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REPORT

drawn up on behalf of the Committee on Economic and  
Monetary Affairs

on the communication from the Commission to the  
Council concerning convergence and budgetary questions

Rapporteur: Mr N. R. BALFOUR



By letter of 10 March 1980, the Bureau of Parliament requested the Committee on Economic and Monetary Affairs to draw up a report on those parts of the Commission's communication to the Council of 5 February 1980 concerning 'convergence and budgetary questions' (COM(80) 50 final) which fell within its terms of reference. By letter of 18 April the Committee on Agriculture was asked for its opinion.

On 20 March 1980 the Committee on Economic and Monetary Affairs appointed Mr Balfour rapporteur.

The committee considered the draft report at its meetings of 10 March, 27 March and 23/24 April 1980.

At its meeting of 23/24 April 1980 the committee adopted the motion for a resolution and explanatory statement by 14 votes to 0, with 1 abstention.

Present: Mr Delors, chairman; Mr Balfour, rapporteur; Mr de Ferranti and Mr Deleau, vice-chairmen; Mr Beazley (deputizing for Sir Peter Vanneck), Mr Beumer, Mr Bonaccini, Mr Delorozoy, Miss Foster, Mr Giavazzi, Mr Herman (deputizing for Mr Collomb), Mr Hopper, Sir Brandon Rhys Williams, Mr Schinzel and Mr von Wogau.

The opinion of the Committee on Agriculture will be printed separately.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the communication from the Commission to the Council concerning convergence and budgetary questions

The European Parliament,

- having regard to the communication from the Commission to the Council (COM(80) 50 final),
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Agriculture (Doc. 1-136/80),

A Convergence

1. Notes with intense dissatisfaction that, while economic convergence has for many years been one of the key objectives of the Community, little progress has been made towards this objective largely as a result of a lack of political will at Council level, and within individual Member States.
2. (a) Points out that, since the existence of the Community should not be seen as a 'begging bowl' or 'crutch' for the disabled, progress towards convergence depends primarily on Member States' own efforts at national level to adopt policies and take actions not in isolation, but in cooperation with other Member States, and that this may involve the taking of domestic political risks;
- (b) Further points out that an atmosphere of conflict and confrontation at Council level is wholly counter-productive to the effort to find solutions to the many problems with which the Community is faced;
3. Emphasizes that any definition of convergence must imply the reduction of sectoral, regional and national disparities by means of the creation of Community instruments and policies, and that this requires that Member States coordinate their economic policies on the basis of medium and long term objectives;
4. Recognizes that, in the establishment of such common objectives, where joint effort is likely to produce greater results their different structures and specific characteristics should be respected;

5. Considers that the concept of convergence is both distinct from and much wider than the issue of budgetary balance;
6. Points out, however, that the Community budget should play an important role in bringing about convergence and regrets that the existing budget, as a result of its small size and current structure, is not only failing to promote a sufficient degree of convergence but, for certain sectors and regions, and for certain countries, may actually be hindering this process;
7. Notes with approval that the Commission has called for a strengthening of structural and general investment policies within the Community, and in particular those dealing with:-
  - energy,
  - transport,
  - technology,
  - industrial development,
  - agricultural structural measures, and
  - measures to strengthen the economic potential of the less prosperous countries;
8. Strongly supports the recommendation that the resources expended on such policies should, in keeping with the undertakings given to the new Member States during the accession negotiations in 1972-3, be significantly greater in the future than the rate of increase in the size of the Community budget as a whole, and also welcomes the important and increasing role that is being played by Community loan mechanisms;
9. Accepts that greater cooperation in the field of monetary policy through the mechanism and disciplines of the European Monetary System, while by itself incapable of bringing about economic convergence, will be an indispensable part of the Community's overall moves towards such convergence, provided that each phase of the EMS is put into operation according to schedule;

#### B. Budget problem

10. Recalls the Community declaration during the accession negotiations that 'if unacceptable situations were to arise the very life of the Community would make it imperative for the institutions to find equitable solutions', and feels that the recent rapid increase in the United Kingdom's budgetary imbalance has created precisely such a situation;
11. Re-emphasises that the present national budgetary imbalances within the Community are not necessarily of a short-term nature, and they stand in the way of economic convergence in the medium and long-term;

12. Considers that the Commission's latest proposals for mitigating Member States' budgetary imbalances under Article 235 of the Treaty could make an important contribution to promote convergence;
13. Emphasises that this problem will not be satisfactorily resolved until there is a better balance between the Community's policies and therefore in expenditure from the Community budget; and believes that an improved balance of policies of the kind proposed by the Commission is in the interests of all the less prosperous Member States of the Community and would therefore be in line with the Community's overall convergence objectives;
14. Considers that meanwhile action needs to be taken to deal with the immediate situation which has arisen; but emphasizes that such action must be consistent with Community procedures and objectives;

