HOW AND WHY YOU PAY FOR

The European Community budget

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In 1983 the budget of the European Community totalled almost 25 000 million ECU.[1] This represented 0.9% of the gross national product of Member States, compared to 0.5% in 1973 and 2.8% of national government spending, compared to 2% in 1973. Put another way, each Community citizen paid an average of less than 100 ECU to the Community and 35 times more to national governments. The Community's finances are, therefore, relatively modest. They are, quite rightly, subject to democratic control: that of the European Parliament and also that of public opinion. Each Community citizen has a right to know how the money is collected, how it is used and what procedures are involved. An attempt is made below to give brief answers to these questions.[2]

Revenue

The Community is largely financed by its own resources but it remains up to Member States to set a ceiling on this income and agree to any increases. It is worth recalling that the German Federal State, born in 1867 from the 'Zollverein' or customs union of 1834, remained financially dependent on its member States until 1913 and in certain respects until 1920. The United States Federal Government was 80 years old before it was given resources of its own, other than customs duties.

From its inception the European Coal and Steel Community (ECSC), set up in 1951 by the Treaty of Paris, has been financed by a form of European tax. This tax, which was the first of its kind, is levied on the turnover of the industries in the two sectors involved. In 1984 the tax was set at 0.31%. On the other hand, the financing of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), created in 1957 by the Treaty of Rome, was originally achieved through the traditional system of national contributions, based mainly on the gross national product of Member States. It was, however, laid down in the Treaties that these contributions should be replaced by the Community's own resources. The change was agreed in 1970. From then on the Community's resources, although largely collected by the Member States, belonged to the Community in its own right. Essentially, they consist of:

- ☐ Customs duties on products imported from non-Community countries: this was a logical choice. The creation of a customs union between Member States abolished internal customs duties and led to the establishment of a common customs tariff for products of other countries. These imports arrive in the Community at the most geographically convenient port or railway yard, no matter which Member State they are destined for, whether after processing or in their original condition. To whom do these customs duties belong? It is often

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[1] 1 ECU (European currency unit) = about £0.59, Ir. £0.72 or US $0.72 (at exchange rates current on 10 October 1984).

[2] For more details, read Daniel Strasser, *The Finances of Europe*, the European Perspectives series, Office for Official Publications of the European Communities, L - 2985 Luxembourg.

impossible to decide. To avoid any distortion of customs revenue, it therefore made sense to declare the duties the common property of the Community. This was achieved, in stages, by the six founding members of the Community between 1971 and 1975.

- ☐ Agricultural levies, charged at the external frontiers of the Community to bring the price of imported foodstuffs up to the Community level. These levies are not intended to act as a barrier to the Community market. They protect Community farmers by preventing distortions of competition through cheap imports from the world market. World food prices can fluctuate wildly because they apply only to the residual quantities not consumed in the producing States.

- ☐ Levies on sugar and isoglucose, created to limit surplus production by obliging producers to pay part of the cost of disposing of excess quantities.

- ☐ A proportion of value-added tax: the Community decided that this form of tax should replace others which were less suited to the economic needs of a common market. Systems and rates of VAT nevertheless differ sharply from one Member State to another. To allow the replacement of national contributions by a proportion of VAT receipts (achieved by nine Member States in 1980 and by Greece from 1986), it was necessary to establish a common base of products and services which would be uniformly taken into account in the financing of the Community. The percentage due to the Community is applied to this common base. Community receipts are therefore not affected by variety of national tax systems and levels. In 1970 it was decided that the Community percentage should be limited to a 1% VAT rate, unless a higher figure was ratified by all national parliaments. In the event, to finance its policies, the Community had to request a 0.78% rate on the common base in 1979, 0.88% in 1981 and 0.997% in 1983. In 1984 the Community ran into a budget deficit. An increase in the ceiling became inevitable. In June 1984, the European

Overall Community budget: 1983 revenue

	Million ECU	%
Customs duties	6 989	28.2
Agricultural levies	1 347	5.4
Sugar and isoglucose levies	948	3.8
VAT	13 699	55.3
Others[1]	1 782	7.3
	24 765	

[1] Carry-overs – abnormally high – from previous years; taxes on Community officials, etc.

