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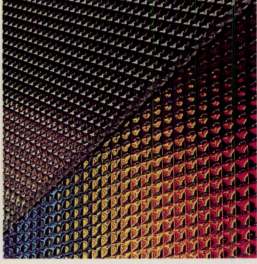
THE BUDGET OF THE EUROPEAN COMMUNITY



SERGEI 23.



Europe
on the move



Goethals

The budget of the European Community is the financial image of Community policy. As is the case with Member States' budgets, a great deal is said and written each year about the Community budget. It provokes intense discussion between the European Commission, which prepares the first draft, the European Parliament, which uses it as a warhorse in its campaign to unite Europe, and the Council of Ministers, which tends to apply the brake to spending.

The most striking feature of the Community budget continues to be the high level of expenditure on agriculture. None the less, Europe is now developing in such a way that funds are being redirected towards other areas of activity, more especially in the regional and social spheres.

Since the start of the 1980s, Community expenditure has risen from 1.7 to 2.4% of the total public expenditure of the Member States. At ECU 68 billion, total Community expenditure in 1993 amounts to only 1.2% of the Twelve's total gross domestic product.

At 1 February 1993,
ECU 1 = roughly
IRL 0.80, UKL 0.82,
USD 1.20.

The European taxpayer's money is not swallowed up by an administrative machine: it is used to finance measures to achieve the aims of European integration and most of the revenue is redistributed throughout the Community. Despite the need for the European institutions to work in all the official languages, administrative expenditure accounts for only 4.7% of the budget.

increase the productivity of agriculture, to ensure a fair standard of living for the agricultural community, to stabilize markets, to guarantee security of supply, and to ensure reasonable prices for consumers. Although those objectives have for the most part been attained, this has necessitated a constant process of adaptation, the most recent example of which was the reform of the CAP agreed by the Council of Ministers in May 1992. Based on more competitive prices and direct aid for farmers in the

AGRICULTURAL EXPENDITURE

The objectives of the common agricultural policy (CAP) were set by the Treaty establishing the Community: to

Community expenditure 1970, 1980 and 1988-93 (General budget, EDF¹ and ECSC²)

	1970	1980	1988	1989	1990	1991	1992 ³	1993 ⁴	Average 1988-93
Total Community expenditure (million ECU)	3 588	16 484	42 510	42 281	45 605	55 327	59 903	67 971	
Per capita Community expenditure (ECU)	19	63	131	130	139	160	173	195	
Community expenditure as % of public-sector expenditure in Member States	1.90	1.70	2.30	2.10	2.00	2.20	2.20	2.40	
Annual rate of growth of Community expenditure (%)			16.90	-0.50	7.90	21.30	8.30	13.50	11.20
Annual rate of growth of Member States' expenditure (%)			6.00	7.50	10.10	13.70	7.70	4.30	8.20
Community expenditure as % of Member States' GDP	0.74	0.80	1.05	0.96	0.96	1.07	1.10	1.21	

¹ European Development Fund.

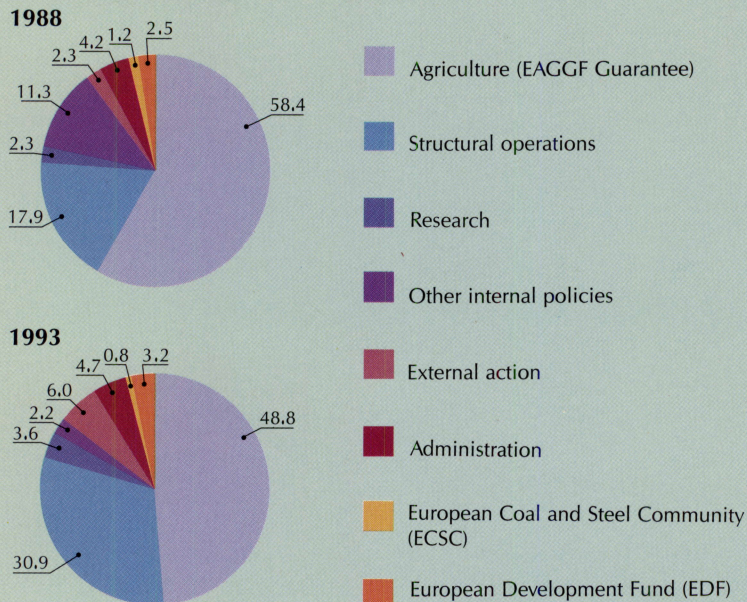
² European Coal and Steel Community.

