a new set of understandings which form a matrix for the next step of development.
- In retrospect, we can also see that the germs of the following crisis have sometimes been introduced in previous stages, though I cannot elaborate on this thought in the compass of a short talk.

- And so in the last 12 months we have entered a new round of constructive tension.
- I shall be coming in a moment to its underlying causes.
- But the storm was seen to break with Mrs Thatcher's demand in 1979 that the financial burden on Britain of Community membership should be eased.
- She put it forward at the European Council meeting at Strasbourg in June of that year.
- It was the principal subject of discussion - animated to say the least - at the next two meetings of Heads of Government.
- And, at a marathon meeting of Foreign Ministers at the end of May, agreement was reached on how matters were to be handled in the short term.
- Special measures were to be taken to keep the net British contribution to the Community Budget within pre-defined limits for 1980, 1981, and, if necessary 1982.
- Before these measures expire, the Community was committed to resolving the underlying problems of budgetary imbalance by means of structural changes.

/To this end,

- To this end, the Commission of the EC is to make proposals for the development of Community policies.
- The aim of this will be to prevent a recurrence of what are called unacceptable situations for any member state.
- The Commission's study, therefore, will have to lay the ground-work for the next stage of the Community's development.
- It will have to deal with the budgetary issues, with the new enlargement of the Community to Greece and then the Iberian peninsula, and with the differing economic performances of member states.
- It is to these issues, and to the new policy mix which may result, that I now turn.

- We have seen that, whilst the Community does not have many precisely defined goals of an economic or political nature, it has set itself on a path towards greater economic integration, even if it does not know just where the path will lead, or how fast down it the Community ought to proceed.
- I have mentioned some of the milestones on this path.
- Now I should like to look a little more closely at one of these in particular, namely EMU.
- This represents one aspect of the Community's ambitions, and at the same time, poses many of the questions which will have to be answered for the next stage of Community development.

- There have been two approaches to EMU.
- The first, as I mentioned, was tried in the early 1970's.
- It was based on a series of political and administrative decisions, and on a predetermined timetable.
- It was hoped that this plan would bring about the necessary economic underpinning, binding economies closer together through their currency relationships.
- This hope proved illusory in the circumstances of the international monetary and economic strains of the early 70's.

- The second approach, launched in 1977, is more pragmatic and gradualist.
- It is based on the notion that, unless national economies can converge rather than diverge, formal monetary interrelationships will not be soundly based.
- Unfortunately, the economic performance of member states is at present diverging, not converging.
- Broadly, there are two groups.

/There are the very

- There are the more prosperous countries: Germany, France, the Benelux⁶ and Denmark.
- And there are the less prosperous: the UK, Ireland and Italy.
- The two groups have very different rates of growth, of output and of productivity; of inflation; and of monetary values.
- The more prosperous group have seen their per capita GDP rise from 112% of the Community average in 1960, to 125% in 1979.
- Over the same period, the position of the less prosperous group has deteriorated: from 77% of the Community average, they have fallen to 63%.
- The ratio between the wealthiest and the poorest countries is now of the order of 2.8.
- These trends are not recent but they are becoming more acute.
- There is reason to believe that, in a monetary union, they could grow still worse, in the absence of corrective action.
- Such action is perfectly possible.
- I note with interest that a similar process of divergence in the US has been reversed.
- I believe that the range of wealth around the average has been substantially reduced over a period, as a result of relatively slower rates of growth in the "frost belt" and higher rates in the western and southern "sun belts".
- In the past 5 years, the first beginnings of Community policies to correct this trend towards divergence have been introduced.
- The ERDF, which I have already mentioned, was set up in 1975.
- Since then, its funds have grown from a modest £350 million (250 MEUA) to £ 1.6 billion (1165 MEUA) available for 1981.
- The introduction of the Mark I EMS, in 1979, was accompanied by Community arrangements to subsidise development in two of the poorer countries, namely Italy and Ireland.
- If the UK had not stayed outside EMS for the time being, it would have benefited also.
- These policies cannot yet be said to have made a major impact in relative economic performance, with the possible exception of Ireland.
- But their further extension is likely, for two main reasons.
- The new enlargement will increase economic disparities, with all the dangers which that implies.
- Moreover, the budgetary debate of the last year has demonstrated beyond a peradventure, the necessity to correct the anomalous situation in which one of the less prosperous member states, Britain, was becoming the largest net contributor to the Community budget.

