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**Inventory of the
Community's economic
and financial situation
since enlargement and
survey of future
developments**

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The Council recently requested the Commission, with regard to budgetary problems, to draw up an inventory of the economic and financial situation in the Community since enlargement as well as a survey of future developments.

In reply to this request, the Commission, in the present communication, has sought to present an economic analysis relating to what can be learnt from the two years since the Community was enlarged and to developments that may be expected in the future.

In the light of this analysis, the Commission also examines the foreseeable consequences of existing budgetary provisions.

I—Economic Analysis

A. 1972 to 1974

Since enlargement, the Community's economic development has been strongly influenced by the international environment. Because of this, and of the short time that has elapsed since the enlargement, the integration effects themselves cannot as yet be clearly perceived, and are analysed below from the point of view of a longer-term perspective.

In 1972, measures for restimulating the economy were taken in most of the industrialized countries. The volume of the annual growth of the Community's gross domestic product rose from 3.3% in 1971 to 3.7% in 1972 and 5.6% in 1973. Due to an increased use of available production capacities, the acceleration was particularly marked in Italy, where the rate of growth rose from 1.6% in 1971 to 3.2% in 1972 and to nearly 6% in 1973. For the United Kingdom the corresponding figures are 2.4%, 2.3% and 5.6% respectively.

In 1974, economic activity has remained at a relatively high level, the gross Community pro-

duct rising in real terms by 2.7%, although during the year clear signs appeared of stabilization, even recession. The United Kingdom's gross domestic product contracted slightly because of the effects of the energy crisis and the losses in production resulting from the three-day week.

In all Member States the number of unemployed has increased.

Inflation is no doubt the major problem which the Community must face. Many factors are behind these trends, particularly a world inflationary climate which has been reflected in a rapid rise of raw materials prices.

The rate of consumer price increase in the Community which for some years prior to 1972 has varied between 3% and 6% per annum, has consistently risen and in 1973 the range was between 6 and 11.5%. In 1974 up to the last month or two the cost of living increase has been between 15 and 20% in the United Kingdom, Belgium, Ireland, Italy and Denmark, between 10 and 15% in France, the Netherlands and Luxembourg, and appears to have been less than 10% only in West Germany.

As a result of the reversal of the relative levels of world prices and of those within the Community, the common agricultural policy has tended to be a moderating influence.

In spite of the disturbances in the monetary system which have occurred since 1971 and contrary to expressed fears, the development of international trade has been characterized by a sustained expansion of world trade (in volume) of the order of 8% in 1972 and over 13% in 1973. The Member States of the Community fully participated in this rapid expansion. The rate of growth of the Community's external trade rose from 9% in 1972 to 15% in 1973.

In 1974, the growth in volume of exports to non-member countries slowed down because of the accelerated rise in export prices, although their expansion in value remained rapid.

The reduced propensity to import in Germany and Italy led to less dynamism in intra-Community trade, although this still remains at a high level.

There has been an increase in the disequilibria in current balances of payments. At first these were due to disparities in inflation rates, the pressure of demand and changes in exchange rates, but these disequilibria were significantly aggravated by the effect of the rise in oil prices.

In 1974, the Community may have to face a current account deficit of about 20000 million dollars. This overall deficit covers extremely varied situations from a surplus of about 7000 million for West Germany to similar, or even higher, deficits for France, Italy and the United Kingdom.

TABLE I

Volume increase of GDP

(annual rates in %)

	1966-1971	1972	1973	1974
Denmark	4.6	5.1	3.8	2.0
Germany (FR)	4.4	3.0	5.3	1.9
France	5.8	5.5	6.0	5.2
Ireland	4.4	3.2	6.0	3.5
Italy	5.2	3.2	5.9	5.0
Netherlands	5.6	4.3	4.7	3.3
Belgium	4.7	5.2	5.7	4.0
Luxembourg	3.3	4.6	7.4	4.5
United Kingdom	2.2	2.3	5.6	- 0.9
Community	4.4	3.7	5.6	2.7

TABLE II

*Consumer price changes**(annual rate of increase in %)*

	1966-1971 ¹	1972	1973	1974 ²
Denmark	6.3	6.6	9.3	15.9 ²
Germany (FR)	2.9	5.5	6.9	6.9 ²
France	4.5	6.2	7.3	14.5 ²
Ireland	5.9	8.6	11.4	17.9 ⁴
Italy	3.3	5.7	10.8	20.3 ²
Netherlands	5.4	7.8	8.0	10.3 ³
Belgium	3.6	5.5	7.0	15.6 ³
Luxembourg	3.3	5.2	6.1	10.6 ³
United Kingdom	5.4	7.1	9.2	16.9 ²

¹ Average for period.² August 1974/August 1973.³ September 1974/September 1973.⁴ 2nd quarter 1974/2nd quarter 1973.