³ Estimate.

⁴ 1993 = budget.

The final line of our table (expenditure as % of GDP) gives the best indication of the growth of Community expenditure. Inflation tends to 'swell' figures in ecus and annual growth rates. But Community expenditure is none the less growing faster than Member States' national expenditure, the volume of which is much larger. However, Community expenditure tends to replace rather than supplement national expenditure as new powers are transferred to the Community.

**Breakdown of Community expenditure
(commitment appropriations) (%)**

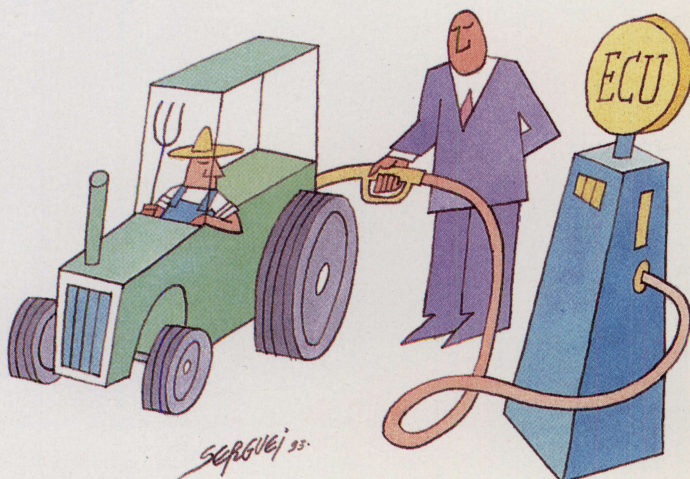


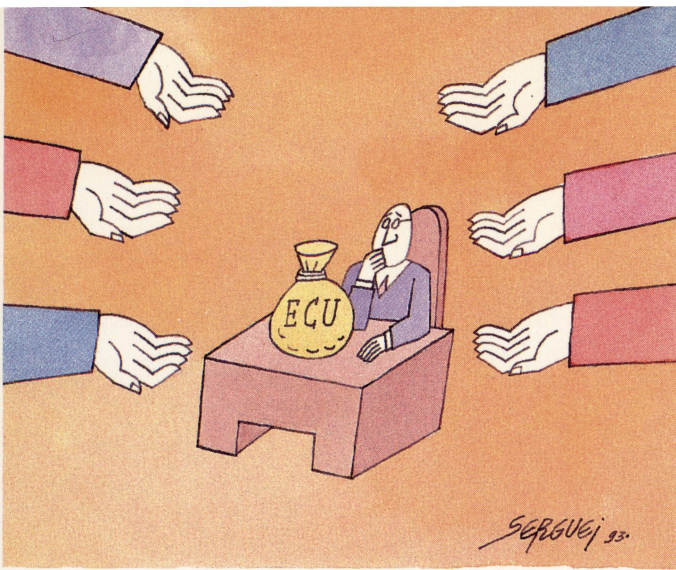
'The Community budget differs fundamentally from the national budgets both by its scale and by the structure of expenditure. If expenditure on the common agricultural policy and external action is ignored, the Community budget is mainly an investment budget, designed to strengthen the Community's economic potential. As the Community develops and assumes new tasks, so does the budget. Its chief characteristic is therefore one of constant growth, always faster than that of national budgets.'

greatest need, the objects of this reform are to reduce surpluses, slow down the flight from the land and safeguard the environment by discouraging intensive production methods.

In 1993 agriculture still accounts for 48.8% of the Community's financial commitments (ECU 35 billion); it is in this sector that the transfer of powers and therefore of national expenditure to the Community has gone furthest. Yet the cost of the CAP is very modest at around ECU 0.3 per head, i.e. about the cost of three cigarettes per day. It should be stressed that all the industrialized countries — the United States and Japan

in particular — have developed a policy of aid for agriculture designed to afford agricultural workers a level of earnings comparable with that of workers in other sectors.





However, it must not be forgotten that in assuming new tasks (meaning additional expenditure for its own budget), the Community relieves the Member State of the corresponding financial burden. Two thirds of the expenditure borne by the Community budget is for tasks which the Member States would have to assume themselves if the Community were not there (agriculture, research, foreign policy).'