/Now I turn to the budget itself.

- Now I turn to the budget itself.
 - We have reached the stage at which it is entirely financed by the Community's own resources.
essentially
 - These consist/of the proceeds of all customs duties and agricultural levies on trade with third countries.
 - And of a Value Added Tax on all Community citizens, levied at a rate of up to 1%.
 - In 1981 the resources will total some \$28 billion (19,705 MEUA).
 - A little over half comes from VAT; about one third from customs duties; and about one tenth from agricultural levies.
 - It should be noted that the VAT rate will be at approximately 0.95%: in other words, we are bumping against the Treaty ceiling.
-
- So far as VAT is concerned, the system I have described gives a distribution between member states roughly proportional to their wealth.
 - But, in other respects, the system bears disproportionately heavily on member states which import a higher than average percentage of their consumption from outside the Community.
 - However that may be, the major budgetary problems are nevertheless on the expenditure rather than on the revenue side.
 - The \$28 billion will be spent on the whole range of Community policies, including social policy, regional development, overseas development aid, R & D, and the temporary special measures for the UK.
 - But the lion's share of the cash - some 65% - will be devoted to agricultural guarantees and market support.
 - You will yourselves be familiar with the high cost of such systems.
 - In our case this is greatly multiplied by having to grapple with the consequences of a 1000 years of rural and agricultural history.
 - But one cannot get away from the fact that 65% is a hell of a lot.
-
- The budgetary significance of the CAP is two-fold.
 - First, it is the major element in the problem of sharing the burdens of the Community budget. Britain, a net food deficit country, receives next to nothing from the CAP in a budgetary sense.
 - Moreover, the growth of CAP expenditure has been such as to take the Community to the limits of the present budgetary resources, represented by the 1% VAT rate, and thus to constrain the development of spending on other policies failing an extension of the reserve position.

- I need hardly say that member states are very anxious to put off such an extension for as long as possible.
- And so, today, expenditure on the CAP is surely the key to the future development of Community policies.
- In the past, substantial changes in the CAP, and in its methods of operation, have encountered insuperable difficulties.
- But now there are grounds for hope.
- There is a general recognition that the system must be adapted, and that the present review of policies offers an opportunity.
- I do not expect the review to lead to massive change.
- Too many interests, valid ones at that, are at stake.
- But it seems likely that we shall move towards a system in which producers will have to bear much more of the cost of disposing of unwanted surpluses than is now the case.
- This would of course provide a disincentive to over-production and thus remove unwanted burdens from the Community budget.
- Against this background, it is worth speculating on what would be likely to happen if a tighter limit could in fact be placed on the growth of agricultural expenditures.
- Let us take a purely hypothetical example.
- Let us consider a case in which the budget spending average were to grow at 15% a year, and CAP expenditure at only 5%.
- Incidentally, the historic rate of growth on the CAP expenditure has been more like 20%, but this has recently fallen.
- On this hypothesis, the proportion of the Community's budget devoted to agricultural support would fall from 65% in 1981 to around only 30% in 1990.
- This would of course release substantial funds for the development of other policies.
- Where might these funds be deployed?
- It flows from my earlier remarks that, in such circumstances, I would expect the Community to move towards substantial expansion of the structural expenditures already mentioned.
- Next, I would expect it to move more firmly into three other sectors, where it is already well established, namely R & D, Energy and Development aid.
- R & D is an excellent example of a field where it is a manifest economy to have a Community programme, rather than nine national programmes.
- Over recent years this has been increasingly recognised.

/The most striking

- The most striking Community venture in this field so far, decided in 1979, was the establishment of a very large new facility for experiments in the field of controlled thermo nuclear fusion.
- This is being built at Culham in England.
- Community expenditures on R & D have risen from about \$150 million (101 MUA) in 1975 to triple that amount (313 MEUA) in 1980.