TABLE III

*Member States' relative share in Community's GDP calculated at current market exchange rates¹**(in %)*

	1972	1973	1974
Denmark	2.5	2.6	2.8
Germany (FR)	31.0	33.0	33.6
France	23.2	23.9	23.2
Ireland	0.7	0.6	0.6
Italy	14.2	13.2	13.2
Netherlands	5.5	5.8	6.0
BLEU	4.4	4.5	4.7
United Kingdom	18.5	16.4	15.9
Community	100	100	100

¹ The rates for 1972 and 1973 are the average rates for the year; those for 1974 are estimated on the basis of the monthly averages up to September.

TABLE IV

*Member States' relative share in Community's GDP calculated at budgetary exchange rates**(in %)*

	1972	1973	1974
Denmark	2.6	2.6	2.7
Germany (FR)	29.7	29.2	28.2
France	23.2	23.2	23.7
Ireland	0.7	0.8	0.7
Italy	14.6	15.0	16.0
Netherlands	5.4	5.3	5.3
BLEU	4.3	4.3	4.3
United Kingdom	19.6	19.6	19.1
Community	100	100	100

B. Forecasts

At the threshold of 1975, and doubtless never since the establishment of the Community, have the economic uncertainties been so great whether in the short-term or long-term prospects.

The Community's economic future will to a large extent be determined by how the disequilibria of balance of payments resulting from the energy crisis are solved and by the extent to which inflation will be brought under control. For the immediate future, for 1975, although a number of factors lead to the hope for an upward trend in domestic demand and a slight increase in the rate of growth, it cannot be fully excluded that there will be danger of a serious crisis brought about by the cumulative effects of restrictive

policies. The figures in table V are based on a moderately optimistic assumption.

Within the work programme on medium-term economic policy, a number of exploratory outlines have been analysed. These could lead to the suggestion of an average growth rate for the Community for the period 1973-1978 of somewhere between 4 and 4.5%.

The achievement of these economic prospects is subject to a number of conditions both at the international and at the Community level. They presuppose in particular that the impact of the energy crisis can be absorbed smoothly and without serious shocks, and that the necessary restructuring of the Member States' economies can be carried out rapidly and under the best possible conditions. They will be all the more successful if the Community takes the required initiatives within the context of a consistent action programme.

TABLE V

GDP rate of growth in volume

(annual rates in %)

	1975	Average 1973/1978
Denmark	3.0	3.5 to 4.5
Germany (FR)	3.5	3.7
France	4.6	5.5
Ireland	3.0	5.0
Italy	2.0	5.3
Netherlands	3.6	3.5 to 4.0
Belgium	3.7	4.3
Luxembourg	3.6	3.5
United Kingdom	2.6	2.5 to 3.5
Community	3.4	4.0 to 4.5

C. The Community's contribution

The Common Market

One of the first important benefits is that of setting up a common market which has provided the necessary framework within which more efficient industrial structures could be developed.

Between 1958 and 1972, the gross product of the Community of the Six increased at an average rate of roughly 5.5% per annum. Associated with this increase in production has been a considerable rise in living standards.

Economic progress was mainly achieved through an increase in productivity achieved through the transfer of employment from low to higher productivity sectors. The rate of investment on average rose from 22% to 24% in 10 years.

Intra-Community trade grew faster than world trade. Since the setting up of the Common Market, rates of increase have been in the region of 15% and 8% per annum respectively. In the space of ten years, while intra-Community trade increased respectively. In the space of ten years, while intra-Community trade increased six-fold, extra-Community trade only increased three-fold.

Before enlargement, intra-Community trade represented, for the Community, more than half of its total trade as against one-quarter 20 years ago. The very strong stimulus thus given to trade appeared only gradually and its full effect was felt only after the removal of quotas and customs duties and the introduction of more integrated trade flows. Even if, during the first two years, the difficulties of the short-term economic situation may have hidden the initial effects, the Community's enlargement should now offer similar prospects provided the necessary steps are taken to face together the difficulties resulting particularly from the energy crisis.

Common policies and the Community budget

Integration of markets has taken place at the same time as the introduction of initial common policies, the introduction of common mechanisms and the development of the Community budget.

From the monetary and financial points of view, the Community created systems both of short-term monetary support and of medium-term financial assistance.

Certainly, the financial capacity of these instruments is still relatively limited, although they have already proved their utility in the case of Italy. The balance of payments disequilibria which have arisen since the oil price rises are becoming so important that they require new solutions. It is in this context that the Commission has proposed that the Council provide the Community with a loan capacity that will enable it to play an important part in the recycling of capital. The Council at its session on 21 October 1974 gave its agreement in principle.

In 1974, the Community's budget reached a level of 5.2 thousand million u.a., approximately

0.5% of its gross domestic product. For the purpose of comparison, the consolidated public sector budgets of most Member States represent about 30% of the domestic product, and the central budget in a Federal State such as Germany represents 13% of domestic product.