C. General considerations

15. Considers that, in assessing and implementing the measures needed to increase economic convergence in the Community, it is essential to consider the possibility of changing the Community budget from an annual and therefore static, mechanism into a more dynamic instrument linked to more advanced long-term and hence multi-annual planning;
16. Considers that enlargement may have serious adverse effects on convergence should the Community not base its action on medium- and long-term estimates and medium-term programmes and that these should be given particular attention when the Community's budget is drawn up;
17. Further believes that urgent consideration must be given to ways of increasing the Community's own resources;
18. Feels that the distributive effects of Community policies as between sectors, regions and countries should be a more important criterion in future in reviewing the value of existing policies and in establishing priorities for the future;
19. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

## B EXPLANATORY STATEMENT

### Background

1. In the course of 1979 the Community's existing budgetary structure came under unprecedented challenge, for a variety of reasons. The balance between Community spending on agriculture and spending on other policies was lop-sided and threatening to become more so in the future. Community policies were failing to promote sufficient economic convergence and, in fact, national, regional and sectoral disparities were seen, if anything, to be increasing.
2. In large measure, as a result of these factors, the 1980 draft budget was not adopted and, additionally, a long and still unfinished debate began concerning the unacceptable position of one Member State in the short term, and the need to promote much greater economic convergence within the Community in the long term.
3. On 12th September 1979 the Commission presented a "Reference paper on budgetary questions" (COM (79) 462/final) which analysed the financial consequences in Member States of the present budgetary system. While it pointed out that the benefits of Community membership should not be looked at in narrow budgetary terms, it indicated that the United Kingdom was going to contribute a disproportionate amount to the Community budget and would receive disproportionately little. Two main reasons were particularly significant, the United Kingdom's higher level of imports from third countries and consequently higher level of duties paid to the Community budget under the system of own resources and, secondly, its small agricultural sector and relatively low level of receipts from the Common Agricultural Policy. Furthermore, the conditions attached to the use of the financial mechanisms which had been finally agreed to in 1975 and which had been set up in order to help correct such imbalances, would greatly reduce its utility in the United Kingdom's present circumstances.
4. The paper also made some more general comments, among which was its pointing out of the weak re-distributive effect of the existing Community budget.
5. The reference paper caused strong reaction within the Community. The Commission was asked to further its analysis and it provided another paper on "Convergence and budgetary questions" on 31 October 1979 (COM (79) 620 final), followed by a further communication to the Council (COM (79) 680 final), setting out some general guidelines and suggestions for the Council meeting to be held in Dublin on 29-30 November 1979.

6. The Council meeting failed to take any major decisions on the short and long term problems, the final communiqué merely stating "that the Commission's proposal concerning the adaptation of the financial mechanism could constitute a useful basis for a solution". The Commission was also asked to examine the possibilities of increasing the United Kingdom's participation in Community expenditure and was requested "to make proposals which will enable the Council of Ministers to pursue the search for appropriate solutions to be reached at the next meeting of the European Council".

7. On 5th February 1980 the Commission produced a further paper on convergence and budgetary questions (COM (80) 50 final), which put forward a number of recommendations for consideration.

8. It emphasized the need to strengthen Community structural and general investment policies, and that the rate of increase in expenditure on those policies should, in the future, be significantly greater than the rate of increase in the size of the Community budget as a whole. The need to reduce regional and national disparities, as well as the need to improve agricultural structures are given particular priority.

9. As regards the more immediate problem facing the United Kingdom, the Commission has expanded somewhat on its earlier suggestions. On the contributions side it has added rather little, merely re-stating that the terms of use of the financial mechanism should be altered, firstly by eliminating the balance of payments limitations and, secondly, by examining ways to lift two other restrictions on its use, the tranche system, providing only a part of the excessive contributions re-imbursed, and the ceiling of 3% of the budget.

10. On the expenditure side, however, the Commission has further developed its ideas on "special, temporary and ad hoc measures" to increase the current low level of Community expenditure in the United Kingdom. It points out some of the problems involved in simply enlarging existing Community funds for this purpose, such as the Regional and Social Funds, on the grounds that serious distortions would be created.