Council decided to increase the ceiling to 1.4%. But serious problems in financing the Community will remain between now and 1986 until the process of ratification by national parliaments is completed.

The increase in Community revenue is needed to cope with expenditure which is fully justified, carefully managed by the Commission and agreed by national ministers and European parliamentarians, elected by the people of the Community. It is also needed to compensate for a falling off in the Community's revenue from existing own resources. The recession has restrained the growth of international trade and reduced internal consumption, and therefore receipts from VAT and customs duties. VAT is the only means of increasing Community revenue. The return from agricultural levies, tied to fluctuations of the world market, is impossible to forecast; the return from customs duties has tended to fall because of tariff concessions granted to non-Community countries through cooperation and development agreements or efforts to liberalize world trade.

Expenditure

Our graph (Page 7) compares expenditure in the Community's 1973 overall budget, when the United Kingdom, Ireland and Denmark joined, with that of 1983. The comparison is virtually unaffected by changes in the monetary units employed: the unit of account, tied to the gold parity of the dollar in 1973 and latterly the European currency unit (ECU), based on the value of a basket of currencies, calculated according to the relative size of the economies of Member States. The impact of inflation is, however, a significant factor. Total expenditure increased by 5.5 times between 1973 and 1983. Average prices in the Community increased by 2.6 times. Thus the real value of the Community budget doubled, during a period when expenditure spread to new areas. This increase is only to be expected. The Community cannot be compared to a mature national State. It is an organization which must grow in order to bring closer the Treaty objective of a genuine European Union.

In comparison with international organizations and, to a certain extent, national governments, the Community budget is devoted overwhelmingly to operational expenditure. Administrative costs take up less than 5% of the total, despite the fact that the official use of seven languages generates an enormous quantity of work and staff posts (the translation of thousands of documents, interpretation, etc.). The miscellaneous expenditure in the graph mainly consists of the share of own resources handed back to Member States to cover their collection costs. Otherwise, more than 90% of the budget is devoted to economic, social and regional expenditure in Member States or the Third World. Apart from spending on agricultural guarantees and some financing of the Community's common research centre, this expenditure is mainly of a matching nature. The Community finances, according to strict criteria, a proportion of the cost of projects submitted by Member States or public or private bodies.

The principal chapters of the budget are:

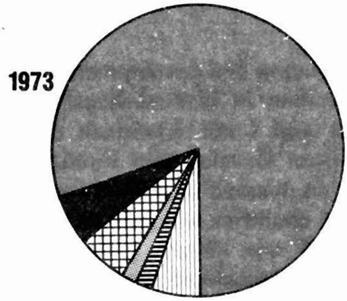
- ☐ Agriculture and fisheries accounted for 66.4% of total spending in 1983. The support of farm prices took 63.6%. The remainder went towards the modernization of farming and to fisheries. At first glance, the agricultural share of the budget may appear disproportionate. But this is the only area where Community financing has largely taken over from national financing. Community spending on agriculture represents only 2.5% of total expenditure on food by Community citizens. Agricultural expenditure first entered the Community budget in 1965, when the common agriculture policy came into effect. In 1973 it accounted for 80.6% of the budget but its share has since been greatly reduced by the creation of new policies and economy measures. In the last few years the proportion of agricultural spending has again been on the increase. The success of the common agriculture policy, in terms of increasing productivity and guaranteeing previously uncertain supplies of food to Community citizens, has finally run up against the limits of the market. Internal consumption and exports have grown less rapidly than production and permanent surpluses have built up. Clearly it is not possible to subsidize indefinitely stocks of food for which there is no buyer. The Community has launched a policy of restrictive management of the CAP through limiting guaranteed prices, increasing the producers' share of the cost of disposing of surpluses and imposing production quotas in the dairy sector, which accounts for 30% of expenditure in the Guarantee Section of the EAGGF, the European fund for agricultural guarantees and guidance.