To a large extent still, Community interventions have been concentrated on the common agricultural policy. In the years before enlargement, these expenditures have, above all, helped maintain relatively high price levels in the Community in order to obtain sufficiently high production and a satisfactory income for farmers. Since enlargement, a fundamental change has taken place in relative prices between Europe and the world at large. In particular, in respect of the years 1973 and 1974, the Community was to a great extent sheltered from the meteoric world price rises. The new Member States, in spite of transitional measures, have also profited from this. Agricultural policy expenditure should amount in 1974 to 3.5 thousand million u.a.

The other fields of action of the budget are at a more embryonic stage, but marked progress has already been made in the social field. The Social Fund was renewed in 1972, thus making it possible to extend its intervention while at the same time making it more flexible and adaptable to circumstances. In 1974, the total amount

of interventions should reach about 328 million u.a.

It should also be recalled that the Commission has submitted to the Council a proposal for creation of a regional development Fund of 2.25 million u.a. for three years. This proposal is still being discussed in the Council.

The European Development Fund is to be increased in size to meet the increase in the number of beneficiary countries. In addition, the developing countries hardest hit by the energy crisis are to be helped by the Community through its participation in the United Nations Fund set up for this purpose.

For its part, the European Investment Bank has greatly increased its activity both within the Community and within association agreements. The total amount of these loans for 1974 might reach approximately 900 million u.a. In that same year, and while continuing its regional activity, the bank has promoted projects for development and diversification of energy sources.

In conclusion, the financial activities of the European Coal and Steel Community have also greatly increased. All the operations together, loans and aid, reached 522 million u.a. in 1974.

Table VI summarizes all the Community's financial operations in 1973 and 1974.

TABLE VI

Total of Community institutions' financial operations

(million u.a. at budgetary exchange rates)

Year	Community budget			Total		
	Com. Agric. policy	Social Fund	Total	EIB	ECSC	EDF
1973	3 637	283	5 134 ¹	816	357	150 ²
1974	3 510	328	5 218 ¹	1 000	522	180 ³

¹ The totals for Community budget expenditure are slightly higher than the amounts to be financed shown in Table VII: the differences are due to sundry revenues and to expenditure financed by *ad hoc* keys among the Six.

² 15 October 1972 - 14 October 1973.

³ 15 October 1973 - 14 October 1974.

It is very difficult to give a detailed view of the overall distribution of expenditure by country or by region, since it is not a matter of identifying the location of the direct recipient but rather of assessing the final economic impact.

There are certain types of expenditure, particularly regional and social, that aim at stimulating the specific economic activity of a particular region or sector. Even in this case, indirect benefits may reach other regions or other sectors.

For example, a European Investment Bank loan for investment in a certain region may also be reflected in purchases benefiting the economy of another Member State. An EAGGF payment to the intervention board of a given country may in part turn into a consumer subsidy in another member country in the case of exports of the products concerned.

In any case, it is certain that the Community budget does not as yet play either a role of systematic redistribution or of economic stabilization. In the first place this is due to the limited amounts of the funds in question. Furthermore, receipts still have only a partial and very specific impact and exclude certain forms of taxation such as income tax. Expenditures have also only a partial character to the extent that they affect only certain sectors of the economy; here also there is the same absence of automatic redistribution or stabilization effects.

These characteristics are a major difference as compared with national budgets. The full achievement of Economic and Monetary Union, one of the Community's main objectives, implies that the Community budget should gradually take on such redistribution and stabilization functions.

II—Budgetary analysis

A. Provisions in force

The budgetary machinery in force is based both on the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources, and on the financial provisions of the Act of Accession.

1. *The Decision of 21 April 1970*

The Decision of 21 April 1970 distinguishes two periods in which the Member States' financial contributions are progressively replaced by own resources.

(a) from 1 January 1971 to 31 December 1974

The agricultural levies and other similar duties together with the Common Customs Tariff duties constitute own resources entered in the budget of the Communities, according to a system which includes from the start the full collection of agricultural levies and a partial collection of the customs duties. Every year, for each State, the agricultural levies and customs duties collected by the Member State are totalled. This sum is subject to a coefficient which is different for each of the years 1971 to 1974: 50% in 1971, 62.5% in 1972, 75% in 1973, 87.5% in 1974.

When the sum arrived at is multiplied by this coefficient, a 'reference amount' is reached which gradually moves towards the sum which formed the basis for the calculation.

Every year, from 1971 to 1974, the Member States pay into the Community budget an amount of customs duties equal to the difference between the reference amount for the year and the amount of agricultural levies; the latter is paid over to the Community budget in its entirety.

In order to complete the Community's financial requirements, the Member States also pay financial contributions distributed according to the following key (known as the Article 3(2) key): Belgium: 6.8, West Germany: 32.9, France: 32.6, Italy: 20.2, Luxembourg: 0.2, Netherlands: 7.3.