- As to the energy sector, most of the expenditures fall, and will continue to fall, on individual member states.
- But policy at the Community level is now steadily taking shape.
- And it is being found necessary to provide Community finance for some of the relevant activities.
- Here, expenditures have quadrupled in five years, though they are still very modest.

- Development aid is a rather special case.
- The Community is already a very major supplier of aid.
- Together with its member states it contributed \$11.5 billion (8,120 MEUA) in 1979, amounting to 39 % of all O.D.A. from all sources.
- This represented 0.5% of Community GDP.
- I note that for the US the figure was 0.2% and for Japan 0.26%.
- This picture is by no means fully reflected in the Community budget.
- In 1980, for example, this contains only a little over \$1,00 billion (804 MEUA) for development aid.
- There are two reasons for the apparent discrepancy.
- First, the figure I just quoted covers, not only aid by the Community as such, but also aid given by member states individually.

- Second, the Community's biggest aid activity, namely the EDF, is for historic reasons financed, not from the Community's budget at all, but from national contributions by member states.
- The Fund is now running at an annual rate of around \$1.3 billion (910 MEUA).
- I hope that, in a few years, financing of the Fund will pass from national budgets to the Community budget.
- In the meanwhile, expenditures on other aid activities by the Community have been steadily rising and I think will continue to do so.

/These are just some of the

- 10
- These are just some of the fields in which, if agricultural expenditures can be contained, Community policies are likely to develop.
 - There will of course be others, some of them unpredictable, since the Community reacts more to new stimuli than to blue prints.
 - To close off, let me try and pull together how I believe things will develop.
 - The present Commission has just started work, on the basis of its mandate, to make proposals for the development of Community policies.
 - A new Commission - including of course a Greek Commissioner - will take office next January.
 - Completion of the Commission's proposals by the deadline of end June 1981 will be its priority task.
 - These proposals are bound to touch on all the matters I have mentioned - and will no doubt extend to others besides.
 - The Council has undertaken, on that basis, to take decisions which will resolve the Community's problems of budgetary imbalance in time for the 1982 budget year.
 - 7 years experience of Community life leads me to suspect that some slippage may occur in the Council's timetable.
 - But decisions there will have to be, and before too long, because the temporary measures for the UK expire at the end of 1982 at the latest.

the

- What sort of shift in/balance of Community policies is likely to emerge?
- First, let us remember that there are a wide range of Community policies - for example, trade and competition policy, environment and transport policy, and many aspects of social policy, which, though important, have relatively little impact on the Community budget.
- These will no doubt continue to move along steadily.
- Second, it is reasonable to assume that the CAP will be placed under closer financial constraints and so swallow up less of the budget.
- Third, sooner or later, the Community's own resources are likely, in spite of the present resistance of member states, to be increased in response to perceived needs.

/Fourth, on the basis of

- Fourth, on the basis of Community resources thus made available, we can expect to see substantial growth in structural expenditures.
- Taken together they have, between 1978 and 1980, nearly tripled from \$1.2 billion (862 MEUA) to \$3.7 billion (2,600 MEUA).
- This could assist towards economic convergence, and therefore smooth the path towards EMU.
- The Community, be it remembered, is committed to moving rapidly from EMS Mark I to EMS Mark II, though national electoral timetables are bound to have an influence on the pace.

- Fifth, other policies are also likely to benefit.
- In my non-exhaustive list, I mentioned R & D, energy and development aid.
- One final point.
- I have spoken throughout only about budgetary credits.
- But, because of the constraints on these, the Community is increasingly borrowing on the markets, and then lending in support of projects of Community interest.
- Over the two-year period 1977-79, these loan activities rose from \$3.3 billion (2,390 MEUA) to \$5.4 billion (3,825 MEUA).
- This trend, too, is likely to continue, and to contribute its bit towards the development of Community policies.

- If these estimates should prove well founded, then indeed the present policy of constructive tension would have produced, like several of its predecessors, a major step forward in the Community's development.
- To take this step will not be easy. The issues are big: the stakes are high.
- When the Commission next year places its proposals on the table, their consideration will be marked by great difficulties between the member states, and possibly by acrimony.
- Nevertheless, I believe it is the underlying advantage of them all to keep moving forward to greater integration.
- And I am personally confident that a new mix of policies, implying a new step forward, will in the end emerge.