*Peter M. Schmidhuber,
Member of the
European Commission*

STRUCTURAL, SOCIAL AND REGIONAL OPERATIONS

If all the citizens of the Community are to enjoy the advantages of the single market and the economic and monetary union being constructed, the Community and its Member States must rise to the challenges of reducing the disparities in wealth between regions and improving the employment situation, in short the challenge of greater economic and social cohesion. It is for this reason that the Community is devoting ECU 22.2 billion to the modernization of economic structures, especially on a regional basis, and to the improvement of the social situation of the underprivileged sections of the population. This figure of ECU 22.2 billion accounts for 30.9% of the Community's total financial commitments in 1993, as against 18.5% in 1988. Regional and social expenditure take second place after agricultural expenditure.

In accordance with the decision taken by the Heads of State or Government at their meeting in Edinburgh in

December 1992, an even greater effort will have to be made to reach the figure of ECU 31.8 billion in 1999 (at 1994 prices). The essential aims are: support for the development of the poorest regions and conversion of declining industrial areas, contribution towards the occupational integration of young people and combating long-term unemployment and promotion of rural development. These are the goals of the European Regional Development Fund, the European Social Fund and the Guidance Section of the European Agricultural Guidance and Guarantee Fund, as well as of the recently established Cohesion Fund.

This is a long-term endeavour but one which will have its rewards: it is estimated that over the period 1989-93 the effect of the European Structural Funds has been to raise the level of prosperity by 1.5 to 3.5% and to provide 500 000 new jobs in the poorest regions of the Community.

RESEARCH

Research and technological development are the keys to Europe's future. The Community has a framework programme enabling it to support many research projects involving teams from the various member countries. Endowed with ECU 2.6 billion in 1993 (3.6% of total financial commitments), Community research policy seeks to

concentrate efforts on a number of strategic sectors, with some considerable success, as the following examples clearly demonstrate.

The fourth Community medical research programme has mobilized over 3 000 European university and hospital research teams to work in the fields of cancer, AIDS, medical technology, health problems connected with ageing, etc.

To stimulate the mobility of research workers, between 1983 and 1992, the Community supported 2 576 transnational laboratory link-ups and 3 884 joint research operations.

In 1991, for the first time in the world, 147 European research workers from 35 different laboratories operating as a network succeeded in fully analysing a chromosome of a living organism, that of yeast.

In a country like France for example, one public research team in five and one in twenty of firms which engage in research are involved in Community programmes. In the exact and natural sciences, one out of every seven theses written comes under a Community programme.

OTHER INTERNAL POLICIES

The other internal policies — transport, education, culture, energy, environment, consumer protection, the internal market and industry — have ECU 1.5 billion (2.2% of total financial commitments) at their disposal in 1993.

The Community devotes some ECU 250 million to the mobility of young people, workers, students, teachers and scientists. In 1992, through the Youth for Europe, Erasmus, Comett, Petra and Lingua programmes, some 200 000 young Europeans were able to obtain Community support to study, train, learn foreign languages or simply live for a short time in another Member State.

EXTERNAL ACTION

The 1993 Community budget allocated ECU 4.3 billion to external Community activities, taking the form mainly of efforts to contribute to the development of the Third World and to the economic reconstruction of the new democracies in Central and Eastern Europe. In addition to the ECU 1.6 billion allocated to these policies, the budget contains ECU 0.6 billion for Latin American and Asian countries, ECU 0.4 billion for the non-member Mediterranean countries, ECU 0.7 billion for food and emergency aid and ECU 1 billion for various other cooperation activities.

Furthermore, the European Development Fund (EDF), which does not come under the Community budget, is endowed by the Member States with ECU 10.9 billion for the period 1990-95. The EDF is a financial instrument specifically intended to assist those African, Caribbean and Pacific countries which have signed the Lomé Convention with the Community. If the EDF and the general budget are taken together, 9.2% of financial commitments for 1993 are seen to relate to cooperation with the rest of the world.

The Twelve are not only the Third World's chief trading partner, they are also the world's leading provider of public development aid. In the area of food aid alone, the Community is the second largest donor after the United States. In 1992, 2 185 million tonnes of cereals were granted either direct to some 30 Third World countries or via international or non-governmental organizations to 45 countries.