Finally, to prevent important variations in the participation of a Member State in the Community budget, the Decision of 21 April 1970 lays down provisions to ensure that, from year to year, the relative share of a Member State in all payments made (own resources and financial contributions) by all the Member States, does not vary by more than 1% upwards or 1.5% downwards. The reference year is 1970.

(b) *From 1 January 1975*

Without prejudice to other revenue (taxation on officials' salaries, Member States' special contributions for certain expenditures, etc.), the budget of the Communities will be fully financed by the Communities' own resources. These resources include the agricultural levies and customs duties referred to above, while the financial contributions which completed the Community financing requirements, and which were distributed according to the Article 3(2) key, are replaced by assigning resources from VAT to the Communities; these are obtained by applying a rate which may not exceed 1% of a basis of assessment determined in a uniform way for all the Member States according to Community rules.

If, however, on 1 January 1975, the uniform basis of assessment for the VAT has not yet been applied in all the Member States but only in not less than three, the financial contributions of those Member States not yet applying the uniform basis of assessment will be determined in accordance with a key based on the ratio of its gross national product to the total of the gross national products of the Member States.

Finally, if the uniform basis of assessment has not yet been applied in at least three Member

States, the additional financing would be provided by all Member States through contributions based on gross national product.

In its letter of 29 April 1974, the Commission forwarded a working paper to the Council setting out the conditions under which the Community budget would be financed from 1 January 1975 in the event that the uniform VAT basis of assessment was not in operation by that date.

Council Regulation No 2/71 of 2 January 1971 specifies the method of calculation. The GNP at market prices is defined on the basis of the arithmetic mean of the first three years of the five-year period preceding the financial year for which the system is applied. In the present situation, the mean used will be that for the years 1970, 1971 and 1972.

Furthermore, in accordance with the regulations in force at present, the value of each country's GNP is worked out in units of account at its declared IMF parity.

Finally, from 1 January 1975 to 31 December 1977, the variation in the financial participation of each Member State from one year to another may not exceed 2% either upwards or downwards. (This mechanism is known as the 'dynamic brake'.)

It is, therefore, only from the financial year 1978 that, for the original Member States, financing by own resources will be fully assured without restriction.

2. *The provisions of the Act of Accession*

The Act relating to the conditions of accession for the new Member States of the European Communities specifies, in Title VI, the financial provisions applicable to these States for the financing of Community expenditure.

While in principle the provisions set out above fully apply to the new Member States, a number of provisions are laid down in Articles 128, 129, 130 and 131 which specify the definition of own resources, the key for financial contributions, the

rhythm of payment of these two resources and the percentage of financial participation chargeable to the new Member States.

As regards the definition of own resources, Article 128 says:

'The revenue referred to in Article 2 of the Decision of 21 April 1970 shall also include:

(a) among those designated as agricultural levies, the revenue from any compensatory amount levied on imports under Articles 47 and 55, and from the fixed components applied in trade between the Community as originally constituted and the new Member States and between the new Member States themselves under Article 61;

(b) among those designated as customs duties, the customs duties levied by the new Member States in trade with non-Member States, and also customs duties levied in trade between the Community as originally constituted and the new Member States and between the new Member States themselves.'

Article 129 lays down that the further financial contributions to be paid by the new Member States (those referred to in Article 3(2) of the Decision of 21 April 1970) shall be apportioned in accordance with a special scale: Denmark 2.46%, Ireland 0.61%, United Kingdom 19.32%.

These rates correspond to the relative shares of these countries of the Community's gross national product for 1970.

Article 129 specifies that that part of the budget to be financed by financial contributions, according to the scale laid down in Article 3(2), shall be apportioned among the original Member States, after deduction of the financial contribution of the new Member States paid in the proportions indicated above.

These percentages are also taken as the theoretical basis for 1973, which serves as a reference to adjust, within the bracket +1.5% to -1%, the participation of the acceding States to Community financing. (For the original Member States,

the relative share for 1970 formed the reference basis for 1971.)

Article 130 introduces a gradual system for the payment of all the financial contributions and own resources by the new member countries. From 1 January 1973 to 31 December 1977, these payments shall be made to the following extent only: 45% in 1973, 56% in 1974, 67.5% in 1975, 79.5% in 1976, 92.0% in 1977.

Article 131 finally lays down that, from 1 January 1978, own resources must be paid in full, subject, however, to two remaining limitations.

The increase in the financial participation of a new Member State between 1977 and 1978 must not exceed two-fifths of the difference between the relative share due for 1977 and the relative share that Member State would have had to pay if it had been calculated in accordance with the arrangements laid down for the original Member States from 1978 onwards.

The same two-fifths limit applies to 1979 as against 1978.