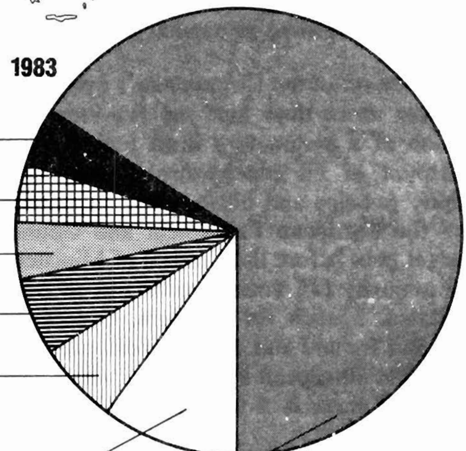
- ☐ Regional policy absorbed 9.6% of the 1983 budget (although a good third went towards budgetary refunds for the United Kingdom, of which more later). There was no trace of regional spending in the 1973 Community budget. The European Regional Development Fund was set up in 1975 to assist poorer regions and areas worst hit by the recession. The Fund co-finances infrastructure developments and new industrial and service projects as well as schemes to encourage entrepreneurial initiatives.

- ☐ Social policy took 5.7% of the budget. Of this, nine-tenths was spent through the European Social Fund, which co-finances training and retraining schemes and job-creation projects. Special attention is given to the problems of the young (75% of spending) as well as workers in other problem categories, struggling regions and areas of high unemployment. Money is also given for education, culture, the environment and consumer protection. Despite the surge in unemployment and numerous proposals by the European Commission, there has been little increase in the share of the budget devoted to social problems between 1973 and 1983.

- ☐ Energy, research, industry and transport: these sectors took 5.6% of the Community budget – 3.5%, 1.7%, 0.2% and 0.06% respectively. Governments have decided to expand Community research efforts and launch new energy, industrial and transport projects. The ECSC has a separate budget which has

The development of the overall Community budget (actual expenditure)





	million ECU 1973	million ECU 1983	% 1973	% 1983
Agriculture and fisheries	3 627	16 475	80.6	66.4
Regional policy	—	2 381	—	9.6
Social policy	249	1 419	5.5	5.7
Research, energy, industry, transport	70	1 383	1.6	5.6
Cooperation and development	61	981	1.4	4.0
Miscellaneous	250	1 050	5.5	4.2
Administration	248	1 119	5.5	4.5
Total	4 505	24 808		

spent, amongst other things, 297 million ECU on the struggling coal and steel industries. But the Community is still far from meeting the challenge posed by the economic situation. Nearly one million jobs were lost in 1983 in the 10 Community countries. The United States and Japan each created one million jobs.

☐ Cooperation and development took 4% of the Community budget in 1983. The 981 million ECU went largely on food aid and assistance to Mediterranean, Asian and Latin American countries. Outside the budget framework, the European Development Fund, which still depends on national contributions, gives an average of 900 million ECU a year in aid to African, Caribbean and Pacific countries which have signed the Lomé Convention. In the early 1970s, the EDF was already giving 200 million units of account a year to African countries associated with the Community.

The decision-making process

The establishment of the Community's overall budget is a complex process which spreads over more than half the previous year. The process begins with the presentation of a preliminary draft budget by the European Commission. This takes account of all expenditure already committed or foreseen to operate Community policies and institutions, estimated revenue, and the guidelines laid down by the European Parliament and Council of Ministers. The preliminary draft budget goes before the Council of Ministers, which amends and adopts it by qualified majority (45 votes needed out of 63, with 10 votes each for the four largest States, 5 each for Belgium, Greece and the Netherlands, 3 each for Denmark and Ireland and 2 for Luxembourg). The Council's draft budget is then debated by the European Parliament, which can propose modifications or make amendments if there is a weighted majority of members in favour.