As the Community has undertaken to support the new democracies in Central and Eastern Europe, with which it has concluded many agreements, the European Commission coordinates — and partly finances — some major international programmes to help these countries. For example, the Community covers over half the cost of the technical assistance provided for the independent States of the former Soviet Union.

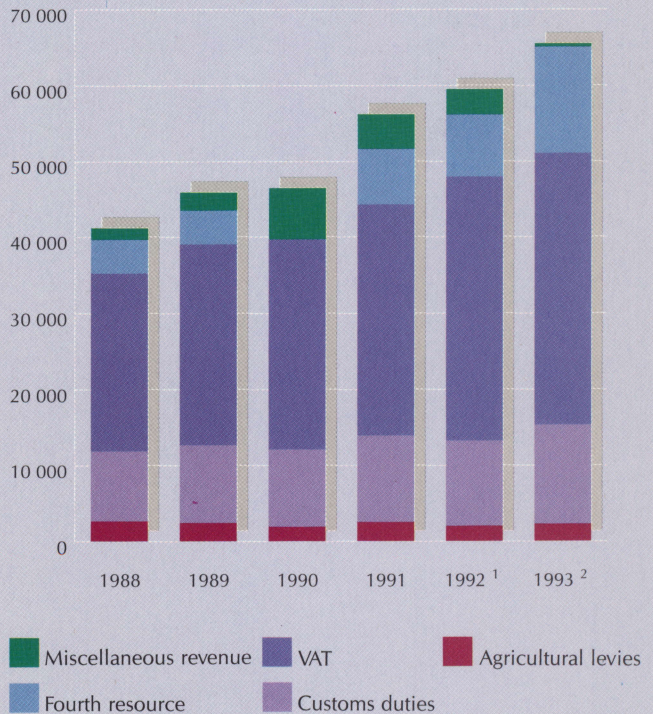
HOW THE BUDGET IS FINANCED

The general budget of the European Communities is financed by means of revenue which it receives as of right. The growth of these 'own resources' is limited by a ceiling set by the Member States: 1.20% of the Community's gross national product (GNP) in 1993, 1.27% in 1999.

This revenue comprises customs duties and agricultural 'levies' — charges collected on products imported from outside the Community (23.4% of total

**Financing of the general budget, 1988-93
(outturn, payment appropriations)**

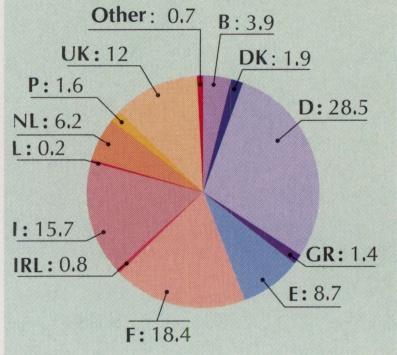
Million ECU



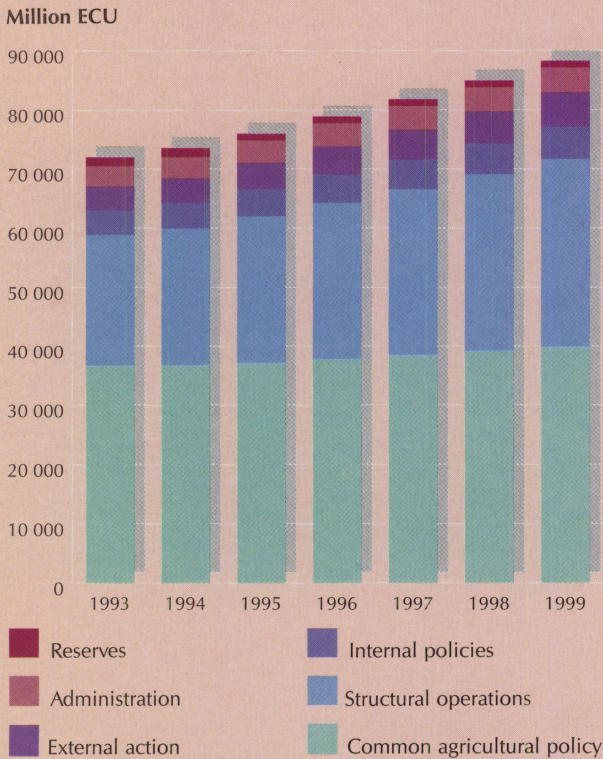
¹ Provisional figures. ² 1993 = budget.

revenue in 1993). Added to this is an amount calculated by reference to the VAT base determined in accordance with Community rules (54.5% of total revenue) and a resource based on GNP. Each of the Member States contributes to this fourth resource (21.4% of total revenue) according to its prosperity. The VAT and GNP resources come from the tax revenue of the Member States and are not collected direct from the taxpayer. This explains why the Member States are often very critical of the Community budget.