When describing the budgetary system applicable to the new Member States during the accession negotiations, the Community made the following statement to the applicant countries:

'Thus, calculations more or less favourable towards one party or another lose their significance when seen in the perspective of the dynamic effects that the United Kingdom's accession must have, and which constitute the essential factor of economic integration. Experience gained from the Treaties of Paris of 1952 and Rome of 1958 shows that numerous questions and anxieties expressed at the time have been resolved without any provisions or protocols, simply thanks to the general, accelerating effects of the Common Market. The present Community of Six has achieved high and steady growth rates, has seen regular increases in real wages at the same time as in investments, has become the largest partner in world trade, and plays an increasing role in international economic, and particularly monetary policies. No

one could have calculated in advance during the fifties the extent and pace of these transformations, which everyone was entitled to hope for, and no one is in a position to do so now, with a sufficient margin of credibility, for the future of a Community of Ten. Indeed, should unacceptable situations arise within the present Community or an enlarged Community, the very survival of the Community would demand that the Institutions find equitable solutions.'

B. Out-turns and projections

The actual figures and the projections are given in descending order of certainty, since the rules governing the application of the own resources system become less restrictive and at the same

time economic developments become more imponderable. Up to 1979, the mechanisms deriving from the Treaties will largely determine the relative shares of the member countries; after that the own resources system will be fully in force.

1. 1973, 1974 and 1975

For 1973 and 1974, the results can be taken as known. For 1975, the relative shares applying to the draft budget adopted by the Council on 23 September 1974 should not be appreciably altered by the completion of the budgetary procedure between now and the end of the year. They are based on the assumption that the Sixth VAT Directive on a uniform basis of assessment will not be in force.

TABLE VII

Relative shares of Member States in the financing of the Community budget

(figures rounded to first decimal place; budget rates of exchange)

	1973	1974	1975
<i>Budget total to be apportioned (in '000 million u.a.)</i>	4.9	5.2	5.7
	in %	in %	in %
Denmark	1.1	1.4	1.7
Germany (FR)	29.0	28.5	28.1
France	24.8	24.3	23.0
Ireland	0.3	0.4	0.4
Italy	19.0	18.2	17.2
Netherlands	9.4	9.0	8.9
Belgium	7.4	7.0	6.9
Luxembourg	0.2	0.2	0.2
United Kingdom	8.8	11.0	13.6
Community	100.0	100.0	100.0

TABLE VIII

*Relative shares of Member States in the financing of the Community budget**(figures rounded to first decimal place; current market exchange rates)¹*

	1973	1974	1975 ²
<i>Budget total to be apportioned (in '000 million u.a.)</i>	4.9	5.0	5.5
	in %	in %	in %
Denmark	1.1	1.4	1.7
Germany (FR)	32.3	33.4	32.9
France	24.9	23.5	22.7
Ireland	0.2	0.3	0.3
Italy	16.5	14.8	13.8
Netherlands	10.0	10.0	9.9
Belgium	7.6	7.4	7.3
Luxembourg	0.2	0.2	0.2
United Kingdom	7.2	9.0	11.2
Community	100.0	100.0	100.0

¹ See footnote to Table III.² Rates for September 1974.

The Tables VII and VIII above picture the same situation; Table VII is calculated at budget exchange rates and Table VIII at current market exchange rates. (The method employed to calculate the budget unit of account's market exchange rates—which are equivalent to the market rates for national currencies—corresponds to that used to calculate the ECSC u.a.).

The current exchange rates differ from those used in the Community budget, which still applies the parities declared to the International Monetary Fund. Since 1971 the IMF parities have ceased to reflect changes in market quotations, which is why considerable differences can

appear between the two types of rates. Now the transitional rules provide that it is from the budget rates of exchange that the relative shares, as shown in Table VII, of Member States are calculated. Thus the amounts of national currency actually ceded to fulfil the relative shares so calculated correspond, when expressed at market rates, to a different pattern of relative shares, that shown in the Table VIII.

Of course, when comparing relative shares in the Community budget with relative shares in the Community gross domestic product, the same exchange rates must always be used.

This problem of choice of exchange rates is of major significance only during the transitional period: at the end of that period contributions will no longer depend on predetermined relative shares but will derive directly from the own resources (agricultural levies, customs duties and VAT) collected in each country in national currency. If the budget rates still do not then correspond to market rates, this will primarily be only a problem of accountancy.

2. 1976 and 1977

For these two years the Accession Treaty fixes the maximum relative shares of the new member countries.

In the case of the original Member States, it is not possible to give precise figures, particularly in the absence of hypotheses as to the development of the Community budget and the date

when the Sixth VAT Directive will be put into effect. The general tendency is likely to be a contraction in their relative shares as the new Member States' contributions approach the level corresponding to that of the definitive system. This apart, the limits set for variations in Member States' financial participation will very appreciably restrict the scale of changes resulting from the other factors.

As an illustration some orders of magnitude may be given. These assume, firstly, application of the GNP key to the resources flowing normally from VAT. The budgetary exchange rate has been used.

In the absence of precise hypotheses for the estimation of own resources, and particularly of agricultural levies and customs duties, the figures given for the six original member countries are the ranges resulting from application of the 'dynamic brakes' (see p. 12); it seems likely, however, that Germany will be at its upper limit and Italy and France close to their bottom limits.