☐ The Parliament has the right only to propose modifications to the 'obligatory expenditure', needed to honour the Community's legal commitments to third parties, such as support prices for farmers, and for developing countries which have signed cooperation agreements, etc.

☐ The Parliament can vote amendments to 'non-obligatory' expenditure. This broadly consists of spending on other policies, designed to further the process of European integration, which accounted for 28% of the budget in 1983. For this section of the budget, the European Commission calculates a maximum rate of increase from one year to the next. This rate is worked out according to the level of economic growth, inflation and the increase in national budgets. The Council's and Parliament's rights to amend the budget are limited by this ceiling. But the Parliament, in any event, has the right to propose increases within a 'margin of manœuvre' which is equal to half the maximum rate. The theoretical maximum can, therefore, be passed if the Council itself uses more than half of the maximum rate. The rate can also be exceeded by common consent of Council and Parliament.

After the first Parliament reading of the budget, it goes back to the Council for a second examination. The Council must have a qualified majority to accept or reject modifications proposed by the Parliament, according to whether or not they increase obligatory spending. A 'blocking minority' of States can therefore prevent a Parliament proposal from being adopted. Parliament amendments to non-obligatory spending can also be rejected by the Council but the Parliament can reinstate them on its second reading, when it has the final word on this section of the budget. At the end of this second reading, the Parliament votes to adopt or reject the budget. In December 1979, the Parliament, elected by popular vote for the first time, rejected the draft budget. The Community was forced to operate the following year on a month-to-month financing system, limited to 'provisional twelfths' of the previous budget, until the Council of Ministers agreed a compromise in July 1980. The Parliament has come to see the budget as a political weapon, allowing it to influence to some extent the development of the Community.

To simplify the budgetary process and take account of the growing influence of the Parliament, machinery has been developed for concertation between the Commission, the Council and Parliament. Representatives of the three institutions try to reconcile their sometimes conflicting views at the time when the Commission classifies the budget as either obligatory or non-obligatory and before Council and Parliament take a formal position on each stage of the budget process. It is worth pointing out that the concertation machinery is also called on to examine proposed new laws and regulations which have major financial implications. This is another step towards establishing joint financial responsibility of the Council and Parliament, instead of the mainly consultative role to which the Parliament was long confined.

The strengthening of the Parliament's budgetary powers, on the basis of treaties signed in 1970 and 1975, became necessary for obvious democratic reasons when the Community developed its system of own resources, outside the control of national parliaments. The Parliament gained: autonomy over its own operating expenses; the system of blocking minorities to change its modifications to certain obligatory spending; the 'margin of manœuvre'; the power to amend non-obligatory spending; the right to adopt or reject the budget; and finally the power to give a discharge to the Commission after checking whether the budget was spent in accordance with the decisions of the budgetary authority. A further measure of control was instituted in 1975 with the creation of an independent body, the Court of Auditors, to study the legality, regularity and proper management of Community expenditure and revenue.

The limitations of the budgetary approach

An analysis of the Community budget reveals many things about the progress made towards a united Europe. But two facts should be borne in mind:

☐ Firstly, a number of financial operations undertaken by the Community are outside the budget. These include the European Development Fund, mentioned above, and borrowing and lending transactions of the European Commission and the European Investment Bank. Finance raised on the capital markets is used to support projects in the Third World as well as coal and steel modernization and restructuring, the modernization of the energy sector, the development of small and medium-sized businesses and priority investments in the regions, infrastructures, industrial cooperation, new technologies, communications and the environment. More than 7 000 million ECU (equivalent to 30% of the Community budget) was loaned in this way in 1983. In addition, there was a somewhat exceptional loan of 4 200 million ECU to support the balance of payments of one Member State. Parliament and the Commission have called for all these transactions to be brought into the overall Community budget to increase the transparency of Community finances.