11. The paper suggests that it would be preferable to resort to a special Council regulation on the basis of Article 235 of the Treaty. It recommends that such expenditure should come within a framework of strictly-defined programmes compatible with the structural policy objectives of the Community. Expenditure to assist particularly disadvantaged regions is emphasized and Northern Ireland and regions suffering from urban decay are given special mention. Energy and infrastructure projects are also

considered, including those helping to improve intra-Community links.

12. The Commission suggests that a framework regulation should be drawn up surrounding these measures, their amount and duration, and the criteria for their use. A review procedure is also suggested by which the effectiveness of the measures taken could be examined before the expiry of the programme.

13. Finally, the Commission has recently prepared yet another communication to the Council (on 20 March - COM(80) 147 fin.), which summarizes the Commission proposals put forward so far, and updates some of the figures provided in its document of 12 September. These indicate that the budgetary imbalance facing the United Kingdom is of a greater nature than originally forecast.

#### Considerations to be taken into account

14. The Council is meeting again in the near future and these items will be prominent on the agenda. It is therefore important for the Committee on Economic and Monetary Affairs to outline the considerations which it feels should be taken into account by the Council when it re-examines the Commission's proposal, especially those aspects dealing with convergence in the medium and longer term. The Committee does not go into a detailed examination of the ways in which the immediate budgetary imbalance faced by the United Kingdom can be mitigated, which lies within the competence of the Committee on Budgets, but it does point out that such an imbalance is not necessarily of a short term nature, and does stand in the way of economic convergence in the long term.

15. The two problems that are being treated together, that which must be solved, or at least mitigated, in the short term, and the ultimately more important one of economic convergence, have been combined because of the very understandable need to put the immediate problem affecting one country within a longer term Community perspective, and to avoid putting too great an emphasis on a narrow cost benefit analysis, which could too easily lead to a "juste retour" conception of Community membership.

16. The United Kingdom's immediate budgetary problem must, however, be tackled and in this regard the Community's declaration during the accession negotiations, referred to in paragraph 10 of the Resolution is relevant. The establishment of a financial mechanism was further recognition of this need.

17. The Commission's proposals would appear to be on the right lines but are still inevitably vague, though they appear to lean towards adapting the existing financial mechanism rather than adopting some of the other measures that were initially proposed.

18. It is important to point out that any measures adopted should be temporary, but not short-sighted. Weighting the financial mechanism, for instance, by bringing in GNP per capita considerations, one of the options originally considered, would help the United Kingdom in the short term but could cause problems in the longer term as the Community is enlarged to include countries with much lower GNP per capita.

19. On the expenditure side the Commission should elaborate its suggested framework proposal on the basis of Article 235 of the Treaty as soon as possible. Measures to help disadvantaged regions and sectors should be given a high priority, as well as energy and infrastructural projects.

20. However, while it is clearly vital to tackle the immediate problem, the even greater importance of longer term measures should be underlined. Acute problems of the kind currently being faced by the United Kingdom can be avoided only if longer term perspectives are adopted.

21. The term "economic convergence" is a rather vague one, and has been used in a number of general contexts. If convergence is defined as the lessening of the disparities, in terms of economic performance, between richer and poorer regions and countries in the Community, little progress towards convergence will be made until and unless there is a better balance between the Community's policies and expenditures. Yet little progress will be made towards such better balance of Community activity, while CAP expenditures remain the predominant claim on the budget. To the extent that a reduction of agriculture prices is socially and politically unacceptable, and to the extent that the Community is unable to agree on a fundamental reform of the CAP, (designed to reduce surpluses and thus the costs of financing these surpluses), the Community should give urgent consideration to the ways in which its own resources could be increased. In this regard, the Commission should address itself to devising the means by which such increased own resources could be used exclusively for non-agricultural purposes - for such resource increase should not be permitted to lift the financial constraints which alone will eventually bring about the structural reform of agricultural surplus production; and the Council should respond to the Commission's document "Financing the Community Budget - the way ahead", supplement 8-78 to the Bulletin of the European Communities).

22. The Commission papers on the longer term budget position of the Community and the MacDougall report have emphasised that attempts must be made to make the distributive implications of Community policies far more explicit. Some form of financial equalisation between the Member States based on the concept of per capita gross domestic product and organised within the framework of the Community budget (cited in Parliament's resolution of 10.12.79, OJ C 309/34), should be given careful consideration.

23. The current emphasis on short term budgetary considerations simply leads to the application of palliatives which do not cure the underlying social and structural imbalances within the Community. Although there is a growing element of carrying over of expenditures from year to year, the budget is still based fundamentally on an annual perspective. This leads to a rather static conception of the Community.

24. What is needed is a more dynamic conception with a greater element of longer term planning.