TABLE IX

Relative shares of Member States in financing of the Community budget

(budget rates of exchange)

	1975	1976	1977
Denmark	1.7	2.1	2.4
Germany (FR)	28.1	26.5-27.6	24.8-26.9
France	23.0	21.7-22.6	20.3-22.0
Ireland	0.4	0.5	0.6
Italy	17.2	16.3-16.9	15.2-16.5
Netherlands	8.9	8.4-8.7	7.8-8.4
Belgium	6.9	6.5-6.8	6.1-6.6
Luxembourg	0.2	0.2	0.1-0.2
United Kingdom	13.6	16.3	19.2
Community	100	(100)	(100)

3. 1978 and 1979

For these years, while there are obviously bound to be a great many unknown quantities involved, nevertheless by the terms of the Accession Treaty the financial participation of the new Member States will be limited by the two-fifths rule already referred to.

There are two problems which affect the application of these terms, the question of fiscal duties and the question of when the Sixth VAT Directive will be put into effect, both of which are relevant to the determination of the theoretical level for the reference years.

Under Article 38 of the Act of Accession, fiscal duties charged at frontiers are subject to the same provisions as customs duties. For the purposes of the budgetary tables presented so far, they have been treated as own resources. In the case more particularly of fiscal duties on tobacco, the Commission, by its Decision of 27 February 1974 under Article 38(4), authorized the United Kingdom to extend the period provided for by two years, i.e., these duties were to be allowed to continue until 31 December 1977. This being so, their retention in their present form might, in view of the large sums involved (some 2000 million u.a.), mean a very large increase in the British contribution for 1978 and 1979.

The Commission is considering the legal aspects of this matter, and does not exclude the possibility of submitting a proposal on the subject within the framework of the Treaties.

Assuming that this problem is resolved, the cushioning effect of the two-fifths rule would be significant.

4. Forecasts beyond 1979

Beyond 1979 the forecasts become extremely uncertain.

There being no pre-established limitations, the relative burdens on the Member States will vary with the size of the Community budget and the amounts of revenue in the three classes of

resources. These two factors are dealt with in turn.

(a) Size of the budget

As regards the budget, even short-term forecasts are almost impossible; forecasts at such long range are in the realm of pure speculation.

The Community has experienced and will continue to experience major developments which are reflected in the size of the Community budget. Some common policies might be adjusted, which would have an impact on the movement of expenditure and revenue, some Community activities might be consolidated in the budget, and new common policies with substantial implications might be launched.

Such changes may have substantial repercussions. The 1975 draft budget submitted by the Commission to the Council provided for an increase of around 37% in expenditure, assuming that the Community would develop in a way regarded as normal: in the budget sent by the Council to the Parliament the increase was only 12%, being confined to policies already decided upon.

There is a connection between the total amount of the budget and the relative contributions of the individual Member States: the size of the budget partly determines to what extent the different categories of resources are called into play—resources to which each Member State contributes differently.

Table X illustrates the impact of the budget total on the share accounted for by each category of own resources.

For this purpose it has been supposed that the 1974 budget was actually financed from own resources in accordance with the arrangements planned for 1980. The first hypothesis is of maximum utilization of own resources, giving a budget approximately half as large again as the present one; the second hypothesis is that of the present budget. The method employed to simulate the share of each component is set out in the following paragraphs.

TABLE X

*Relative scale of the categories of own resources according to the size of the budget**(1974 prices and market exchange rates)*

	Maximum resources available		Resources in line with actual budget	
	Million u.a.	Relative shares	Million u.a.	Relative shares
Agricultural levies and sugar contributions	333	4.4	333	6.7
Customs duties	2 456	32.2	2 456	49.2
VAT	4 833	63.4	2 206	44.1
Total	7 622	100.0	4 995	100.0

By 1980 the breakdown of the maximum resources available may change as each category follows its own trend.

Customs duties will be affected by the existence of international agreements: in particular, external tariffs might be reduced in the GATT negotiations, and will also be influenced by the pace of expansion in international trade and the degree of European trade integration. By and large, the share of customs duties in available resources overall will probably decline.

VAT is a more buoyant resource than customs duties but is less buoyant than gross domestic product.

As regards the potential total of own resources, there will thus be a relative swing to value-added tax, but the overall amount available will as time goes on account for a decreasing share in Community GDP.

(b) Trends in the categories of resources

The size of the different classes of resources is contingent not only on the size of the Community budget but also on a number of economic hypotheses dealt with in the earlier part of this paper, and there shown to be highly vulnerable. It has therefore been felt that no accurate forecasts can be given for this period, only an outline of likely trends.

However, as an illustration, the Commission is presenting for each component the shares of the Member States in 1973 and 1974 as they would have been had the final own resources arrangements for 1980 already been in effect.