Financing of the 1993 general budget, by Member State (payment appropriations) (%)



General budget: financial perspective 1993-99¹ (commitment appropriations)



NB: 1993-94: current prices; 1995-99: 1994 prices.

¹ Result of Edinburgh European Council, 12 December 1992.

THE DECISION-MAKING PROCESS

Drafted in its broad lines by the European Commission, the general budget of the European Communities is adopted by the European Parliament and the Council of Ministers, which are made up of representatives of the Member States.

Firstly, the Commission produces a preliminary draft on the basis of the estimates of the requirements of the Community and its institutions, the anticipated revenue and the multiannual financial perspective. This preliminary draft is forwarded to the Council, which, after amending it, adopts a draft.

The European Parliament then proposes modifications to what are known as 'compulsory' expenditure items, i.e. which arise from the European treaties or acts adopted under the treaties

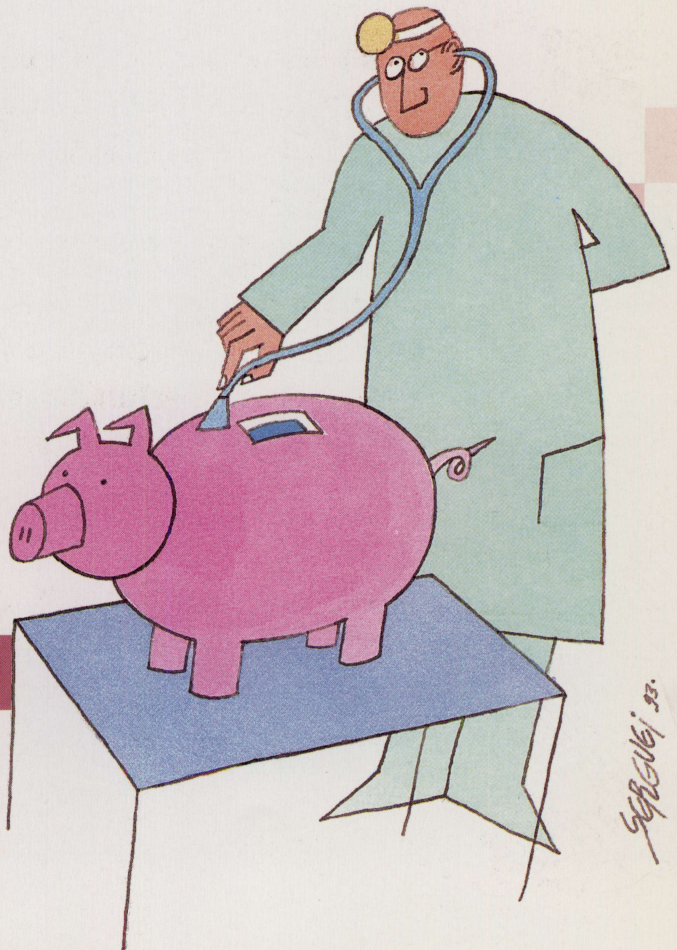
(roughly 53% of the budget). Within certain limits, Parliament can amend the other items of expenditure known as 'non-compulsory'. It is Parliament which ultimately adopts the budget.

CONTROL OF EXPENDITURE

The Commission's financial management is subject to internal control under the authority of a Financial Controller. The Commission has also set up a specific unit for combating fraud. On the external front, the Commission's management is subject to the dual supervision of the Court of Auditors and the European Parliament.


The 12 members of the Court are appointed by common agreement for six years by the Member States; they verify that revenue is received and expenditure incurred in a lawful and regular manner and that financial management is sound. As the body which exercises

political and democratic control over the Community, the European Parliament can dismiss the Commission. It comments on the Commission's programme and supervises the proper implementation of the Community's policies, for which it draws on the reports produced by the Court of Auditors.





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