□ Figures cannot tell the whole truth. Apart from the borrowing and lending described above, the Community budget contains no trace of a whole series of activities which involve no operational expenditure. The Community has, amongst other things, led to a considerable expansion in trade, greater competition and economies of scale and greater industrial productivity. It has also strengthened the voice of Europe in a world dominated by continental superpowers. The facts demonstrate that the Community has, in these ways, proved of great assistance to industry, workers and consumers, despite the relatively small sums allocated so far to industrial projects. These factors must be borne in mind before conclusions are drawn from the preponderance of agriculture in the Community budget and before entering into arguments over the share of individual Member States in the income and expenditure of the Community. This problem has mainly been raised by the United Kingdom whose agricultural economy is relatively small and qualifies for only a small part of Community spending to support farm prices. In the long run the extension of Community activities in non-agricultural sectors should reduce or abolish the budgetary imbalance which has resulted. Nevertheless, as soon as the imbalance appeared, the United Kingdom's partners agreed to measures of solidarity in the form of budgetary refunds (averaging about 1 000 million ECU a year). In June 1984, after lengthy and difficult negotiations, the European Council agreed new corrective measures to modulate VAT payments by any Member State whose budgetary burden becomes excessive in relation to its relative prosperity. In the next few years, the gap between the United Kingdom's share of VAT contributions and Community spending will be reduced by two-thirds.

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To face up to present and future economic difficulties, the Community has clearly better things to do than to tear itself apart in financial quarrels. There does not seem to be much point in going into further details of the argument, found in all federal States, over relative shares of revenue and spending. Much has already been written on a subject which turns, finally, on facts of limited importance, given the nature of the customs union, the system of own resources and the non-budgetary advantages of membership of the Community. The results of the efforts of individual States, in many spheres, are multiplied by joint action at Community level. By detailed arguments over incomplete facts, there is a risk that the conception of the Community itself will be compromised and the essential point missed: the budget is only one element in the advantages which the Community offers to its Member States. It is to be hoped that the settlement of the budgetary arguments of recent years will create the political conditions for a relaunch of the Community.

The Community's financial problems are not over yet, however. In the short term serious difficulties will remain until the new ceiling for own resources is ratified. In the medium term, there are fears that this new ceiling will prove insufficient almost as soon as it comes into effect.

The times, admittedly, are not favourable for an expansion of the Community budget to a scale where it could support a wider range of economic activities or sharply reduce regional disparities, on the pattern of federal States. Community expenditure, it must be remembered, is intended to replace rather than supplement national expenditure, so that increased efficiency can be achieved. But it must also be remembered that economic conditions dictate financial rigour in all public expenditure, including that of the Community. The European Council has laid down guidelines for budgetary discipline of this kind: the fixing, at the beginning of the budgetary process, of a maximum sum for all expenditure; respect for the maximum rate of increase of non-obligatory spending; limiting net expenditure on agricultural guarantees to ensure that they increase, on average, less rapidly than the own resources base. Will, under these conditions, the belated and limited increase in the VAT ceiling be sufficient to permit a trouble free and uninterrupted development of the Community? It is doubtful. The difficulties are twofold:

- ☐ Paying for the cost of the forthcoming enlargement of the Community to include Spain and Portugal: aid must be given for the modernization of the economies of these countries, together with the Mediterranean regions of the existing Community, which must be helped to withstand increased competition. Eventually, support of the agricultural market must be extended to Spanish and Portuguese farmers.

- ☐ The extension of Community activities to cope with the economic, technological and social problems raised by the recession. These difficulties can best be tackled jointly at Community level. But, as the above examination of the budget has shown, the Community's resources are extremely limited in this area. They must be given a completely new dimension.

The last word has not been spoken on the Community's budgetary problems. To continue the construction of the European Community, policies must be backed by resources. The Community budget is the concrete expression of this simple reality ■

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