In other words, the following is a simulation which, subject to certain caveats, applies the definitive own resources system to the economic data for 1973 and 1974.

Agricultural levies

Since it was impossible to simulate a theoretical situation for agricultural levies, we simply present the known data for 1973 and 1974. This is admittedly not an ideal method, as it does not eliminate certain distorting elements, notably the

effects of the transitional rules. However, as the calculations would be both complex and unreliable, resort was made to this simplified method, bearing in mind that the small agricultural revenues in these years made errors resulting from this category of receipts of relatively minor importance in the overall appraisal.

TABLE XI

Relative shares of agricultural levies and sugar contributions 1973 and 1974

(in %, at current market exchange rates)

Year	DK	D	F	I	IRL	NL	BLEU	UK	EC
1973	0.9	26.6	16.1	23.4	0.7	17.4	5.5	9.4	100
1974	2.0	35.4	21.5	16.0	1.0	6.7	5.2	12.2	100

For future years, and indeed even for 1975, it is impossible to give even rough approximations: to do so would involve constructing hypotheses as to the movement of relative prices between the Community and the rest of the world, and the movement of the common agricultural policy generally. Working from different sets of hypotheses, all of which at present could be plausible, we arrive at figures which may vary by as much as 300%.

Customs duties

Any estimate of the value of import duties must be governed by a whole series of hypotheses

—growth, on which demand for imports depends, the structure of imports by country and by product—which can change in the course of time, and, of course, the actual level of duties themselves. All combinations of hypotheses are possible, which means that the system can produce exceedingly variable results.

In 1973 and 1974, excluding customs duties charged in intra-Community trade and assuming the EEC/EFTA agreements to be fully operative, the theoretical relative share of each Member State in total import duties entered in the Community budget would result as follows:

TABLE XII

*Theoretical relative shares of customs duties, 1973 and 1974**(in %, current market exchange rates)*

Year	DK	D	F	I	IRL	NL	BLEU	UK	EC
1973	1.9	30.7	16.3	11.7	0.5	9.7	6.4	22.8	100
1974	2.0	29.0	15.1	12.5	0.4	9.7	6.6	24.7	100

Conclusions as to long-term trends cannot be drawn from a comparison of the figures for these two years. Changes in short-term economic conditions between 1973 and 1974 explain some sharp jumps: thus the rise in the United Kingdom's relative share in 1974 is due to the worsening of the current-account deficit, which for manufactured products reached major proportions. It should be added that these are forecasts based on data recorded to date.

Future changes in the relative shares paid over depend mainly on structural factors, either in their product or by geographical area breakdown.

The impact of changes in the breakdown by product will be influenced by the outcome of bilateral or international agreements and by the extension of the system of generalized preferences.

One important point which is difficult to assess is that of changes in geographical pattern due in particular to enlargement. Experience in the Community of the Six has shown that major shifts can occur through a faster rise in intra-Community trade than in trade with non-member countries.

In 1973, intra-Community trade accounted for 32.8% of total British imports; this proportion is now climbing steeply, but detailed estimates are not possible.

All things considered, by 1980 the United Kingdom's share of total customs duties is likely to fall, while that of other countries such as France and Italy will probably rise. By how much it is very hard to judge, although the trends should be only moderate; and it is difficult to compare those movements with the proportion of each country's gross national product in the Community product.

Value-added tax

As concerns the own resources derived from value-added tax, there are a number of technical points and questions of principle still to be settled.

First, there is the question of the exact details of the final implementing arrangements that will determine the basis of assessment, which have not yet been decided by the Council.

In addition, an accurate estimate of the yield of the tax requires projections for the relative development of consumption and investment.

If the own resources system had been operating in 1973 and 1974, a theoretical estimate of the VAT charge on each Member State would have resulted as follows, assuming that the arrangements proposed by the Commission in the draft Sixth VAT Directive had been applied.

TABLE XIII

*Relative shares in theoretical resources derived from VAT, 1973 and 1974**(in %, at current market exchange rates)*

Year	DK	D	F	IRL	I	NL	BLEU	UK	EC
1973	2.8	32.4	20.8	0.8	13.2	5.8	4.5	19.7	100
1974	2.9	30.8	21.1	0.8	13.7	5.8	4.4	20.5	100

Trends cannot be deduced from the figures for these two years: the yield of value-added tax is strongly affected by short-term economic fluctuations, including the current state of the balance of payments, since it is a tax which follows consumption trends. For this reason it is difficult to suggest accurate enough figures for 1975.

By taking the average for 1973 and 1974 we eliminate some of these short-term phenomena. The relative share can be radically altered only by structural changes.

In the first place, as VAT is chargeable on consumption only, a higher share is due from some countries, including the United Kingdom, where the rate of investment is abnormally low compared to the Community. An increase in the share of investment in the domestic product in these countries appears to be needed if they are to return to a more balanced economic development.

Another important factor is the varying significance of VAT in the tax structures of different countries. Taxes other than VAT form part of the added value which is the basis of assessment for VAT. France and Italy, with a low proportion of direct taxation and limited excise duties, have a relatively low basis of assessment compared with the United Kingdom and Ireland, where excise duties and direct taxes are an important element. Some narrowing of these differences is desirable—for economic and social reasons also.

Structural changes of this kind, as experience has shown, are difficult to bring about and can happen only gradually.

The three categories of resources together

Taking together the estimated figures for these three categories of resources, we obtain a picture of what each Member State's contribution would have been in 1973 and 1974 if the own resources system had been in full operation. For illustrative purposes, this theoretical breakdown has been set against the relative share in gross domestic product. The two sets of figures show at a glance the present position; how they evolve in the future will, as we have seen, depend on many structural factors which are extremely difficult to assess. No conclusions as to trends can be drawn from the figures given for 1973 and 1974, as they are highly sensitive to short-term economic fluctuation.

Table XIV shows the distribution of the relative shares of the Member States in the Community budget (on the basis of actual expenditure in 1973 and 1974) and the Community gross domestic product. Table XV shows the shares broken down by category of resources.

The two tables offer a comparison for each Member State between its relative share in the Community budget and its relative share in the Community gross domestic product. The concepts employed do not take into account the real charge per head of population.

TABLE XIV

Simulated distribution of relative shares in the Community budget and Community gross domestic product, 1973 and 1974

(current market exchange rates)

	Total budget contribution in million u.a.		Relative share in budget %		Relative share in Community gross domestic product	
	1973	1974	1973	1974	1973	1974
Denmark	109	120	2.2	2.4	2.6	2.8
Germany (FR)	1 514	1 509	31.0	30.2	33.0	33.6
France	897	908	18.4	18.2	23.9	23.2
Ireland	32	30	0.7	0.6	0.6	0.6
Italy	668	662	13.7	13.2	13.2	13.2
Netherlands	425	389	8.7	7.8	5.8	6.0
BLEU	264	278	5.4	5.6	4.5	4.7
United Kingdom	968	1 099	19.9	22.0	16.4	15.9
Community	4 877	4 995	100	100	100	100

As pointed out above, Tables XIV and XV are a simulation exercise, based in part on arbitrary factors, and should therefore be interpreted with caution.

First, trends from one year to the next are influenced by a combination of short-term econ-

omic factors which could produce significant differences in the figures suggested.

Secondly, and bearing this in mind, no trend can be inferred from figures calculated for two years only.

TABLE XV

Simulated breakdown of the financing of the budget under the definitive own resources system, 1973 and 1974

(current market exchange rates)

		Agricultural levies and sugar contributions		Customs duties		VAT		Total	
		million u.a.	%	million u.a.	%	million u.a.	%	million u.a.	%
Denmark	1973	5	0.9	39	1.9	65	2.8	109	2.2
	1974	7	2.0	50	2.0	64	2.9	120	2.4
Germany (FR)	1973	144	26.6	621	30.7	749	32.4	1 514	31.0
	1974	118	35.4	711	29.0	679	30.8	1 509	30.2
France	1973	87	16.1	329	16.3	481	20.8	897	18.4
	1974	72	21.5	371	15.1	466	21.1	908	18.2
Ireland	1973	3	0.7	10	0.5	18	0.8	32	0.7
	1974	3	1.0	8	0.4	18	0.8	30	0.6
Italy	1973	127	23.4	236	11.7	305	13.2	668	13.7
	1974	53	16.0	307	12.5	302	13.7	662	13.2
Netherlands	1973	94	17.4	197	9.7	134	5.8	425	8.7
	1974	22	6.7	239	9.7	128	5.8	389	7.8
BLEU	1973	30	5.5	130	6.4	104	4.5	264	5.4
	1974	17	5.2	164	6.6	97	4.4	278	5.6
United Kingdom	1973	51	9.4	461	22.8	456	19.7	968	19.9
	1974	41	12.2	606	24.7	452	20.5	1 099	22.0
Community	1973	541	100	2 023	100	2 312	100	4 877	100
	1974	333	100	2 456	100	2 206	100	4 995	100

III—Concluding remarks

This analysis shows the difficulty of appraising the economic and financial situation in the Community, and the still greater difficulty of going on from there to visualize the future.

In the present inflationary context, and following the upheavels resulting from the soaring price of oil, economic forecasting is a quite exceptionally chancy business. Nevertheless, the Commission has endeavoured to draw a number of conclusions.

The first exploratory exercises on the economic development of the Community offer some prospects of an annual growth of perhaps 4% in the years ahead. The achievement of this rate is, however, subject to conditions very hard indeed to fulfil. It demands vigorous and coordinated action by the Member States. During this period some countries must be expected to show below-average growth, as indicated in Table V.

As regards the budget charges, on present information, even allowing for certain structural changes which may be expected to take place as time goes on, it does appear that problems could arise in the future.